# ENTERTAINMENT AND SPORTS LAWYER

A PUBLICATION OF THE AMERICAN BAR ASSOCIATION FORUM ON THE ENTERTAINMENT & SPORTS INDUSTRIES


## Contents



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# MESSAGE FROM THE CHAIR

Congratulations. You made it through 2020. We're glad you're still here. And now comes the spring and all the hope and change and beauty and warmth it brings.

My column this issue is short and sweet.

Thank you for attending the Forum's 2020 Annual Meeting. If you missed it, it was great. We presented 11 CLE panels spread over 4 days plus 7 panels that were pre-recorded. The entire Conference is available on the Forum's page on the ABA website. https://www.americanbar.org/groups/entertainment_sports/events_cle/past-event-archive/399231759/es2010recordings/

We are already planning the 2021 Annual Conference. Maybe it's the spring but we remain hopeful (but realistic) that we can meet in person in Las Vegas this October. However, the ABA is not allowing in person meetings so our 2021 Annual Conference may have to be virtual. Either in person or virtual, we have planned an outstanding program of CLE panels, networking opportunities, and unique extracurricular activities.

We look forward to seeing you in person or virtually.

Until we can gather, I hope you all stay safe and healthy.

Peter Strand

Chair

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# LETTER FROM THE EDITOR

"The Future is unwritten."—Joe Strummer

Dear Forum Members,

Welcome to Issue 37:1 of the *Entertainment and Sports Lawyer*! We are living a new normal! Vaccines are more and more readily available, businesses are re-opening, we have a new President and life is trending a bit more toward what we once considered "normal". Life has a semblance of "normal" but we are still faced with many changes. While not nearly as significant as what we face in daily life, we do have a new format for the *Entertainment and Sports Lawyer*.

This new format should have us on track for our publishing schedule.

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, and are always seeking amazing articles. The Author Guidelines can be found at: https://www.americanbar.org/content/dam/aba/administrative/entertainment_sports/general/esl-guidelines.pdf. The pending deadlines for article submissions are:

- Summer 2021 (37:2) (anticipated July Publishing) June 1, 2021
- Fall 2021 (37:3) (anticipated September Publishing) July 15, 2021
- Winder 2021 (37:4) (anticipated December Publishing) September 15, 2021

Please, share with me your ideas for the Journal.

Best,

Brian A. Rosenblatt

Bryce Downey & Lenkov LLC

Editor-in-Chief, *Entertainment and Sports Lawyer*

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# Music Rates And Royalties In Today's And Tomorrow's World

**By Jeff Brabec and Todd Brabec**

With much of the live concert business on hold, many motion picture theaters closed, Broadway and the musical theatre unable to open until at least until June 1, 2021 music licensing deals based on a percentage of net revenues or advertising gross receipts showing losses and television and motion picture production only recently getting somewhat back on track, the Covid virus has had a significant effect on the worldwide music business, Some areas have taken a substantial hit with others remaining relatively stable and others showing significant gains.

To understand today's environment and the continuing economic effect it has on the music industry, it is important to understand how rates and royalties are set as well as how they are distributed to songwriters, composers, recording artists, music publishers and record labels.

The following article discusses some of the most important rate and royalty areas, how and by whom they are set or determined as well as some major possible changes due to legislation, litigation, Copyright Royalty Board decisions and the intervention of the Department of Justice in the Consent Decree process.

## Songwriters/Publishers (Musical Compositions)

*1. Mechanical Licenses (2018-2022)*

The owner of a musical work under the U.S. Copyright Act has the exclusive right to make and distribute phonorecords of the work (i.e. copies in which the work is embodied, such as CDs, vinyl and other physical copies, downloads, limited downloads, interactive streaming, digital files, etc.). This "mechanical" right is subject to a compulsory statutory license under Section 115 of the Act.

**Downloads, Physical Recordings and Ringtones**: Composition statutory rates for physical recordings and downloads are 9.1 cents or 1.75 cents per minute for musical works over 5 minutes. The statutory royalty for a ringtone is 24 cents.

**Interactive Streaming**: The real area of present and future growth which is continually being shown in year end and monthly royalty income reports is the mechanical income earned from the interactive streaming services (e.g., Spotify, Apple, Amazon, Google and, to some extent, Pandora) where the listeners are allowed to select the specific track/composition that they want to hear.

Interactive mechanical streaming rates (which apply to audio only streams and not to audio visual streams) are based on a number of factors including the revenue of the digital music service, the fees that the service pays to license and use the master recordings, the number of subscribers if a subscriber funded service vs. an ad supported service, the type of offering and the amount of royalties that the service pays for the licensing of the performance rights.

The calculations that are employed to arrive at the statutory mechanical per play interactive stream royalty rate are complex but in its simplest form, if a service were an ad supported service, the rate would be the result of taking the greater of a specified percentage of the digital music service's revenue

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and a specified percentage of the costs to the service of licensing the master recordings containing the compositions (e.g., primarily payments to record companies which own and/or control the masters) and then subtracting the amount of money that the service is paying for performance rights (e.g., payments to the performing rights organizations such as ASCAP, BMI, SESAC and GMR). The result would be the income pool for mechanical rights which would be shared by all compositions streamed by the service according to the number of streams on a composition by composition basis. It should be noted that if the offering is a subscription based service as opposed to an ad supported service, a per subscriber penny rate (e.g., $0.15 or $0.50 depending on the type of offering) multiplied by the number of subscribers is introduced into the "greater of" calculation.

For informational purposes, with respect to the "greater" starting point of the royalty calculation, the percent of service revenue rates initially established by the Copyright Royalty Board (the "CRB") started at 11.4% in 2018 and increased on an annual basis until it reached 15.1% in 2022. The percent of service total content costs ("TCC") started at 22.0% in 2018 and increased on an annual basis until it reached 26.2% in 2022. For reference, the rates for 2020 were established as 13.3% of the service revenue and 24.1% of the TCC with 2021 at 14.2% of service revenue and 25.2% of the TCC.

The 2018 CRB decision on interactive streaming rates with respect to very important aspects (e.g., failure to give adequate notice to the digital music services of the final rate structure as well as failure to provide the basis and authority for changing the definition of service revenue with respect to bundling offerings, among others) was appealed by Spotify, Pandora, Amazon and Google (Apple did not appeal) to the U.S. Court of Appeals for the District of Columbia which, in a 65 page decision, remanded the case back to the CRB on August 7, 2020 for further proceedings and determinations. Since the decision did not address the issue of what the operative rates and terms should be on an interim basis pending the remand determination, this matter represents the initial decision which must be determined by the Copyright Royalty Judges.

For informational purposes, the National Music Publishers' Association ("NMPA") and the Nashville Songwriters Association International ("NSAI") submitted a motion to the Copyright Royalty Judges to set interim rates and terms that explicitly maintain the current rates and terms and which would remain in effect until the Judges publish a new final determination in the remand proceeding.

It should also be noted that, despite the remand of the various issues related to the 2018-2022 rates, the CRB proceedings which will determine the statutory mechanical rates for the five year period 2023 through 2027 are scheduled to commence in early 2021.

Copyright owners can also directly license works in lieu of the Statutory License.

**The Mechanical Licensing Collective And Interactive Streaming Royalties:** Pursuant to the Music Modernization Act (the "MMA"), a new not-for-profit organization was established to issue blanket licenses to the digital music services for this interactive mechanical streaming right. This organization which is called "The MLC" has the responsibility of issuing such licenses, creating a publicly accessible data base of composition information so that royalties will be paid to the correct copyright holders/ representatives, collecting the statutory royalties from the services and paying out the royalties on a monthly basis. Another very important aspect of its mandate is to build a portal so that composition information can be viewed and corrected in the event of errors which will assist in the matching of unmatched works to the correct royalty recipients.

The digital music services are funding The MLC so that no fees will be deducted from the royalties that

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are paid to the copyright owners/representatives. With respect to said funding, the Copyright Royalty Judges provided that the initial Start Up Assessment billed to the primary digital service companies would be $35,500,000.00 with an assessment for 2021 of $28,000,000.00. For calendar year 2022 and subsequent years, the amount of the annual assessment would be based on the lesser of three percent (3%) and the percent change in the Employment Cost Index for Total Compensation (the "ECI") as published on the website of the Department of Labor, Bureau of Labor Statistics.

The MLC is a fully staffed operation located in Nashville with a board of directors consisting of ten music publishers (both major and indie) and four self-administered songwriters. In addition, there are three non-voting directors representing trade organizations for songwriters, music publishers and digital music providers, respectively. There are also three primary advisory committees: one for unclaimed royalty oversight (comprised of songwriters and music publishers); one for dispute resolution (comprised of songwriters and music publishers); and one for operations (comprised of music publishers and digital music providers).

The operational date for The MLC to begin operations is January 1, 2021. Substantive information on its role, registration procedures and operation can be found on its website [themlc.com](themlc.com).

*2. Performance/ Performing Rights Organizations (PROs):*

In the United States and in most foreign countries, the Performance Right is one of the most important rights of Copyright and, in many cases, the most lucrative. In the U.S., there is no Statutory License under the Copyright Act for this right. Songwriters, composers, lyricists (jointly "writers") and music publishers join these organizations which in turn negotiate licenses with the users of music, collect the license fees from those users and distribute the monies to writers and publishers based on surveys of performances, specific payment schedules and distribution rules as well as other factors. All performance monies are distributed 50% to writers and 50% to music publishers.

The four primary PROs in the U.S. are the American Society of Composers, Authors and Publishers (ASCAP, 1914), Broadcast Music Inc. (BMI, 1939), SESAC (1930) and Global Music Rights (GMR, 2013). As to revenue, the four U.S. PROs collected in the area of 3 billion dollars in 2019 with ASCAP and BMI being responsible for close to 1.3 billion dollars each.

License fees are arrived at through voluntary negotiations between each PRO and an individual user or an industry wide negotiating committee (e.g. the Radio Music License Committee, the Television Music License Committee, etc.) If an agreement cannot be reached in the case of ASCAP and BMI and any user, Federal "Rate Courts" (Southern District of New York) pursuant to Consent Decrees with the government dating back to 1941, determine "reasonable" license fees, terms and what is actually licensable. In the case of SESAC, license fees are arrived at through voluntary negotiations, but due to antitrust settlements involving the local radio and local television area, mandatory arbitration takes effect for those two media if voluntary agreements cannot be reached. As to Global Music Rights, all license fee negotiations are voluntary as there is no Consent Decree, Rate Courts, mandatory arbitration or other dispute resolution procedure other than copyright infringement litigation in effect.

The most common license used is the "Blanket license" which allows unlimited use of a PRO's repertory for a negotiated fee. Additional types of licenses include the "Adjustable Fee/ Carve Out Blanket license" which is a blanket license reduced by the amount of direct licenses negotiated, the "Per Program license" which involves only programs that contain the specific PRO's repertory which is not directly licensed by the writer or publisher copyright owner and the "Through to the Audience license" with a fee that takes into account the "value of all performances made pursuant to the license including all further

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transmissions by users with an economic relationship to the licensee".

Copyright owners, normally the music publisher, can also Directly license or Source license copyrighted works to broadcasters, streaming services and other users of music or program producers thereby bypassing the PRO licenses completely even though they are a member, affiliate or contracting party of such organizations. With the exception of GMR, all U.S. PRO writer and publisher membership or affiliation agreements are non-exclusive which permit the copyright owner to license a work directly if they so choose or if a user or producer requests or demands a direct or source license. A number of U.S. PROs also administer the direct licenses negotiated by their members or affiliates.

It is important to understand the types of license agreements-whether negotiated or court set- that the PROs enter into with the users of music as changes in economic conditions can have significant effects on both incoming PRO revenue as well as user payments. License fee deals can take many forms including a % of gross revenue or advertising gross receipts, flat dollar rates, industry-wide non-revenue based fees with allocations based on market size, viewership and number of stations in a market, different percentages of revenue based on the intensity of music use (i.e. music intensive v. general entertainment v. talk, news and sports), number of full time students for universities, seating capacity, number of attendees and ticket prices for live performances, annual expenditures for all entertainment on the premises, etc.

A good example of one type of license fee structure deal are the current ASCAP, BMI, SESAC and GMR agreements with terrestrial radio. The ASCAP and BMI current agreements, which run through 2021, are relatively similar with basically a 1.78% of revenue fee structure less a standard deduction of 12% with digital revenues subject to an increased deduction of up to 30%. The Per Program license has a base fee of 0.31% less the same deductions. Included are the stations "new media" platforms related to internet websites, smart phones and other wireless devices. The current SESAC agreement, which runs through 2022, has a fee of 0.255% of net revenue with an all talk rate of 0.575%. As the RMLC's antitrust litigation against GMR remains ongoing at this point, GMR has extended to stations an interim rate agreement through March 31, 2021.

Another type of arrangement is illustrated by SESAC's recent agreement with the Television Music License Committee ("TMLC")) for the local television industry as to fees for the Blanket and Per Program license for the period 2020-2023. The industry wide blanket license fees for the term totaled $151,000,000 with individual year allocations of $36.5 million for 2020, $37.5 million for 2021, $38.5 million for 2022 and $38.5 million for 2023 with a set methodology for allocations to individual stations within a market. A separate Per Program license was also negotiated.

Keep in mind that many of these agreements are complex documents taking into account within the agreement many different factors as well as alternatives to the blanket license. The above examples represent license agreements in their "headline" rates only-the actual signed agreements run many pages with particular emphasis on the scope of the agreement, specific definitions, fee structures and payment dates, music use information, breach, default, indemnity and termination clauses, among other items.

It is important to note that the Department of Justice in 2019 opened a review of the ASCAP and BMI Consent Decrees as to whether they should be modified, remain the same, be eliminated or be given a "sunset" date. ASCAP and BMI presented four principles which should be retained: users have automatic access to the repertory with an immediate right to public performance contingent on fairer, more efficient and less costly mechanisms for interim fees, retain the current Rate Court process as reformed by the Music Modernization Act (rotating judges and the ability to introduce sound recording rates into any judicial determination), continue the concept of non-exclusive rights and preserve the current forms

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of licenses. Additional issues that were brought up involved the ability to "bundle" rights, the concept of treating "similarly situated users"alike, the maximum duration of 5 years for a license and the "harmonization" of both the ASCAP and BMI decrees, among others.

As to the additional parties heard, songwriter and composer organizations (NSAI, SCL, SGA, SONA, etc.), though they were in agreement with the four basic principles set forth by ASCAP and BMI, were concerned about, among other issues, the ability of music publishers to move their works to another PRO or remove their works from a PRO without writer consent as well as any attempts by Congress to pass a compulsory license. The National Music Publishers' Association (NMPA) primary position was that publishers be permitted to selectively withdraw works from the PROs so that they could be directly licensed in the digital space similar to how they license full catalogues in unregulated music copyright areas. On the user side (NAB, RMLC, DIMA, NCTA, MPAA, National Restaurant Association, etc.), practically all wanted no changes in the decrees as they were "the cornerstone of contemporary music licensing", "remarkably effective and efficient", "predictable" and a "protection against copyright infringement". In addition, ASCAP, BMI, GMR and SESAC should all be under the same restrictions.

*3. Synchronization:*
As there is no statutory license for synchronization under the U.S. Copyright Act, all "synch" licenses, with very few exceptions, are voluntary negotiated licenses between the copyright owner/administrator and the production company or studio. This includes the use of pre-existing compositions in motion pictures, television programs, commercials, e- cards, apps, video games, holograms, etc. In many cases, the fee is a one-time payment. For example, a one-time synch fee for a life of copyright all media excluding theatrical dramatic series television license. In other cases, such as music and dance centric television programs where there are multiple options exercisable by the producer, additional monies can be added to the initial payment. In the case of music and dance centric video games (as opposed to other types of dramatic or sports games), the royalty formulas can range from per unit royalties, to additional monies paid based on the game reaching certain sales plateau levels to a % of net revenue for compositions downloaded into the game subsequent to a game's release.

There are numerous variations in the area of synch licensing depending on the type of production, term of the license, use of the composition, whether there is a change of lyrics and media requested by the production company with many times the fee being based on a most favored nations basis with the master recording if such a recording is used.

**Sound Recordings/Artists and Record Labels**
*1. A Limited Performance Right For Sound Recordings:*
This limited right which applies to sound recordings publicly performed "by means of a digital audio transmission" was created pursuant to the Digital Performance Right in Sound Recordings Act of 1995 (DPRA). Webcasting was included under this right by the Digital Millennium Copyright Act of 1998 ( DMCA). This Compulsory License/ Statutory License applies primarily to satellite radio services (SiriusXM, etc.) internet radio (Pandora and other non-interactive services), cable television audio music channels (Music Choice, etc.), certain business establishment services (Muzak, etc.) and similar platforms that stream music. This is an audio right only and does not apply to terrestrial radio.

The Statutory License as set forth in Sections 112 and 114 of the Copyright Act applies only to non-interactive services. For On Demand services (e.g. Spotify), the right remains with the Copyright Owner and is a negotiated agreement between the record label/ copyright owner and the digital service. These direct agreements can take many forms including a % of gross, net or ad revenues, an ownership or equity stake in the service, per stream rates, advances and guarantees, a trade off of services or a combination of

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these and other elements.

The Copyright Royalty Board, created under the Copyright Royalty and Distribution Act of 2004, is the entity that establishes the statutory rates and terms for the public performance of sound recordings under the Section 112 and 114 licenses. The following represents the current master recording rate structures in effect for the years mentioned:

*2. Webcasting 2016-2020:*
.0022 per stream for commercial subscription services and .0017 for non-commercial subscription services. The start of the two year Web V proceeding to establish the royalties for 2021-2025 for the non-interactive online streams of both local radio stations and pure play webcasters was delayed by the 2020 government shutdown.

*3. Sirius XM 2018-2022:*
15.5% of gross revenue; and Music Choice 2018-2022: 7.5% of gross revenue. As to the Sirius XM rates, they are locked in through the next term and will remain the same at least until 2028. As to the Music Choice rates (the "pre-existing service" rates), the rates could change in connection with Music Choice's appeal of the last CRB decision. Whatever rates are final after the appeal and remand will be the final rates through 2027.

SoundExchange, a 501 (c)(6) tax exempt organization incorporated in Delaware and headquartered in Washington, D.C., is the sole entity designated by the Copyright Royalty Board (CRB) to collect royalties under the statutory license. In 2019, SoundExchange collected $963 million in royalties and distributed $908.2 million in sound recording performance royalties to registered artists and rights owners with 50% going to the copyright owner of the sound recording (normally the label), 45% to the featured artist and 2.5% each to non-featured vocalists and musicians. In addition, record producers, engineers and mixers can also receive a % of the featured artist's royalties provided they provide a letter of direction signed by the artist. For recordings made before November, 1, 1995, a separate provision allows the same individuals, in certain circumstances, to receive a portion of the royalties absent a letter of direction. SoundExchange also administers record label/ streaming service direct licensing deals that bypass the statutory license. Finally, the Music Modernization Act of 2018 extended limited federal copyright protection and the right to digital public performance royalties to sound recordings made from January 1, 1923-February 15, 1972, thereby adding a substantial new group of recordings eligible for SoundExchange distributions.

*4. Synchronization:*
As with musical compositions, master recording synch licenses are negotiated agreements. Many times the license fee and terms will be on a Most Favored Nations (MFN) basis with the musical composition so that each will be paid at the same rate.

## CONCLUSION

In this article, we have covered three of the primary areas of U.S. music rates and royalties for songwriters, composers, artists and record labels-mechanicals, performances and synchronization. Additional factors also come into play including, among others, the specific contracts that songwriters and artists sign with music publishing companies and record labels, direct licenses as well as, in many cases, a whole different set of rules, regulations and royalties in foreign countries. Suffice it to say, the complexity of the business and law of music has certainly not decreased in recent years.

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*Entertainment Law attorney and former ASCAP Executive Vice President. Both are Adjunct Professors at USC teaching Music Publishing, Licensing and Film, Television and Video Game Composer and Songwriter Contracts. Additional information on the subject matter of this article can be found in the 8th edition of "Music, Money and Success: the Insider's Guide to Making Money in the Music Business" (Schirmer Trade Books/ 656 pages/Music Sales, Wise Music).*

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# Paparazzi Lawsuits Against Celebrities: Ongoing Litigation

**By Joshua Azriel, PhD**

Celebrities seek public attention. We know this from the voluminous photographs and videos of them attending movie premieres, charity functions, or even walking along the sidewalks of Los Angeles or New York City. Photographers, most notably paparazzi, shoot celebrity images that later appear online, in magazines, or on television. Celebrities need the paparazzi generated photos to promote their professional brand, and in return, paparazzi need celebrity photographs to earn money. These images are often resold to media agencies, that, in turn, sell them to celebrity magazines, television shows, and websites. In an era of increasingly smaller profits for paparazzi, these photographers are increasingly suing celebrities who repost original, copyrighted images onto their Instagram pages. Jennifer Lopez, Gigi Hadid, Jessica Simpson, and Kim Kardashian are just a handful of celebrities who, in the past two years, have been sued for infringement.[1]

Posting these photographs onto social media can mean substantial earnings for the celebrity, especially when they have garnered hundreds of thousands or even millions of followers on social media.[2] Those earnings translate into increased publicity for a celebrity's career and support for their corporate brand or philanthropic cause.

In 2017 reality show celebrity Khloe Kardashian posted a paparazzo generated photo of herself onto her Instagram account. Xposure Photos, based in the United Kingdom, owned the copyright to the photo and sued Kardashian for $175,000.[3] The company accused Kardashian of not asking for permission to reuse the photo. Kardashian deleted the images and the lawsuit was then dismissed. In 2018 Kardashian tweeted that she started requesting licensing permission to repost her own images owned by photographers or media companies.[4] Her sister, Kim Kardashian, in a tweet, announced that her family would hire photographers to work exclusively for them.[5] Rather than be accused of infringement, the Kardashian family wanted to be able to control as many of their images as possible.

Increasingly, celebrities are posting copyrighted photos on social media, especially Instagram.[6] Paparazzi took these photos in public places where celebrities do not have a right to privacy or control their right of publicity, the ability to control how and where their images and names are used for commercial purposes.[7] When paparazzi capture these images in public places, they have the right to secure them with a copyright or sell them to a media agency, who, in turn, then secures the copyright ownership.

The Copyright Law of 1976, amended numerous times over the years, provides legal protection for any paparazzo who believes his or her copyrighted images have been infringed upon, including by celebrities. The law specifically empowers a photographer with "the right to prevent the use of his or her name as the author of the work of visual art in the event of a distortion, mutilation, or other modification of the work…"[8] In the 21st Century *modification* can include digitally reposting a duplicate of the original onto a social media site.

This article examines copyright law as it pertains to the paparazzi's right to obtain legal protection for their creative works especially in social media communication platforms. While their profession may

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not be universally respected by the public or by many celebrities, it is part of the symbiotic relationship celebrities and paparazzi have with one another.

### Social Media Complicates Image Copyright

Social media has impacted the digital photography industry with millions of visuals posted onto various platforms. In 2013 then director of the U.S. Copyright Office, Maria Pallante, wrote in the *Columbia Journal of Law and the Arts* that more of the general public was affected by copyright than at any previous time in history.[9] That included liability for online content infringement.[10] She advocated for authors and artists to be able to enforce their legal rights whether their creative works existed "on the street or streamed from the cloud."[11] In 2013 she urged Congress to consider how to enforce "incidental" digital copies of original works in future amendments to the 1976 Copyright Act.[12] She was also concerned about the high cost to photographers for recovery of infringement when they copyright a collection of works under one group registration.[13] One area Pallante encouraged Congress to reconsider is the idea of an "opt-out system" for creators to disseminate their works.[14] The concept is simple. Authors and other artists would secure copyright but also allow their works to be used by a group of people with prior approval of the artist.[15] Pallante explained how it would operate:

> "Extended collective licensing allows representatives of copyright owners and users to mutually agree to negotiate on a collective basis and then to negotiate terms that are binding on all members of the group by operation of law. It has the potential to provide certainty for users and remuneration for copyright owners (for example, in mass digitization activities) but would provide some control to copyright owners wanting to opt out of the arrangement."[16]

She noted that Congress would be *the* authoritative body to legalize this novel approach of collective licensing.

Generally, it is recognized that obtaining a copyright an image or collection of photos is a straight-forward process. Photographs of celebrities are considered creative expressions under federal copyright law and that ownership can be secured. There are two traditional routes to formally secure copyright. The first is to register the creative expression through the federal copyright office in Washington, D.C. and pay $45 per work.[17] The second, traditional and free way is to add '© Name Year' to the creative expression. According to the United States Copyright Office, photographers own the copyright to their works nearly by default:

> The owner of the "work" is generally the photographer or, in certain situations, the employer of the photographer. Even if a person hires a photographer to take pictures of a wedding, for example, the photographer will own the copyright in the photographs unless the copyright in the photographs is transferred, in writing and signed by the copyright owner, to another person. The subject of the photograph generally has nothing to do with the ownership of the copyright in the photograph.[18]

As long as the photographs exist in a tangible medium, copyright law is essentially on the side of the photographer. The United States Copyright Office states tangible mediums are "photographs that are created with a camera and captured in a digital file or other visual medium such as film."[19] Photographers can submit an individual photograph or an entire work from a series for copyright protection.

Congress is the sole legal authority in United States that writes copyright law.[20] The 1976 Copyright Act mandated that creative works be "fixed in any tangible medium of expression."[21] Photographs are included as "pictorial" works.[22] Any photographer who secures copyright controls those ownership rights for his or her life plus an additional 70 years. Since paparazzi are photographers, they have every

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legal right to secure their celebrity photos and control how they are viewed by the public. This includes securing the right to reproduction and display.

### 1884 Supreme Court Decision on Photography and Copyright

In a landmark case regarding whether photography can be copyrighted, the Supreme Court in 1884 in *Burrow-Giles Lithography Co. v. Sarony*, ruled that the new technology of the time was a form of art deserving of legal protection.[23] While photography in the United States existed as a technology dating back about 40 years prior to this case, this was the first time the Supreme Court heard an appeal by a photographer who accused someone of infringing on his work. Photographer Napolean Sarony created a series of photographs of Irish poet Oscar Wilde in New York City in 1882.[24] He published one of them as "Oscar Wilde No. 18" and secured the copyright.[25] Burrow-Giles Lithograph Company reused Sarony's image without permission and infringed on his copyright.

At the time, the lithograph company contended that photography was not part of the creative works eligible for copyright. The Supreme Court disagreed. Writing for a unanimous Court, Justice Samuel Miller stated that photography was not included in 1802 when Congress wrote the first copyright laws simply due to the fact that photography did not yet exist.[26] The Court believed photography was an art form in its own right equal to the engravings, music, and prints which Congress added to the list of copyrightable creations in 1831. Justice Miller wrote:

> "Unless, therefore, photographs can be distinguished in the classification on this point from the maps, charts, designs, engravings, etchings, cuts, and other prints, it is difficult to see why Congress cannot make them the subject of copyright as well as the others."[27]

In the Court's view, Burrows-Giles was not able to make the argument that photographs were less deserving of copyrights compared with engravings, etchings and other artistic works.

From the Court's perspective, as a photographer Sarony was just as creative in his profession as an artist with the same attention to detail in setting up his Oscar Wilde photography session:

> "…he gave visible form by posing the said Oscar Wilde in front of the camera, selecting and arranging the costume, draperies, and other various accessories in said photograph, arranging the subject so as to present graceful outlines, arranging and disposing the light and shade, suggesting and evoking the desired expression.."[28]

In acknowledging that photography had a creative element, the Court supported Sarony's copyright: "We entertain no doubt that the Constitution is broad enough to cover an act authorizing copyright of photographs, so far as they are representatives of original intellectual conceptions of the author."[29] While it supported Sarony's right to copyright, the Court refused to answer whether photography in the late 19th century was equal to a piece of art in stature. Instead, the Court focused on how Sarony took great care in preparing and taking his images with special attention to lighting, arrangement of the setting, and striving for an expression by the subject.[30]

The landmark *Burrow-Giles* decision provides a parallel to today's creative landscape where digital photography is often posted onto online social media. In 1884 the Supreme Court clarified the legitimacy of photography as deserving of copyright. The Court defended Sarony's right to protect his creation. With today's widespread use of social media, it is equally important for courts to uphold the rights of photographers to protect their digital images from infringement, especially those posted on social media platforms such as Instagram. A simple click of a mouse allows any user to copy an image including those

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stolen from photographers who secured the copyright. This simple action deprives them of potential revenue from their works.

## Supreme Court Clarifies Copyright Law

In order for any photographer to sue for copyright infringement, the photos in question must be registered with the United States Copyright Office. According to the U.S. Supreme Court's 2019 *Fourth Estate Public Benefit Corporation v. Wall-Street.com* decision, copyright owners must have their creative works registered *before* filing legal action against anyone they suspect has infringed upon their creative materials in question.[31] Simply filing for an application with the U.S. Copyright Office is not enough. The owner must have the completed documented proof of registration provided by the Office.[32]

In *Fourth Estate*, Fourth Estate Public Benefit Corporation, an online news organization, licensed works to Wallstreet.com, a news website. Under the contract between the two companies, Wallstreet.com was required to remove all licensed content upon termination of the business contract.[33] When Wallstreet.com canceled the contract, it continued to post copyrighted materials from Fourth Estate.[34] The company contended it had the legal protection for the copyrighted materials simply by submitting the application to the U.S. Copyright Office prior to receiving certification.[35] The lower district court dismissed Fourth Estate's claim ruling the copyright registration was not yet completed at the time the infringement allegedly occurred.[36] The U.S. Court of Appeals for the Eleventh Circuit affirmed the decision.[37]

In Justice Ginsburg's opinion, the Court was unanimous in stating that before a legal proceeding can be held regarding infringement, registration of the copyright must have taken place.[38] This registration is separate from declaring the copyright ownership.[39] The Court clarified that registration is needed as the legal proof of copyright provided by the government.[40] It is only in very limited circumstances, a copyright owner can sue before there is documented ownership:

> "If a copyright owner is preparing to distribute a work of a type vulnerable to predistribution infringement—notably, a movie or musical composition—the owner may apply for preregistration."[41]

Yet, even in this unusual circumstance, the Court stated that a preapplication by the creator is still needed even for a "limited review."[42] That limited review preregistration is needed so that the "copyright claimant may institute a suit for infringement."[43]

Any infringement lawsuit, must have, at a minimum, preregistration before it can proceed.[44] The Court noted Fourth Estate needed to adhere to this requirement in its action against Wallstreet.com. If Fourth Estate had waited until the preregistration was complete, then its infringement case could have proceeded.[45] The Court had a warning for any company considering future infringement lawsuits: "An infringement suit brought in reliance on preregistration risks dismissal unless the copyright owner applies for registration promptly after the preregistered work's publication or infringement."[46]

The Court, in deferring to Congress's intent with the federal copyright law, literally interpreted the federal copyright law's phrase "no civil action for infringement of the copyright in any United States work shall be instituted *until preregistration or registration*[47] of the copyright claim has been made.." as the inability to begin a legal complaint or send a cease and desist letter unless the creator has the completed copyright registration.[48] The Court's ruling in *Fourth Estate* reflects its deference to Congress as the governmental branch that writes copyright law.

Copyright also has a First Amendment component. In 2003's *Eldred v. Ashcroft*,[49] Justice Ginsburg,

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writing for the majority, noted that the Framers of the Constitution believed free expression and the right to secure one's ideas went hand in hand. The Court's decision was in regard to the constitutionality of the Copyright Term Extension Act.[50] Petitioners in *Eldred* argued that Congress did not have the authority to increase the number of years for an existing copyright.[51] The Court disagreed stating Congress has exclusive authority in all areas of writing copyright law.[52]

Justice Ginsburg's opinion reflected the Court majority's embrace of copyright as a reflection of free expression. She wrote that copyright incentivizes Americans to create and share ideas.[53] Copyright allows one to distinguish between ideas and expression.[54] Creators can share ideas but protect how they *express* them.[55] Ginsburg wrote that copyright law serves as an economic incentive to create and share ideas with every American having the right to secure that expression through copyright.[56]

### Jennifer Lopez and Kim Kardashian Lawsuits

Actress and singer Jennifer Lopez is a defendant for the second time in a copyright infringement lawsuit. The first case involved a 2017 image owned by Splash News and Picture Agency of her holding hands with fiancé Alex Rodrigues. The lawsuit was terminated by the media company in January 2020. The second and current lawsuit is from Lopez's action in 2017 when she uploaded a photo to her Instagram page dressed as her NBC *Shades of Blue* television character "Harley."[57] That photo was taken by New York-based photographer Steve Sands.[58] She shared the photo with her 118 million Instagram followers.

Sands is suing for $115,000 in damages in federal court under section 501 of the U.S. Copyright Act.[59] Sands alleges that Lopez violated his right to control the reproduction and public display of the photos. He registered the copyright after he took the photos.[60] The legal complaint uses strong, accusatory language, stating the copyright violation was "willful, intentional, and purposeful."[61] Sands' attorney Richard Leibowitz alleges that Lopez used the photo for her own promotion and received more than 650,000 likes from her 118 million Instagram followers.[62] The complaint also states that Lopez never sought permission from Sands to reuse the photos.[63] Sands is seeking information from Lopez regarding how much money she garnered in income or in profits from posting the photo on Instagram.[64] Any profits Lopez may have earned from the photo may impact any remuneration Sands gets in a successful lawsuit. As the plaintiff, Sands believes his photo had value and Lopez's actions diminished the potential income he could have earned from it.

The lawsuit against Jennifer Lopez is not unique. It is a textbook case that illustrates the trend in the past couple of years of photographers, especially paparazzi, suing celebrities for copyright infringement. If Sands is successful against Lopez, then as odd as it may seem to celebrities, they would not have an automatic right to re-use images of themselves taken by photographers in public venues.

Parallel to Lopez's lawsuit, Kim Kardashian was sued in U.S. District Court Eastern District of New York by paparazzo Saeed Bolden for a 2018 repost of a photograph to her Instagram account.[65] The parties settled their lawsuit in Summer 2020 with each side agreeing to pay its own legal fees. Similar to Sands, Bolden sued under Section 501 of the Copyright Act.[66] The image in question was of a smiling Kardashian with husband Kanye West. Initially, Bolden sought profits Kardashian may have earned from the social media post as well as seeking punitive damages. Many of Kardashian's 174 million Instagram followers viewed the photo. Additionally, Bolden claimed Kardashian's shapewear company Skims Body's Instagram account is linked to her personal account.[67] That account is followed by 1.7 million people. He alleged the photo was seen by a combined 2.2 million of Kardashian's personal Instagram fans and people who follow her business's Instagram page.[68] Since the image was registered with the U.S. Copyright Office when the infringement was alleged to have taken place.[69]

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In response to this lawsuit, Kardashian posted on Twitter that she hired her own photographer to secure the rights to future photographs: "Btw since the paparazzi agencies won't allow the fans to repost, all of my pics are taken by my own photog and you guys can always repost whatever you want."[70] She encouraged her social media followers to repost those images yet she also noted that in the future other images that are copyrighted would be labeled and not used by her fans to repost, "If I ever post from an agency I will tag them and I have permission. So those please don't repost!"[71]

Bolden is seeking punitive damages for the infringement as well as recovery of his attorney fees from Kardashian.[72] One of the interesting side notes to both the Lopez and Kardashian lawsuits is that both plaintiffs are represented by the same attorney, Richard Liebowitz. He is a former photographer representing similar clients in several copyright lawsuits. He represents his client Steve Sands in several litigation efforts beyond the Lopez lawsuit.[73]

## Celebrities' Claim of Fair Use and Right of Publicity

The 1976 Copyright Law included four criteria that allows anyone to use copyrighted materials for fair use under specific circumstances based on: the purpose and character of the use; nature of the copyrighted work; amount of the portion used; and the effect on the copyright owner's potential market.[74] In both the Lopez and Kardashian lawsuits, the four-part test can be applied. Both celebrities used the photos for the purpose of promoting themselves on social media to their millions of followers. Dressed in her television character's police uniform, Jennifer Lopez drew attention to the character she played on *Shades of Blue*. Kim Kardashian shared a loving smile between her and her husband Kanye West. In both cases the nature of the copyrighted work was a photograph. The third element, the amount or portion used, was the entire image. The photos in question were not cropped or altered in any way. Finally, and perhaps most important element, the effect on a photographer's economic value can only be determined by a judge or jury. The plaintiffs will most likely have to prove a loss of income from Lopez and Kardashian's alleged infringement. Both legal complaints seek dollar amounts the two celebrities may have earned from posting the photos on Instagram.[75]

In essence, using the four-part test, photographers Steve Sands and Saeed Bolden seem to be at an advantage in their legal complaints. If they can prove that they lost a substantial amount of money from infringement, they may win their cases. Under this scenario, both Lopez and Kardashian could not claim fair use as a defense even though they are the subjects in each photograph. The fourth part of the fair use test may be the key to determining if infringement occurred. Simply because they were the subject of the photos, Lopez and Kardashian may simply not have rights to them. Another important factor is that the photographs were taken in a public venue where celebrities have few, if any, privacy rights.

## A Reverse Right of Publicity

In both the Lopez and Kardashian lawsuits, the celebrities may have believed that since they were the subject of each photograph, they have the right to control their image, the right of publicity. This concept is simple: a celebrity's right to have his or her image, name or any other likeness used exclusively for commercial purposes with permission.[76] In this case, both celebrities gave themselves permission to use their images. Typically, right of publicity applies when a media product such as a magazine or newspaper has a photo of an athlete, musician, or actor from a previously published article and then reuses it to promote their product to customers. In these instances, celebrities may sue if they believe their permission was needed for the photograph.

Media often use a First Amendment defense when they argue that the celebrity image itself is not an outright endorsement of their product but rather instead, related to the high quality journalism of the magazine or newspaper.[77] It is often a fine line between interpreting an outright endorsement by

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the celebrity versus the celebrity's image as a reflection of the overall product. In many cases, when a celebrity's image is used in a profile article, they are asked to sign a consent for future permission to use the image in promoting the media product.[78]

In 2017 NFL star Odell Beckham sued Splash News and Picture Agency and paparazzo Miles Diggs for violating his right to publicity and overall invasion of privacy.[79] On October 8, 2017 playing for the New York Giants, Beckham suffered an ankle injury and needed surgery. Diggs captured a photograph of Beckham outside his New Jersey home with a telephoto lens. Beckham alleges that the photo was not "creative or distinctive" in any manner[80] It simply showed his ankle in a cast. By taking this image and licensing it to Splash Media, Beckham accused Diggs of violating both his right of publicity and right of privacy in the form of appropriation.[81]

Beckham's Right of Publicity lawsuit was counter to Splash's legal action. Beckham had taken the photo in question and posted it on his Instagram site. Splash sought $40,000 in damages.[82] Both lawsuits were settled between the parties in 2019. Many copyright infringement actions are actually settled out of court for between $10,000 and $20,000.[83] The reason is simple. It is less costly to settle these cases than to proceed to court and pay attorney and court fees.[84] The conclusion that can be drawn from the Beckham, Kardashian and Lopez lawsuits is that paparazzi are becoming emboldened in protecting their financial interests. They believe their photographs have monetary value and as copyrighted materials, are protected under the law from infringement.

### Paparazzi Financial Obstacles in Recent Years

Paparazzi income has declined in recent years. According to Los Angeles paparazzo Giles Harrison, his income has decreased significantly in the last decade. In some cases, he earns as much as 50 percent less in any one week selling his celebrity images than he did a decade ago.[85] Other paparazzi have retired and left the business due to declining income. One of the reasons why their photographs have decreased in value is that there is a smaller group of celebrities whose photos earns a significant amount of money. Competition for the photos is now more intense. The value of any image rises and diminishes according to who is popular in the entertainment industry at any given time. This inconsistency makes it difficult for any paparazzo to estimate their long-term income.

Another important factor is the use of social media by celebrities to control their own image. Rather than rely on photographers to communicate the visuals, celebrities now have millions of followers on their social media sites. Essentially, they no longer need paparazzi to act as the middlemen to communicate with their fans. If a celebrity wants to make a personal or professional announcement, they simply do it themselves. Celebrities' public Instagram, Facebook or Twitter accounts are used by media to download these photos. Cable Channels such as *E!* and programs such as *Entertainment Tonight* and *Good Morning America* use these social media accounts to produce stories for their viewers. Websites such as People.com and *Daily Mail Online* rely more on celebrity sourced photos rather than those generated by paparazzi. The main exception is TMZ who deploys an entire staff of photographers in Los Angeles and New York City. It considers itself a celebrity focused news operation.[86]

In addition to the economic challenges faced by paparazzi, California's well-known anti-paparazzi laws have caused paparazzi to be more careful in how they gather their photos. In California, it is illegal for them to intrude on a celebrity's family's privacy or to stalk them in order to get that priceless photo.[87] Paparazzi and media organizations can be sued for publishing photos if a celebrity has asked in writing to cease and desist their activities.[88]

The last major challenge for paparazzi working in today's media environment is the Covid 19 outbreak.

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With the recent state government imposed stay at home orders in California and New York, fewer celebrities are walking around in public and there have not been any movie premieres or charity functions for them to attend. Paparazzi have far fewer opportunities to snap photos.

## Conclusion

Given the economic and legal challenges to gathering celebrity images, it is not surprising that photographers, including paparazzi, are suing celebrities for infringement. The images have a monetary value to both the celebrity and the photographer. While celebrities usually have a stable source of income, photographers do not. If their visuals are used without permission and financial compensation, it is not surprising that they would seek remuneration. Any photograph of a celebrity has monetary value. Copyright law provides a financial means to recover infringement.[89]

Even though celebrities were the subjects in the photographs, courts may determine they infringed on photographers' copyright. Fundamentally, celebrities infringing on paparazzi sourced photos is no different than any other copyright violation such as illegally downloading music. Copyright applies to photography as much as any other creative expression. One possible solution for celebrities to avoid lawsuits is to link their Instagram or Twitter accounts to a photographer's website by posting the website URL if the visual exists on a public site.[90] By linking to the photographer's website or social media account, the celebrity is not actively infringing or copying a digital photograph. Rather, it is a form of fair use.[91] The celebrity would not be uploading the digital file and storing it on their computer, tablet, or cell phone.[92]

If celebrities continue copying and pasting images without permission of the owner, then lawsuits will continue. Being the subject of the photograph is not enough of a right to infringe. Photographers have a right to copyright their creations. That right is stated explicitly in the 1976 Copyright Act where the creator controls any "modification" of their creation.[93] That right includes the digital copying and pasting of an original work with attribution given to the photographer.

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# More Than Meets the Ear: What to Expect from a Musicologist

**By George Saadi, The Musical Detective**

"Hey, that sounds familiar…where have I heard that before?"

To answer this type of question, copyright infringement cases often require the assistance of a musicologist. But what can you expect when hiring one? There are essentially three areas where a musicologist can be a resource: musical comparisons, prior art searches and expert testimony as to similarity.

Though each musicologist has their own methods, we all must address the same general issues. For musical comparison, these include analysis of melody, harmony, rhythm, song structure, spatial organization, lyrics and more. The process involves transcribing both the work of the party claiming infringement, and the infringing work. As the works may be in different musical keys, they are transposed into a common key signature, usually the key of "C", to simplify the comparison as well as the explanation of the musicologist's findings.

The method of comparison entails listening to the works, examining the transcriptions, studying the tempo, harmonies, arrangements, duration, number of measures, structure and key signatures. Similarities between the works (even things that may initially seem minor) can ultimately be relevant. For that reason, besides dissecting melodies, harmonies, harmonic progressions, structure, arrangements, number of bars in various sections, key signatures and the like, musicologists also consider pickup notes, melismas, genre and even whether the song fades at the end, among other things. The differences between two works are also considered.

The musicologist's analysis can illuminate substantial similarities and striking similarities between works. Additionally, it can assist in establishing that two pieces which share a variety of common factors that individually don't warrant copyright protection, sometimes do in the aggregate. This process involves deconstructing each musical element to its building blocks and examining whether they are combined in a unique way or order, creating something substantially distinctive.

Prior art searches encompass the immediate references of the musicologist complemented by specialized third-party databases. The methodology of such databases has progressed significantly as technology has advanced. When I began my career, I was mentored by the late, great, forensic musicologist, Irwin Coster, of Coster Music Research. I met Irwin when I believed one of my compositions was infringed by a superstar artist. I had discussed my potential case with a few law firms, and though I was passionate about it, they needed to determine whether legally the case was meritorious. One of the major entertainment firms, whose interest was piqued, instructed me to have a musicologist do an analysis upon which they'd decide whether to take my case. They referred me to Irwin. Being a lifelong musician, I was very curious about Irwin's work, and asked to observe his process. He was gracious enough to permit me to do so, which not only gave me great insight into the world of musicology, but began a long working relationship.

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Among the considerations in musicology are the intrinsic and extrinsic tests for similarity. If an ordinary listener can hear the similarity between two works, it's intrinsic. If the similarity is apparent after a musicologist cuts them up, explains them, and creates a road map illustrating them, it's extrinsic. I wanted to play the recordings of my song and the potentially infringing superstar's song for Irwin to see if he heard what I considered obvious. To my disappointment, he refused, insisting that his initial impression be made by reviewing the musical transcriptions of both pieces.

I had the transcription of my song, and a rough sketch of the superstar version of it, which I transcribed myself. On a visit to a music store to purchase blank music manuscript paper to use for taking down the superstar's work, I'd seen a printed book of the sheet music for the superstar's album, and made Irwin aware of it. He told me to use that version, as it was an already accepted version by the musician. He then compared the two works, and, only after that, satisfied my desire of having him listen to the recordings of the songs. Once the comparison was done, he began the prior art search.

Irwin had created his own database using a program he'd written that, if memory serves, ran on MS-DOS. Similar to transposing both works into the same key for ease of comparison, Irwin used a solfege-type system, where he would isolate melodic phrases and enter them into his program by converting the melodic pitches into numbered scale steps. For instance, if a melody went from the tonic note, "C", up to "E-flat", then "F", then "G", it would be represented as 1, -3, 4 5, where 1 = "C", -3 (an interval of a minor third) = "E-flat", 4 = "F", 5 = "G". He had been entering melodic phrases from all types of music into his database for decades.

Once the comparison identified the relevant phrases, we would enter them into his system, which would crosscheck them against his huge database, and deliver matches. It was beautiful in its simplicity in that intentionally entering rudimentary parameters cast a wide net for matches (initially ignoring rhythm of the phrase). Not all results were relevant when other factors were taken into consideration, but it provided a good sense of the commonality of the phrase (or lack thereof), before focusing on a meaningful subset useful to a particular case report. This process helped in determining the originality of the melody in question. It was labor-intensive, but the method was a building block of the more efficient ways of creating and searching libraries today.

A typical musicologist report consists of a recap of conclusions, assumptions of fact, a list of individual similarities of the works, potentially highlighting aggregate similarities, opinions on whether these similar aspects are substantial or striking, conclusions, visual exhibits, audio exhibits and a glossary. It also includes the qualifications of the musicologist, highlighting past experience, whether you've ever been retained as an expert witness on musicology and any relevant publications. With significant similarity, a conclusion may be drawn that, with no prior common source, the similarity is not a coincidence—and is instead an indication of copying. The initial burden of proof lies with the party claiming infringement. In a situation where infringement may exist, a musicologist's report is an important part of the evidence which satisfies that burden sufficiently to shift it to the opposing party. Musicologists also may offer rebuttal opinions which address issues raised by an opposing musicologist. In addition to creating a report, musicologists need to be effective in communicating with a judge and jury. They must be able to testify reasonably, comfortably and clearly in making something as technical as music theory understandable to an audience with no knowledge of the subject.

I used to think that I wore two hats—one a musician, the other a musicologist. Sometimes the musician feels conflict with the musicologist because the musicologist follows strict procedures, while the musician is influenced by their instinct and gut. But the conflict is reconciled when you apply the rules and your experience. Irwin told me my case was the closest similarity he'd ever encountered in his long career. As

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a young musician, I thought it was obvious and that I knew it from the start. But as a musicologist, now I understand that only by application of rigorous methods can a musician's instinct transform into an expert's opinion with the gravitas required in a court of law.

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# Social Media Endorsement Activities Can Prompt Securities and Exchange Commission Liability for Celebrities

**By Michael J. Rivera and Abby Yi**

Celebrities have cultural, social and political influence on society. Celebrities exert their influence on social media platforms in a matter of seconds to their millions of followers. Their influence is the undeniable driving force behind lucrative endorsement and promotional deals. More than ever, celebrities utilize social media to endorse and promote more than basic household goods, gadgets and fashion lines, including, for example, insurance, financial products and investments. Celebrities should exercise caution when endorsing products in industries that are highly regulated by the government, as they are subject to complex laws and regulations that can easily be overlooked or misunderstood and can land the celebrity in hot water.

Endorsements of investment-related products pose heightened risks for celebrities as they fall under the jurisdiction of the Securities and Exchange Commission (SEC), known for being an aggressive regulator. Celebrity endorsements of investment products are therefore fraught with danger if not structured correctly. Recent SEC enforcement actions against celebrities illustrate this risk. Specifically, the SEC sued some celebrities for promoting certain digital assets in the form of Initial Coin Offerings (ICOs) on their social media platforms in a manner that violated the federal securities laws. These and other cases discussed in this article highlight a lurking hazard for celebrities beyond ICO endorsements because what constitutes an investment subject to the federal securities laws can be confusing, and often surprising, to both layman and non-securities lawyers.

While many perks come along with being a celebrity, notoriety generally is not a helpful attribute when a celebrity is in the cross hairs of a federal government investigation. For one thing, government agencies often relish the publicity garnered from suing a well-known person or company. And "landing a big fish" (*e.g.*, a celebrity defendant) may be perceived as advantageous for a prosecutor's resume and promotion potential. Furthermore, the SEC's announcement of charges against a celebrity most definitely receives broader and more diverse news coverage than does a run-of-the-mill case against an "ordinary" defendant." As a result, a case against a celebrity can serve to more successfully propagate the SEC's enforcement viewpoints and investor education warnings than the agency's traditional (less widespread) methods. For these reasons, celebrities should proceed with caution when considering an endorsement deal to promote an investment-related product, and they certainly should not expect leniency due to their fame or unfamiliarity with the federal securities laws. Rather, they should expect the opposite.

### Federal Securities Laws Implicated by Celebrity Endorsements

Federal securities laws apply to the offer and sale of products that constitute "securities." Restrictions and obligations are imposed on those who offer and sell securities. The following federal securities laws are most implicated when celebrities publicly endorse products that are deemed to be securities:

- **Anti-Touting.** Section 17(b) of the Securities Act of 1933 (Securities Act) is known as the anti-touting provision. This law prohibits persons from promoting the sale of a security in return for undisclosed past or future compensation. Specifically, it is a violation of Section 17(b) for any person to "publish,

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give publicity to, or circulate any notice . . . or communication which . . . describes such security for a consideration received or to be received, directly or indirectly, from an issuer, underwriter, or dealer, without fully disclosing the receipt, whether past or prospective, of such consideration and the amount thereof.[1] In other words, a person who received or was promised compensation in exchange for their promotion of a security must disclose this fact when promoting the security.
- **Registration of Securities**. Section 5 of the Securities Act requires all offers or sales of securities to the public to be registered with the SEC unless an exemption from registration is available.[2] Securities registration is designed to ensure the disclosure of information necessary to enable prospective purchasers to make informed investment decisions. Required disclosures include information about the issuing company's business operations, financial condition, management and risk factors.
- **Registration of Broker-Dealers**. Section 15(a)(1) of the Securities Exchange Act on 1934 (Exchange Act) requires persons involved in effecting securities transactions to register with the SEC as a broker-dealer or as a person associated with a broker-dealer.[3] Individuals who participate in the solicitation or negotiation of securities transactions or receive compensation for securities transactions generally are deemed by the SEC to constitute broker-dealers.
- **Anti-Fraud**. Securities Act Section 17(a) and Exchange Act Section 10(b) are known as the anti-fraud provisions of the federal securities law.[4] These provisions prohibit fraudulent and deceptive conduct in connection with the offer and sale of securities, including the failure to disclose material information that a reasonable shareholder would consider important in making an investment decision. The anti-fraud provisions prohibit the dissemination of false or misleading statements when promoting the offer and sale of securities.

In response to an increase in the use of social media by celebrities to tout investments, the SEC directly warned celebrities that they must comply with the applicable federal securities laws when publicly endorsing stocks and other investments. In an alert issued in November 2017, the SEC's Division of Enforcement and SEC's Office of Compliance Inspections and Examinations explained:

> Celebrities and others are using social media networks to encourage the public to purchase stocks and other investments. These endorsements may be unlawful if they do not disclose the nature, source, and amount of any compensation paid, directly or indirectly, by the company in exchange for the endorsement . . . . A failure to disclose this information is a violation of the anti-touting provisions of the federal securities laws. Persons making these endorsements may also be liable for potential violations of the anti-fraud provisions of the federal securities laws, for participating in an unregistered offer and sale of securities, and for acting as unregistered brokers.[5]

The SEC has not limited itself to issuing warnings to celebrities about the need to follow the federal securities laws when endorsing investments. Rather, as described below, the SEC has filed multiple enforcement actions against celebrities for violations in this context.

## Anti-Touting Prohibition: Concerns Arising From Celebrity Endorsements of ICOs

### *a) Proliferation of ICOs Draws SEC Scrutiny*

ICOs became a hot vehicle for raising capital over the last several years. ICOs involve the sale of digital assets (*e.g.*, virtual coins or tokens) created and disseminated using distributed ledger or blockchain technology. ICOs soared in popularity as many startups sought to raise capital by avoiding the traditional rigorous undertakings required for initial public offerings (IPOs), opting instead for a less regulated capital-formation process through an ICO. In an ICO, a company issues digital "tokens," which can be purchased through cash or other existing tokens (*e.g.*, Bitcoin and Ethereum). As currently noted on the SEC's website, "Companies and individuals are increasingly considering initial coin offerings (ICOs) as a way to raise capital or participate in investment opportunities.[6] Through 2019, over 5,600 ICOs have

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raised more than $27 billion.[7]

A determination of whether a specific ICO constitutes a security depends on the particular facts and circumstances of the ICO. However, as noted by the SEC's Chairman, the SEC views most ICOs as securities, and thus are subject to the federal securities laws.[8] The SEC's most recent Enforcement Division annual report, published in November 2019, described its enforcement activities against the unlawful promotion of ICOs as having "matured" and "expanded," and signaled the agency's stance that it will continue to critically review ICOs as securities.[9]

The rapid proliferation of ICOs prompted the SEC in July 2017 to issue a Report of Investigation warning the public that virtual tokens or coins sold in ICOs may constitute securities and that persons involved in the offer and sale of a security must comply with the federal securities laws.[10] Furthermore, the SEC began to closely scrutinize ICOs because they became a vehicle for fraud by bad actors. As a result, cracking down on fraudulent ICOs is an SEC priority. The SEC has filed numerous cases alleging violations relating to ICOs over the past few years, and several in 2020, including as recently as September 15.[11] The SEC has also issued alerts warning the general investing public about frauds related to ICOs.[12] A recent decrease in the number of ICOs likely is due to the SEC's increasing scrutiny of ICOs.

The SEC's concern over ICOs escalated significantly when companies began utilizing celebrity endorsements to generate public interest in their ICOs. The SEC feared that the social media influence of celebrities could result in the investing public buying ICOs without understanding that the investment could be fraudulent and/or that the celebrities were paid to endorse the ICO (and therefore their endorsement may be biased or uninformed). As explained by the SEC in an investor alert to the general public:

> Celebrities, from movie stars to professional athletes, can be found on TV, radio, and social media endorsing a wide variety of products and services – sometimes even including investment opportunities. But a celebrity endorsement does not mean that an investment is legitimate or that it is appropriate for all investors. **It is never a good idea to make an investment decision just because someone famous says a product or service is a good investment.**
> Celebrities, like anyone else, can be lured into participating (even unknowingly) in a fraudulent scheme.[13]

In addition to alerting investors about fraudulent ICOs, the SEC issued a warning specifically directed at celebrities who promote ICOs. As noted above, an ICO that is a security (which the SEC believes is the case with virtually all ICOs) is subject to the requirements of the federal securities law, as are those individuals who promote the ICO. As such, the SEC cautioned that the federal securities laws (anti-touting provision) require celebrities to properly disclose compensation received in exchange for promoting an ICO that is a security and that the failure to do so could result in the celebrity being charged.[14]

*b) SEC Enforcement Actions Against Celebrities for Violating Anti-Touting Provisions*
After the SEC warned celebrities about ICO endorsements, the SEC filed several enforcement actions against celebrities who failed to heed the SEC's public warnings about ICO promotion on social media. The SEC charged the celebrities with violating the anti-touting provision by failing to disclose the nature, source and amount of compensation they received in exchange for their endorsements. These enforcement actions demonstrate the SEC's intent and willingness to punish celebrities who fail to abide by applicable securities laws in connection with investment endorsements (particularly in light of the public warnings issued by the SEC).

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On November 29, 2018, the SEC announced that it had charged Floyd Mayweather Jr. and Khaled Khaled (known as DJ Khaled) in separate actions relating to their promotion of investments in ICOs.[15] Mayweather is one of the most successful and celebrated boxers in American history. Khaled is a music industry mogul and world-renowned music producer. These cases represented the first SEC charges for anti-touting violations involving ICOs. The SEC alleged that Mayweather and Khaled touted investments in certain virtual coin or token ICOs on their social media accounts – including Instagram, Twitter and YouTube – without disclosing payments they received for their promotional efforts. For example, Mayweather's Twitter account posted a picture of Mayweather holding his boxing title belts with this caption about an ICO of a now-defunct cryptocurrency firm named Centra Tech Inc. (Centra): "*Centra's (CTR) ICO starts in a few hours. Get yours before they sell out, I got mine* . . . ."[16] Similarly, Khaled touted Centra's ICO and debit card product on his Instagram and Twitter accounts and included the statement: "*This is a Game changer here. Get your CTR tokens now!*"[17] Mayweather received promotional payments from three ICO issuers, including $100,000 from Centra and $200,000 from two other companies.[18] Khaled was paid $50,000 by Centra.[19]

To settle the SEC charges, Mayweather and Khaled agreed to disgorge (forfeit) the undisclosed promotional compensation at issue and to pay additional penalties and prejudgment interest, totaling over $614,000 for Mayweather and over $162,000 for Khaled.[20] In addition, the SEC prohibited Mayweather and Khaled from promoting securities for three years and two years, respectively. In the press release announcing these charges, a co-director of the SEC's Enforcement Division commented on the importance of ensuring that investors receive the information necessary to understand whether an investment opinion could be biased: "These cases highlight the importance of full disclosure to investors. . . . With no disclosure about the payments, Mayweather and Khaled's ICO promotions may have appeared to be unbiased, rather than paid endorsements."[21]

More recently, on February 27, 2020, the SEC charged action movie star and producer, Steven Seagal, on similar charges of violating the anti-touting provisions by failing to disclose compensation he received for promoting an ICO sponsored by an international online company, Bitcoiin2Gen (B2G).[22] According to the SEC, Seagal promoted the B2G ICO on his social media accounts, including Twitter and Facebook, and posted links to participate in the B2G ICO.[23] The SEC alleged that Seagal failed to disclose a promise of $250,000 in cash and $750,000 worth of B2G tokens in exchange for his promotional efforts.[24] Seagal, who currently resides in Russia, consented to a settlement that required him to pay over $300,000 (constituting the portion of the promised compensation that he received from B2G, an additional monetary penalty and prejudgment interest) and to abstain from promoting any securities for three years.[25] To reinforce the SEC's present mission to protect investors in the context of paid celebrity investment endorsements, the chief of the SEC Enforcement Division's Cyber Unit commented as follows on the Seagal settlement: "[t]hese investors were entitled to know about payments Seagal received or was promised to endorse this investment so they could decide whether he may be biased. . . . Celebrities are not allowed to use their social media influence to tout securities without appropriately disclosing their compensation."[26]

**Additional SEC Exposure: Securities Registration, Broker-Dealer Registration and Fraud**

To charge a celebrity with violating the anti-touting provisions, the SEC must prove that the celebrity both received and failed to disclose compensation in exchange for promoting an investment. However, celebrities who promote investments are not immune from SEC scrutiny even if they disclose *or receive no* such compensation due to other potentially applicable federal securities law requirements. In particular, depending on the circumstances, celebrities who actively promote and endorse securities can be held liable by the SEC for failing to register as a broker-dealer (in violation of Section 15(a)(1) of the Exchange Act) or for selling unregistered securities (in violation of Section 5 of the Securities Act). In a worst-case

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scenario, the SEC can seek to impose its most serious charge – fraud – if the agency believes the celebrity has disseminated false or misleading statements in connection with the offer and sale of a security (in violation of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act).

Grammy award-winning rapper T.I. (whose legal name is Clifford Harris, Jr.), film director and producer Ryan Felton, and three other individuals were charged by the SEC on September 10-11, 2020 for securities law violations relating to the sale of unregistered and fraudulent ICOs on behalf of two companies owned by Felton, FLiK and CoinSpark. Felton marketed FLiK as an entertainment streaming platform (which he described as "Netflix on the blackchain") and marketed CoinSpark as a new cryptocurrency trading exchange.

The SEC alleged that in 2017 and 2018 Felton fraudulently promoted ICOs for FLiK and CoinSpark, including by publishing materially false and misleading statements on the FLiK and CoinSpark websites and various social media platforms, including Facebook, Instagram, Twitter, bitcointalk.org, and the Telegram Messaging App.[27] For example, Felton falsely promoted and claimed that T.I. co-owned FLiK and that all investor funds would go towards the development, launch, and support of these companies. Instead of using the funds raised in the ICOs as advertised and promised, the SEC alleged that Felton spent the vast majority of investor proceeds to fund his extravagant lifestyle, including the purchase of a $1.5 million house and a Ferrari sports car.

The SEC alleged that T.I. "significantly amplified the reach of the FLiK ICO" by promoting it to his millions of followers on social media. Posts on T.I.'s social media accounts inaccurately referred to T.I. as co-owner of FLiK, encouraged investors to participate in the FLiK ICO, and provided hyperlinks to facilitate investor participation in the FLiK ICO. T.I. also allegedly arranged for "his friend, a well-known actor, comedian, and producer, to promote the FLiK ICO as [T.I.'s] 'new venture.'"[28] As a result, the FLiK ICO reached "tens of millions more" persons. Based on information provided in a separate private securities fraud lawsuit discussed in the next section of this article, it is apparent that Kevin Hart is the T.I. friend who posted FLiK ICO information on his social media accounts.

The SEC charged Felton with fraud and improperly offering and selling unregistered securities. Felton is contesting the SEC lawsuit and has also been criminally indicted by a federal grand jury. For his part, T.I. was charged by the SEC with improperly offering and selling unregistered securities. He settled the SEC charges by agreeing to pay a $75,000 penalty and to not participate in offerings or sales of digital asset securities for at least 5 years.

On June 25, 2020, the SEC charged Jack Abramoff, a well-known and formerly disgraced lobbyist, with participating in a fraudulent ICO of a blockchain-based digital token (AML BitCoin).[29] The SEC alleged that in 2017 and 2018, Abramoff, NAC Foundation ("NAC") and the CEO of NAC, posted inaccurate statements on NAC's website, Facebook, and other online forums, in an effort to publicly promote the ICO of AML BitCoin.[30]

Abramoff was once a high flying influence specialist. He was convicted in 2006 on felony federal corruption charges relating to his lobbying work. After serving over four years in prison, Abramoff wrote a memoir and embarked on a media tour promoting the book. In 2017, Abramoff reportedly worked on a reality TV show, "Capital Makeover: Bitcoin Brigade," that was to explore the world of American political lobbying and digital currency.[31]

The SEC alleged that NAC's offering materials, press releases, social media posts, and marketing efforts contained false and misleading statements about the status of the technology and status of negotiations

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regarding the use of AML BitCoin by governmental agencies. Despite becoming aware that NAC's promotional materials were inaccurate, Abramoff continued to solicit investors and conduct promotional activities for the offering. In addition, Abramoff and the NAC CEO allegedly engaged in a deceptive marketing scheme in which they filmed an advertisement for AML BitCoin to be aired during the Super Bowl and later claimed the ad was rejected by the NFL and NBC Network because of its political content. [32]

The SEC alleged that Abramoff and the NAC CEO at least $5.6 million from approximately 2,400 retail investors.[33] While the SEC's case against NAC and the CEO is ongoing, a final judgment was entered against Abramoff on July 15, 2020, which permanently enjoined him from violating the anti-fraud provisions of the federal securities law and required him to pay over $55,500 in disgorgement and interest and to abstain from acting as an officer or director of any public company.[34] Abramoff also plead guilty to DOJ charges relative to the conduct described above.[35]

In December 2018, the SEC charged "media influencer" Jordan Goodman for failing to register as a broker-dealer, selling unregistered securities and violating the anti-touting provision, in connection with Goodman's promotion of the unregistered securities of Woodbridge Group of Companies, LLC (Woodbridge) sold by a group of unregistered brokers.[36] According to the SEC, Goodman proclaimed himself as "America's Money Answers Man."[37] He appeared frequently on Fox News Network, Fox Business Network, CNN, CNBC and CBS.[38] Abramoff also worked on the editorial staff of Money magazine for 18 years, where he served as a Wall Street correspondent.[39] He authored/co-authored 13 books on personal finance.[40]

The SEC alleged that Goodman touted the safety and profitability of Woodbridge securities during frequent guest radio appearances nationwide.[41] Goodman also touted Woodbridge's securities on the internet through his own website and an affiliated website.[42] In reality, according to the SEC, Woodbridge operated as a massive Ponzi scheme, raising more than $1.2 billion before collapsing and filing a petition for bankruptcy.[43] Goodman's promotional efforts contributed to the sale of approximately $147 million of Woodbridge securities to more than 1,200 investors across the country.[44] For his efforts, Goodman was paid almost $2.3 million in undisclosed transaction-based sales commissions.[45] To settle the SEC charges, Goodman agreed to pay over $2.7 million in disgorgement, penalties and prejudgment interest.[46]

Where the SEC finds misstatements by individuals (including celebrities) about investments to be particularly egregious, it imposes fraud charges under the anti-fraud provisions of the federal securities laws (Section 10(b) of the Exchange Act and Section 17(a) the Securities Act). This is the position the SEC pursued in its lawsuit against Ryan Felton in the FLiK/CoinSpark case discussed above. In another such example, on March 20, 2020, the SEC announced that it had obtained an asset freeze to halt a securities fraud scheme being orchestrated by several defendants, including former Washington State Senator David Schmidt.[47] Schmidt served in the Washington State Legislature from 1994-2006, first as a state representative and then as a state senator.[48] The SEC alleged that the defendants made numerous false and misleading statements to investors in connection with the offer and sale of a digital asset (Meta 1 Coin) in an ICO, including that Meta 1 Coin was backed by a $1 billion art collection or $2 billion of gold and that KPMG was auditing the gold assets.[49] The SEC alleged that Schmidt published content discussing Meta 1 Coin on three websites he operated and solicited investment in Meta 1 Coin on a weekly online radio talk show, which was typically posted to one or more of his websites, his YouTube channel and to his Facebook page.[50] Through various promotional efforts, Schmidt and the other defendants allegedly raised $4.3 million from more than 150 investors, but never distributed the Meta 1 Coins.[51] Instead, according to the SEC, these defendants used investor funds for their personal use.[52] The SEC alleged that Schmidt and the other defendants violated the anti-fraud provisions and is seeking disgorgement,

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prejudgment interest and monetary penalties.[53]

In yet another example of endorsement conduct deemed worthy of a fraud charge, the SEC charged a former Fox TV news commentator, Tobin Smith, with violating the anti-fraud provisions for disseminating false and misleading statements to promote a penny stock of a data storage company, IceWEB Inc.[54] Smith was a Fox News contributor for 13 years (2000-2013), including on the "Bulls and Bears" television show on the Fox News Channel.[55] According to the SEC, Smith made false and misleading statements about IceWEB through web postings, blog posts and emails to his subscribers, including that IceWEB provided cloud-based solutions to customers like Facebook, Amazon and Microsoft, when Smith neither had knowledge about whether these statements were true nor had verified this information.[56] In addition, Smith allegedly touted the prospect of large investment returns on IceWEB stock despite knowing the company's poor financial condition.[57] Smith settled with the SEC by agreeing to be charged with violating the anti-fraud provisions, to pay over $250,000 in disgorgement and penalties, and to abstain from involvement in any future penny stock offerings.[58]

### Risk of Private Securities Litigation

Another risk to be weighed by celebrities considering an endorsement deal for an investment is the prospect of being sued by a disgruntled investor. This risk is exacerbated when speculative investments are involved, like ICOs and penny stocks. Stand-up comedian Kevin Hart and rapper T.I. were hit with a private securities fraud lawsuit in relation to their endorsement and promotion of the FLiK ICO discussed above.

According to the lawsuit, Hart and T.I. promoted the FLiK ICO on social media after FLiK announced them as co-owners of the company. The lawsuit complaint provides more details about the FLiK-related social media posts by Hart and T.I. than the SEC settlement documents. The complaint alleges that Hart tweeted a photo of himself and T.I. stating, in part, "Me tellin Tip [T.I.] how much help he gon need spending all that money he gonna make on his new venture."[59] Around the same time, T.I. tweeted to his followers to "Check out my new #ICO…it's about to change #Hollywood!!!"[60] In October 2018, 25 investors who purchased FLiK digital tokens in 2017 filed a lawsuit in federal court against Hart, T.I. and Ryan Fenton, claiming the investors collectively lost over $1.3 million as a result of the defendants' misleading promotional statements about FLiK's ICO.[61] The lawsuit alleged that both T.I. and Hart promoted the FLiK ICO on social media and encouraged the public to visit the FLiK ICO website.[62] The plaintiffs further alleged that the defendants were involved in a "pump and dump" scheme, essentially claiming that after the price of FLiK tokens had artificially increased due to the defendants' promotional activities, the defendants "dumped" (sold) their tokens and "disappeared from social media."[63] In February 2020, the presiding federal judge over the case dismissed charges against T.I., but the case currently is proceeding against Hart and Fenton.[64]

### Risks Arising from Other Product Endorsements

While this article focuses on potential SEC liability, we thought it would be helpful to note that celebrity product endorsements can trigger scrutiny from other federal regulators. Like the SEC, the regulations of other government agencies, such as the Federal Trade Commission (FTC) and Food and Drug Administration (FDA), require endorsers of products and services to disclose certain information, including compensation received for promotional activities. Over the past few years, both the FDA and the FTC have warned celebrities of the need to comply with laws and regulations applicable to their promotional efforts.

The FTC requires endorsers to disclose any "material connection" to the brand they are promoting, including a personal, family, employment or financial relationship.[65] For example, an endorser will be

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deemed to have a material connection to a brand if the brand is giving the endorser monetary payments or free or discounted products or services. In April 2017, the FTC issued a press release stating it issued more than 90 letters to celebrities and other individuals "[a]fter reviewing numerous Instagram posts by celebrities, athletes and other influencers," to reiterate that "influencers should clearly and conspicuously disclose their relationships to brands when promoting or endorsing products through social media."[66] Five months later, in September 2017, the FTC sent letters to 21 celebrities and influencers -- including rapper Nicki Minaj; talk show host Ellen DeGeneres; supermodel Naomi Campbell; actresses Lindsay Lohan, Vanessa Hudges and Sofia Vergara; and other media personalities -- inquiring about whether they had any "material connection" to marketers they were promoting on social media.[67]

Over two years later, the FTC issued new Endorsement Guidelines for social media influencers in November 2019 specifically focused on social media endorsements.[68] This guidance builds on preexisting Endorsement Guidelines and reiterates the requirement that endorsers of products on social media disclose a "material connection" to the brand. Although the FTC did not take legal action against any of the celebrities mentioned above, the FTC repeatedly warned the industry indicating that it will pursue charges for violations of its endorsement rules by celebrities. The FTC has commented that it is the responsibility of endorsers themselves to be familiar with the Endorsement Guidelines, to make the required disclosures, and to comply with the laws against deceptive advertisements. The FTC expressly stated that endorsers relying on others to satisfy their compliance obligations is not acceptable.

The FDA requires endorsers who post testimonials about prescription drugs on social media to comply with the Federal Food, Drug, and Cosmetic Act (FDCA). The FDCA governs the advertising of prescription drugs and restricted medical devices, among other things. Specifically, the FDCA requires endorsers, among other things, to fully disclose risks associated with the use of pharmaceutical products in endorsement or promotional activities.[69] In August 2015, the FDA sent a warning letter to a pharmaceutical company regarding media personality Kim Kardashian's Instagram post about the company's morning sickness drug that failed to communicate any risks associated with its use.[70] The FDA letter stated that Kardashian's Instagram post "is false or misleading in that it presents efficacy claims for DICLEGIS, but fails to communicate any risk information associated with its use and it omits material facts."[71] The FDA did not bring formal charges against Kardashian, but the Instagram post at issue was deleted.

## Considerations and Recommendations

Celebrities – including athletes, actors and other influencers – routinely reap the benefit of their popularity by earning compensation to endorse products and services. In most instances, these endorsements present little risk of legal liability. To avoid the cost, time drain and negative publicity associated with a regulatory inquiry or a private lawsuit, celebrities should consult counsel when considering an endorsement involving any type of heavily regulated product, especially one that is investment-related (and therefore potentially subject to SEC jurisdiction).

With respect to the endorsement of investments, we offer the following considerations for celebrities and their advisers/counsel to help mitigate the risk of SEC scrutiny:

1. Approach endorsements of any investment or financial product with extreme care as the SEC has broad jurisdiction over investments and securities. What constitutes a "security" for purposes of the federal securities laws is complex and includes many forms of transactions that would not be obvious to non-securities experts.
2. Perform due diligence on the company offering an endorsement deal to promote securities or other types of investments that the company is offering to the public. Vet the offering company to ensure it is legitimate and that its owners are not bad actors. For the reasons discussed above, endorsements

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of ICOs are particularly fraught with danger as many ICOs have been classified as fraudulent by the SEC.

3. Carefully review the endorsement comments to be posted by the celebrity to ensure that the statements do not contain express or implied misrepresentations about the investment or product being endorsed.
4. Review applicable laws and regulations to verify whether the celebrity's promotional messages and communications trigger any disclosure requirement. For example, determine whether the celebrity must disclose compensation received for the endorsement or "material connections" to the product.
5. Ensure that the substance and format of any required disclosures comply with the applicable laws and regulations.

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## Endnotes

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# Recent Shifts in Rogers v. Grimaldi: Looking for a Genuine Artistic Motive

**By Lynn M. Jordan**

Courts have long grappled with the delicate balance between trademark law and the First Amendment. The Lanham Act seeks to protect consumers against use of confusingly similar trademarks, but the First Amendment guarantees the right of free speech. In 1989, the U.S. Court of Appeals for the Second Circuit faced this problem head on, and developed a two-part test for balancing these competing interests.[1] Referred to as the *Rogers* test, it has been expressly adopted in Lanham Act cases in the Third,[2] Fifth,[3] Sixth,[4] Ninth,[5] and Eleventh Circuits,[6] and federal district courts within the Seventh Circuit.[7] The test has frequently been used to dispose of cases on motions to dismiss and in ruling on motions for summary judgment.

The test grants artists and creators wide latitude, and courts overwhelmingly find in favor of defendants. But while a test that so favors freedom of expression generally protects legitimate interests, courts have increasingly faced factual scenarios that would lead to decisions contrary to *Rogers*' intent. Constrained by their own precedent to apply *Rogers* in these cases, these courts have turned to an examination of defendants' motives, looking beyond whether they have made explicit misstatements that could cause confusion, focusing instead on defendants' overall actions.

*Rogers v. Grimaldi* involved a fictional film titled "Ginger and Fred" about two Italian cabaret performers who imitated the famed dancing duo Ginger Rogers and Fred Astaire. Ms. Rogers sued the filmmaker, alleging that the title violated her rights under Section 43(a) of the Lanham Act. Realizing that applying the Lanham Act might intrude on the filmmaker's First Amendment rights, the district court granted summary judgment to the defendant, finding that the Lanham Act did not apply to the film title because it was a work of artistic expression. The Second Circuit affirmed, but held that the district court had interpreted the First Amendment's impact on the Lanham Act too broadly, concluding this would create a "nearly absolute privilege" for movie titles.[8]

Ultimately, the Second Circuit held that the Lanham Act "should be construed to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression" and "that balance will normally not support application of the Act unless the title has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance, unless the title explicitly misleads as to the source or the content of the work."[9]

*Rogers* thus requires certain threshold requirements in cases involving creative works before the Lanham Act will apply. These requirements make up the two "prongs" of the test: (1) determining whether a use has "artistic relevance" to the underlying work; and (2) if so, whether the use is "explicitly misleading." Subsequent Second Circuit cases have expanded application of *Rogers* to cases involving disputes between titles, and to uses of marks within creative works.

The first part of the *Rogers* test considers whether the junior use is artistically relevant to the underlying work. It is meant to ensure that a defendant's use was an artistic choice, rather than an attempt to associate with the senior user and the goodwill associated with its mark. To prevent courts from having

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to make artistic judgments, the standard was been set low and is met by anything "above zero."[10] Application is very straightforward, and a use may be artistically relevant "by supporting the themes and geographic setting of the work" or by referencing an earlier work that uses the mark.[11] In all but the most egregious cases a defendant can usually put forward some facts to show at least this minimal level of artistic relevance.

Application of the second prong, whether the artist's use is explicitly misleading as to source or content, is significantly more complicated and differs by circuit. In the Second Circuit, courts typically first apply the *Polaroid* factors.[12] If there is no likelihood of confusion, then the use is not explicitly misleading. If the analysis of the factors weighs in favor of finding confusion likely, however, the use is infringing only if it is a "particularly compelling" likelihood of confusion.[13] Sometimes, however, courts within the Second Circuit will not even consider the *Polaroid* factors if there is no evidence that defendant engaged in an overt act or express misstatement.[14]

Unlike the Second Circuit, the Ninth Circuit never considers the likelihood-of-confusion factors in determining whether a use is explicitly misleading, examining only whether the defendant engaged in overt or intentional acts to "dupe" consumers into believing an association with the plaintiff.[15] In the 2016 opinion in *Twentieth Century Fox Television v. Empire Distribution, Inc*., the Ninth Circuit very clearly held that "[t]o fail the second prong of the *Rogers* test, '[i]t is key . . . that the creator must *explicitly* mislead consumers'" through an "'explicit indication', 'overt claim,' or 'explicit misstatement'" that caused consumer confusion.[16] Fox sought a declaratory judgment that its title EMPIRE for a dramatic television series about a family "empire" running a fictional company called EMPIRE RECORDS did not infringe the trademark rights in a real-life record label called EMPIRE DISTRIBUTION. Because there was no evidence that Fox had made any explicit misstatements of affiliation, let alone explicit misstatements that caused consumer confusion, the Ninth Circuit granted summary judgment to Fox on all claims.

Just two years later, however, a matter came before the Ninth Circuit with very different facts, and application of the "explicitly misleading" prong as instructed by *Twentieth Century Fox* would have resulted in finding for a defendant with unclean hands. Struggling with the prospect of protecting defendant's blatant attempt to capitalize on the popularity of plaintiff's mark, but unable to simply disregard Ninth Circuit precedent, the court held that in certain situations, the overt or explicit acts required for finding a use explicitly misleading don't have to be in the form of "affirmative statement[s] of the plaintiff's sponsorship or endorsement," but may be demonstrated through *actions*.[17]

In *Gordon v. Drape Creative*, plaintiff posted a video on YouTube he called "The Crazy Nastyass Honey Badger." The video featured Mr. Gordon providing comedic narration over National Geographic footage of a honey badger, repeatedly stating that "Honey Badger Don't Care" and "Honey Badger Don't Give a Shit." After the video went viral, Gordon obtained a federal trademark registration for HONEY BADGER DON'T CARE covering various goods, including greeting cards. Defendants sought a licensing deal with plaintiff, but when it failed to materialize, they began selling their own line of greeting cards bearing the phrase HONEY BADGER DON'T CARE alongside images of a honey badger.

The district court granted summary judgment in favor of the defendants, finding that greeting cards were protectable artistic works and that the defendants had met both prongs of the *Rogers* balancing test, but the Ninth Circuit reversed. Although it found no triable issue of fact with respect to *Rogers*'s artistic relevance prong, the court held that it could not decide as a matter of law that the defendants' use of the mark was not explicitly misleading.[18]

Rejecting the "rigid requirement that, to be explicitly misleading, the defendant must make an 'affirmative

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statement of the plaintiff's sponsorship or endorsement,'" the Ninth Circuit now held that an affirmative statement was necessary *only* in cases where "it was clear that consumers would not view the mark alone as identifying the source of the artistic work."[19] The court believed this would be true in most title cases, "because consumers 'do not expect [titles] to identify' the 'origin' of the work," and in cases where the use of marks occurred as elements within creative works, like video games or films.[20]

In cases where use of the mark *would* likely be viewed by consumers as source identifying, however, the court believed that the "more relevant consideration is the degree to which the junior user uses the mark in the same way as the senior user," and "the extent to which the junior user has added his or her own expressive content to the work beyond the mark itself."[21] Under the facts before it, the court believed that consumers *would* expect that use of the HONEY BADGER DON'T CARE mark on greeting cards was source identifying, and that "defendants used the mark knowing that consumers rely on marks on the inside of cards to identify their source."[22]

The Ninth Circuit then analyzed the degree to which the junior user used the mark in the same way as the senior user, and found that the parties both used HONEY BADGER DON'T CARE for directly competing greeting cards. On the second issue, "the extent to which the junior user has added his or her own expressive content to the work beyond the mark itself," the court explained that "the concern that consumers will not be 'misled as to the source of [a] product' is generally allayed when the mark is used only as one component of a junior user's larger expressive creation, such that the use of the mark at most 'implicitly suggest[s]'" an association with the mark's owner.[23] But when a junior user uses a mark "as the centerpiece of an expressive work itself, unadorned with any artistic contribution by the junior user," this "may reflect nothing more than an effort to 'induce the sale of goods and services' by confusion."[24] In all of the previous Ninth Circuit cases, the allegedly infringing marks were used as only a small part of the junior users' overall artistic works. But here, the court was troubled that the defendants had "not used Gordon's mark in the creation of a song, photograph, video game, or television show, but ha[d] largely just pasted Gordon's mark into their greeting cards" with no additional creative content.[25]

Although clearly backtracking from its emphatic statements in *Twentieth Century Fox* that explicit statements and overt actions were required for a use to be explicitly misleading, the rationale in *Gordon* is consistent with the Ninth Circuit's focus in prior rulings on whether a defendant's *actions* had caused confusion, rather than simply whether there was a likelihood of confusion not caused by anything other than mere use of the mark. The court quoted with approval language from its decision in *Brown* that the key factor is "that the creator must *explicitly* mislead consumers," which means the focus must be on 'the nature of the [junior user's] behavior' rather than on 'the impact of the use.'"[26]

*Gordon* is not a decision on the merits, and the court was careful to note that the plaintiff's evidence was not bulletproof. But because the court believed that there was "at least a triable issue of fact as to whether the defendants simply used Gordon's mark with minimal artistic expression of their own, and used it in the same way that Gordon was using it—to identify the source of humorous greeting cards in which the bottom line is 'Honey Badger don't care,'" it remanded the case back to the district court for further findings.[27] The case settled shortly thereafter.

As noted by the Ninth Circuit in the case, *Gordon* "demonstrates *Rogers's* outer limits" and should not impact cases involving marks used as titles or as elements of creative works where consumers do *not* expect them to designate source.[28] In those cases, affirmative statements or actions meant to explicitly mislead consumers will likely be required to satisfy *Rogers's* second prong. But in the limited situations where consumers expect a mark in a creative work to connote source, the determination of whether the use is explicitly misleading will turn on something else—not whether consumers would be confused

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(because some element of confusion is acceptable in the interests of protecting First Amendment rights), but whether the mark is used for a directly competing product *and* the extent to which the junior user added his or her own expressive content or simply adopted the senior user's mark as the centerpiece of its work.

*Gordon* was not the first time a court within the Ninth Circuit recognized that the standard for determining whether a use is "explicitly misleading" may be slightly different when directly competing products are involved. In *CI Games S.A. v. Destination Films*, a case involving a dispute between the titles for a movie and a video game with similar themes, the court held that cases involving competing titles pose an increased risk of consumer confusion because consumers may, by virtue of the fact that the producers of each are in the same type of business, believe the works arise from the same source.[29] Therefore, the same conclusions that make sense when the plaintiff and the defendant are not in the same business are not relevant and instead of having to meet the "relatively high bar in demonstrating affirmative statements that would mislead the public as to the producer or endorser of the expressive work," a plaintiff need only prove that a defendant selected a title with the *intent* to confuse consumers into thinking the products were related.[30]

Although *Gordon* did not involve a dispute between titles, and the court believed that titles were not typically viewed by consumers as source identifying, the court suggested in *dicta* that a case involving two competing titles could be the kind where consumers expect use of a mark to identify the source of the work if the junior user's use of the title is "identical."[31] Soon after that decision, this "title v. title" scenario presented itself in a district court case within the Ninth Circuit. In *Fierce, Inc. v. Franklin Covey Co*., plaintiff alleged that defendant's book titled FIERCE LOYALTY: CRACKING THE CODE TO CUSTMOER DEVOTION infringed its rights in numerous federal registrations for FIERCE and FIERCE-formative marks for corporate training materials, as well as its books titled FIERCE CONVERSATIONS: ACHIEVING SUCCESS AT WORK & IN LIFE and FIERCE LEADERSHIP, A BOLD ALTERNATIVE TO THE WORST "BEST" PRACTICES OF BUSINESS TODAY.[32] Citing *Gordon* for the proposition that use of a mark alone may explicitly mislead consumers about a product's source if consumers would ordinarily identify the source by the mark itself, the court found that plaintiff and defendant each used the mark "in the same context and market," namely as the titles of books identifying strategies to help businesses increase the engagement and loyalty from both employees and customers. Moreover, defendant presented its mark using a color, typeface, and visual format similar to plaintiff.[33] While the court did not go so far as to find that defendant's use was explicitly misleading, it denied the motion to dismiss and allowed the case to proceed because there was evidence that the defendant's motives and actions in adopting and using the mark may have been impure.

Then in *Pomegranate Communications, Inc. v. Sourcebooks, Inc.*, a district court in Oregon faced with a similar claim that the registered trademark WOMEN WHO DARE for a book series was infringed by a single book titled "Women Who Dared: 52 Stories of Fearless Daredevils, Adventures & Rebels" reached a different conclusion.[34] Citing *Gordon*, the court believed that when a title is used for a book *series*, rather than a single book, consumers were likely to believe the mark identified source, and thus it was appropriate to consider the degree to which the junior user used the mark in the same way as the senior user, as well as the extent to which the junior user added his or her own expressive content to the work beyond the mark itself. The court ultimately granted the motion to dismiss, finding plaintiff's "bare accusations" of infringement "the kind of 'unadorned, the-defendant-unlawfully-harmed-me accusation' that does not meet the Rule 12(b)(6) standard" and does not establish that the use explicitly misleads as to source.[35]

In a case not involving competing titles, another district court within the Ninth Circuit found that

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defendant's use of the mark MASTERMIND as an album title and performance title was not explicitly misleading, despite another musician's prior use and registration of the mark for his own performance title and recordings.[36] Recognizing that under *Gordon* use of the mark alone could be sufficient to explicitly mislead consumers where consumers would ordinarily identify the source by the mark itself, and apparently conceding that both plaintiff and defendant were using the mark in the same way, the court focused on whether defendant had added his own expressive content to the work, or used the mark as the "centerpiece" of its own work.[37] Finding that defendant used the mark as one album title out of six in his career; that he used the word in lyrics nine times in the album through his own artistic expression; and that when he used it as his nickname it was always accompanied by a clear indication of his primary moniker—Rick Ross—the court granted summary judgment to defendant, holding that there was no evidence that defendant's use even implicitly suggested a connection, let alone any evidence of an overt association.

In a case involving use of a mark registered for clothing in a film, trailer, and advertisements for the film, a court in the Central District of California had no trouble dismissing claims that use of plaintiff's mark DEUS EX MACHINA on a jacket (not made by plaintiff) prominently worn by a character in a teen-romance film and promotions for the film infringed its trademark rights in the mark.[38] Although this type of use for an element within a creative work was the type of use *Gordon* believed would not be viewed as source identifying, and thus would require an affirmative misstatement to be explicitly misleading, the court nevertheless analyzed both factors set forth in *Gordon*. It easily concluded that defendant's use of the mark was different from plaintiff's *primary* use of the mark for clothing (it also made films promoting its "lifestyle" brand, accounting for about 20% of its use) and that the film used the mark "to establish a connection between the couple – as the young man writes the words 'deus ex machina' in a notebook and then later sees the young female wearing the Jacket bearing those same words," thereby adding its own expressive content.[39] The court commented that "although not dispositive, in and of itself," the film included "no affirmative or implicit statement indicating plaintiff's sponsorship of, or association with, the Film," apparently believing it was required to apply the additional considerations from *Gordon* in the case.[40]

Shortly thereafter, the Central District of California had yet another occasion to determine whether a use was explicitly misleading, this time in the context of competing titles. Apparently believing consumers would not expect defendant's documentary title to identify the origin of the work, the court reached its conclusion without mention of *Gordon* or its requirement that explicit misstatements alone are not always sufficient.[41] The case involved a documentary about Joe Maldonado-Passage, well-known as the Tiger King. Plaintiff coined the epithet "Tiger King" to identify Joe in 2013 and obtained a federal registration for its magazines about him. Plaintiff argued that Netflix infringed its rights by titling its documentary about Joe "Tiger King: Murder, Mayhem, and Madness" which included scenes featuring plaintiff's magazines. The court dismissed the complaint, finding it void of "allegations rising to the level of explicit deception on Netflix's behalf."[42]

Finally, the Ninth Circuit had an opportunity to clarify its reasoning in *Gordon*. In *Dr. Seuss Enterprises, L.P. v. ComicMix LLC*, defendant created a "mash-up" book combining elements from Dr. Seuss' "Oh The Places You'll Go!" and the "Star Trek" television series, which it illustrated in "Seussian style" and titled "Oh, the Places You'll Boldly Go!"[43] Although reversing the district court's grant of summary judgment to defendant on the copyright infringement claim, the court affirmed the grant of summary judgment in favor of ComicMix on the trademark claim. The court held that use of the title was not explicitly misleading because doing so "is a high bar that requires the use to be 'an explicit indication, overt claim, or explicit misstatement' about the source of the work," quoting its prior language in *Brown*.[44] This was a case of competing titles, and the court went on to explain that "a contrary result is not compelled by

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our recent decision in *Gordon v. Drape Creative, Inc.*" because "*Boldly* does not test the 'outer limits' of *Rogers*."[45] Although apparently not believing additional analysis was necessary, the court acknowledged that defendant had used the mark in the same way as plaintiff (a book title), added its own expressive content.[46]

Two days later, in *Dickinson v. Ryan Seacrest Enterprises, Inc.*, the Ninth Circuit ruled that the First Amendment barred a plaintiff's Lanham Act claims arising from use of a mark within a creative work, never mentioning *Gordon,* but affirmatively stating that to find that the use was explicitly misleading, "there must be 'an explicit indication, overt claim, or explicit misstatement' that causes consumer confusion."[47] Plaintiff alleged that defendant "exploited her mark" by featuring her in promotions for its reality series "Shahs of Sunset," in which she appeared, by taking advantage of the "accumulated goodwill from her career as a supermodel."[48] Because plaintiff did not allege that the series or promotions for the series "contained an explicit representation that Dickinson was an endorser or sponsor of the series" the court held that she failed to allege that defendant's use of the mark was explicitly misleading.[49]

Even courts in the Second Circuit—which has long held that a defendant's clean hands are irrelevant in finding a use explicitly misleading so long as there is a compelling likelihood of confusion—have recently hinted that a defendant's motives could factor into a *Rogers* analysis. In *Chooseco LLC v. Netflix, Inc.*,[50] the owner of the trademark CHOOSE YOUR OWN ADVENTURE for a book series involving a "branching" technique that allows readers to make choices affecting the outcome of the stories, alleged that dialogue in a film with a similar "branching" technique that referenced a fictional book within the film by stating "it's a 'Choose Your Own Adventure' book. You decide what your character does," infringed its rights.[51] Although finding the dialog had artistic relevance to the film, the district court denied Netflix's motion to dismiss, finding that Chooseco had sufficiently alleged that consumers associate its mark as a source identifier and that Netflix used the mark in the same way that Chooseco used the mark, which was sufficient to present factual issues that precluded dismissal of the case.

In *AM General LLC v. Activision Blizzard, Inc.*,[52] the Southern District of New York also recently considered whether use of a mark as an element in a creative work was infringing. Plaintiff alleged that Activision's use of its HUMVEE mark and vehicles in the Call of Duty video game franchise infringed its trademark and trade dress rights. Granting summary judgment to defendant, the court found only two of the *Polaroid* factors—the strength of plaintiff's mark and some evidence of confusion in the form of a survey—favored plaintiff, and concluded that this level of likelihood of confusion was not sufficiently compelling.

Although this holding is consistent with longstanding Second Circuit precedent and is the type of use where consumers would not assume the use was source identifying, the court curiously offered that "the *Rogers* balancing inquiry examines whether the contested user has offered a 'persuasive explanation' regarding the use's status as an 'integral element' of the artistic expression," citing *Simon & Shuster*, which in turn was quoting *Rogers*.[53] But this misconstrues both of those cases. The *Rogers* court found that the defendant filmmaker had made "no explicit indication that Rogers endorsed or had a role in producing" the film at issue, but also pointed out that even if the title implicitly mislead some consumers into believing it was about Ms. Rogers, that was not enough. The court's statement that the title was an "integral element of the film and the film-maker's artistic expressions" was not a requirement for the finding.[54]

The *Simon & Shuster* case, which involved a dispute between two audiobooks titled THE BOOK OF VIRTUES and THE CHILDREN'S BOOK OF VIRTUES, likewise did not hold that the court had to look for a "persuasive explanation" regarding use as an "integral element," but merely noted the *absence*

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of such an explanation. Moreover, unlike in *AM General*, the *Simon & Shuster* case involved nearly identical titles used for directly competing works (books on the same subject), and clear evidence that the defendant adopted its title specifically to capitalize on the success of its competitor's bestselling book. The court simply commented that defendant had "reflexively invoked the First Amendment without offering a persuasive explanation of why free speech interests are seriously threatened by Lanham Act liability" and found the evidence showed that "Dove deliberately gave its children's story books confusingly similar titles in a blatant and ill-conceived effort to piggy-back on the goodwill associated with Bennett's best-selling title."[55]

Although wholly unnecessary and only adding confusion to an already muddied area of the law, the district court in *AM General* appeared to be paying lip service to the recent cases in other circuits scrutinizing the motives behind the use of a mark in an artistic work. But ultimately the court accepted "realism" as the "persuasive explanation" and did not require Activision to show that inclusion of the HUMVEE mark was "integral" to the video game. Moreover, the court rejected plaintiff's mere insinuations, innuendo, and unsubstantiated speculation of wrongdoing or a commercial motive, holding that "plaintiff must present admissible evidence that Defendants' invocation of the First Amendment was pretextual" in order to "overcome the presumption of Rogers."[56]

The biggest deviation from longstanding *Rogers* precedent came recently from the District of Colorado in *Stouffer v. National Geographic Partners, LLC*,[57] a case alleging that NatGeo Channel's AMERICA THE WILD title for its documentary nature series infringed plaintiff's rights in its title WILD AMERICA for a prior nature series. In considering defendant's motion to dismiss, the court acknowledged it had "the luxury of thirty years of court decisions applying *Rogers*, demonstrating its strength and weaknesses," and ultimately concluded that "*Rogers* should not be adopted as-is."[58] Because the Tenth Circuit had never had the occasion to consider *Rogers*, the court was free to formulate its own criteria for balancing trademark law and the First Amendment. Recognizing that courts have struggled "to assimilate unanticipated factual patterns into the *Rogers* test—factual patterns that raise legitimate concerns about whether *Rogers* tilts too far in favor of the junior user's First Amendment interests," the court held that a "genuine artistic motive" of the junior user was the more relevant consideration, and that it encompassed both prongs of the *Rogers* test.[59] To determine this, several questions should be considered, including whether the junior user used the mark to identify the same or similar kinds of goods or services; to what extent the junior user added his or her own expressive content; whether the timing of the junior use suggested a motive to capitalize on the popularity of the senior user's mark; the way in which the mark is artistically related to the underlying work; whether the junior user made any statements to the public or engaged in conduct known to the public that suggests a non-artistic motive (including but not limited to "explicitly misleading" statements); and whether the junior user made any statements in private, or engaged in any conduct in private, that suggested a non-artistic motive.[60]

Recognizing that the "genuine artistic motive" test is framed in terms of the junior user's state of mind, the court also held that to adequately protect First Amendment interests, "the objective facts may sometimes excuse further inquiry into the junior user's subjective motives."[61] It should be a rare case, the court admonished, "in which a junior user with a 'pure heart' receives First Amendment protection but a junior user with a 'black heart' does not."[62] This is because the "First Amendment places a thumb on the scale of expressive use, even if at the expense of sometimes allowing junior users with subjectively 'unartistic' motives to avoid Lanham Act liability."[63] If the "genuine artistic motive" test favors the junior user, the court believed that the inquiry should end there with no Lanham Act liability.

Recognizing that the parties could not have anticipated that the court would formulate its own application of the *Rogers* test, the court denied the motion to dismiss without prejudice to allow plaintiff

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the opportunity to amend its complaint and the defendant to refile for dismissal.[64]

On the renewed motion to dismiss, the court applied its "genuine artistic motive" test to Stouffer's amended complaint and ultimately dismissed his claims.[65] After weighing the allegations in light of the six factors, the court found that National Geographic's titles "deserve First Amendment protection, even if Stouffer could prove likelihood of confusion."[66] Although the court pointed to National Geographic's use of WILD AMERICA outside the United States as evidence of a subjectively un-artistic motive, it held that this was the type of case where National Geographic's subjective motives were excused. Most importantly, the fact that National Geographic's titles correspond closely to nature documentary programming created a strong objective inference "that its motive was genuinely artistic" and plaintiff had put forth no evidence "suggesting that National Geographic was attempting to ride Stouffer's wave."[67] This case is currently on appeal to the U.S. Court of Appeals for the Tenth Circuit.[68]

At first glance, this "reformulation" of the *Rogers* test appears to be significant. But a closer examination reveals that it simply combines the artistic relevance and explicitly misleading prongs into one, and takes into account the "motive" issues courts seemed troubled by in *CI Games, Fierce,* and *Gordon*. Artists who use a mark for genuine artistic purposes and without any intent or actions meant to capitalize on the senior user's goodwill or confuse consumers into believing the work is related to that earlier work, should still find their interests fully protected by the First Amendment in the Tenth Circuit regardless of whether it upholds this decision or adopts the traditional application of *Rogers*.

In the three decades since *Rogers* has become the standard for balancing the Lanham Act and the First Amendment, courts have continued to refine its application, striving to protect artistic interests while guarding against attempts to use the First Amendment simply as a means to capitalize on the success of another. Recent decisions in cases where junior uses would be viewed as source identifying and have required that defendants have a genuine artistic motive in using their mark should not be viewed as an erosion of First Amendment rights, but rather safeguards to ensure that the original intent of *Rogers* is upheld.

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## Endnotes

1. Rogers v. Grimaldi, 875 F.2d 994 (2d Cir. 1989).
2. Seale v. Gramercy Pictures, 949 F. Supp. 331 (E.D. Pa. 1996), *aff'd without opinion*, 156 F.3d 1225 (3d Cir. 1998).
3. Sugar Busters LLC v. Brennan, 177 F.3d 258 (5th Cir. 1999); Westchester Media v. PRL USA Holdings, Inc., 214 F.3d 658 (5th Cir. 2000).
4. Parks v. LaFace Records, 329 F.3d 437 (6th Cir. 2003); ETW Corp. v. Jireh Publ'g, 332 F.3d 915 (6th Cir. 2003).
5. Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894 (9th Cir. 2002); E.S.S. Entm't 2000, Inc. v. Rock Star Videos, Inc., 547 F.3d 1095 (9th Cir. 2008); Brown v. Elec. Arts, Inc., 724 F.3d 1235 (9th Cir. 2013); Twentieth Century Fox Television v. Empire Distrib., Inc., 875 F.3d 1192 (9th Cir. 2017); Gordon v. Drape Creative, Inc., 909 F.3d 257 (9th Cir. 2018).
6. Univ. of Ala. Bd. of Trs. v. New Life Art, Inc., 683 F.3d 1266 (11th Cir. 2012).
7. Eastland Music Grp., LLC v. Lionsgate Entm't, No. 11 C 8224, 2012 WL 2953188 (N.D. Ill. July 19, 2012), *aff'd without reaching constitutional question*, 707 F.3d 869 (7th Cir. 2013), *cert. denied*, 571 U.S. 829 (2013); Fortres Grand Corp. v. Warner Bros. Entm't, Inc., 947 F. Supp. 2d 922 (N.D. Ind. 2013), *aff'd without reaching constitutional question*, 763 F.3d 696 (7th Cir. 2014), *cert. denied,* 574 U.S. 1108 (2015).

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8. *Rogers*, 875 F.2d. at 996-97.
9. *Id.* at 999.
10. *Brown*, 724 F.3d at 1243; *E.S.S. Entm't*, 547 F.3d at 1100.
11. *Twentieth Century Fox*, 875 F.3d at 1199.
12. Polaroid v. Polarad, 287 F.2d 492 (2d Cir. 1961). *See* Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd., 996 F.2d 1366 (2d Cir. 1993); Simon & Schuster, Inc. v. Dove Audio, Inc., 970 F. Supp. 279 (S.D.N.Y. 1997); Cliffs Notes, Inc. v. Bantam Doubleday Dell Publ'g Grp., 886 F.2d 490 (2d Cir. 1989).
13. *Twin Peaks*, 996 F.2d at 1379.
14. *See* Communico, Ltd. v. DecisionWise, Inc., No. 3:14-CV-1887 (RNC), 2018 WL 1525711 (D. Conn. Mar. 28, 2018); Syler v. Woodruff, 610 F. Supp. 2d 256 (S.D.N.Y. 2009); Lemme v. Nat'l Broad. Co., 472 F. Supp. 2d 433 (E.D.N.Y. 2007).
15. 875 F.3d at 1199.
16. *Twentieth Century Fox*, 875 F.3d at 1199.
17. *Gordon*, 909 F.3d at 269–70.
18. *Id.*
19. *Id.*
20. *Id.* at 270.
21. *Id.*
22. *Id.* at 271.
23. *Id.* (quoting *Rogers*, 875 F.2d at 998–99) (alteration in original).
24. *Id.*
25. *Id.* at 261.
26. *Id.* at 269 (quoting *Brown*, 724 F.3d at 1245–46) (alteration in original).
27. *Id.* at 271.
28. *Id.* at 268.
29. No. 2:16-cv-05719-SVW-JC, 2016 WL 9185391, at *8–9 (C.D. Cal. Oct. 25, 2016).
30. *Id.* at *8.
31. *Gordon*, 909 F.3d at 270.
32. No. C18-1449-MJP, 2019 WL 1453573, at *1–2 (W.D. Wash. Apr. 2, 2019).
33. *Id.* at *7.
34. No. 3:19-cv-00119-AC, 2019 WL 7476688 (D. Or. Dec. 16, 2019).
35. *Id.* at *6.
36. Caiz v. Roberts, 382 F. Supp. 3d 942, 952 (C.D. Cal. 2019).
37. *Id.* at 950–51.
38. Deus ex Machina Motorcycles Pty., Ltd. v. MGM Inc., 2020 WL 6875178 (C.D. Cal. October 23, 2020).
39. *Id.* at *6.
40. *Id.* at *7.
41. Jackson v. Netflix, 2020 WL 8028615 (C.D. Cal. December 9, 2020).
42. *Id.* at *4.
43. 983 F.3d 443 (9th Cir. 2020).
44. *Id.* at 462, *quoting Brown v. Elec. Arts, Inc.*, 724 F.3d 1235, 1245 (9th Cir. 2013).
45. *Id.*
46. *Id.* at 463.
47. 2020 WL 7496424 at *1 (9th Cir. December 21, 2020), *quoting Brown*, 724 F.3d at 1245-46.
48. *Id.*
49. *Id.*
50. No. 2:19-cv-08, 2020 WL 685689 (D. Vt. Feb. 11, 2020).
51. *Id.* at *2.
52. No. 17 Civ. 8644 (GBD), 2020 WL 1547838 (S.D.N.Y. Mar. 31, 2020).

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53. *Id*. at *10.
54. *Rogers*, 875 F.2d at 1001.
55. *Simon & Schuster*, 970 F. Supp. at 300–01.
56. *AM General*, 2020 WL 1547838, at *11.
57. 400 F. Supp. 3d 1161 (D. Colo. 2019), *deciding renewed motion to dismiss after reformulating the* Rogers *test*, No. 18-cv-3127-WJM-SKC, 2020 WL 2306854 (D. Col. May 8, 2020).
58. 400 F. Supp. 3d at 1178.
59. 2020 WL 2306854, at *4–5.
60. 400 F. Supp. 3d at 1179.
61. *Id*. at 1180.
62. *Id*.
63. *Id*.
64. *Id*. at 1180–81.
65. 2020 WL 2306854, at *7–9.
66. *Id*. at *9.
67. *Id*.
68. Stouffer, et al v. National Geographic Partners, et al, Docket No. 20-1208 (10th Cir.)

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# It's a Partly Cloudy Day in the Rogers Neighborhood: Recent District of Colorado Decision in Stouffer v. National Geographic Flips the Script on Film and TV Title Clearance[1]

**By Jason Vogel**

It's no secret that Hollywood is undergoing huge changes. There have been a series of mega mergers in the media space resulting in a new slate of major entertainment companies, both in terms of newly consolidated film and television production companies and new content streaming platforms. These deals are resulting in significant competition for viewer eyeballs. The key to success for these companies and platforms will be content, as fickle viewers demand a steady stream of new shows to watch. As a result, there has been an enormous growth in the number of new films and television projects in production. While the current COVID situation has placed many projects on hold while studios navigate how to safely conduct production during the pandemic, the demand for content has only grown during this time. In the long term the growth trend is likely to continue.

One of the legal challenges facing entertainment companies developing new projects is the selection of titles that do not infringe third party trademark rights. Trademark law is a subset of intellectual property law that protects brand names, company names, product names and similar indicia which enable consumers to identify the source of a product. Consumers rely on these labels as an indication of the source and level of quality of the product. For example, if you buy a handbag bearing a famous luxury brand trademark, you are relying on that mark to indicate that you are getting a high quality handbag manufactured by the designer reflected by the marks on the handbag and not a knockoff. Film and television titles can function in a similar manner in that viewers selecting programs to watch want to know that a program with "Star Wars" in the title, for example, is an officially sanctioned show created by the makers of the *Star Wars* franchise. As a result, the owners of film and television programs can (with certain limitations) assert trademark rights to prevent the distribution of programs with confusingly similar titles.[2] Companies developing new programs need to be mindful of potential conflict with prior marks—both titles and traditional trademarks.

However, the standards for trademark protection and infringement are different for film and television titles than they are for general consumer products. This is a result of the fact that such programs are creative works, and titles themselves represent expressive content. As such, they are subject to free speech protection under the First Amendment. Such free speech considerations constrain the degree to which titles are protectable as trademarks and the degree to which titles can infringe prior marks.[3]

### Protectability of Titles for Single Creative Works and Series

In order for the title of a single creative work, like a film, to be protectable as a trademark in the enforcement context, it must have achieved secondary meaning through broad consumer protection. In other words, titles of single creative works are treated like descriptive trademarks. So, in clearing new prospective titles, a potentially conflicting prior film title can generally only present a significant bar to the new title if the prior film developed significant popularity. Titles of more obscure films will likely not have

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achieved the requisite level of secondary meaning to develop protectable trademark rights. For example, in *Heirs of Estate of Jenkins v. Paramount Pictures Corp*., the author of short story entitled *First Contact* sued Paramount for the movie *Star Trek: First Contact*, but lost on the basis that the short story was a single creative work that had not developed secondary meaning.[4]

Titles of series, on the other hand, are considered inherently protectable, and therefore can develop trademark rights without requiring secondary meaning. Series titles can include film series, like *Harry Potter* (which currently consists of eight films), and it can also include television series like *Game of Thrones* or *Hawaii Five-O*.

In terms of registering film and television titles, the US Patent and Trademark Office employs a slightly different rule—series titles are inherently registrable just like in the enforcement context. However, titles of single creative works are never registrable even if they have developed secondary meaning. So, unlike the enforcement context, where titles of single works are treated like descriptive trademarks that may be enforced if they have developed secondary meaning; in the registration context, they are treated like generic marks, which are unregistrable under any circumstances. It should be noted, however, that this restriction only applies to trademark applications covering the works themselves, such as films and downloadable recordings in Class 9 or the provision of online films and television programs in Class 41. With respect to other categories of goods, for example merchandise, a single creative work title is treated like any other consumer product mark and may be registrable for such products.

### Infringement in the Context of Titles – The Rogers Test

In a traditional trademark case, a finding of infringement requires that the plaintiff prove there is a likelihood of confusion. The various jurisdictions have established a series of factors for determining whether there is a likelihood of confusion, including the similarity of the marks, the similarity of the goods and services, similarities in the target customers and channels of trade, fame and distinctiveness of the prior mark and presence or absence of actual confusion.[5] When a title is alleged to infringe a prior trademark, the courts have developed a different test, which balances the trademark likelihood of confusion test with the countervailing free speech issues under the First Amendment. This test was first articulated in the *Rogers v. Grimaldi* case in 1989 and therefore is known as the "Rogers Test."[6] Over the last three decades, courts across the country have referred to this case for instruction in determining title clearance.

The *Rogers v. Grimaldi* case involved a film entitled *Ginger and Fred,* which was written and directed by the famous Italian filmmaker, Federico Fellini. The film tells the story of two fictional cabaret dancers who became known for their imitations of early film stars and famous dance couple, Ginger Rogers and Fred Astaire. Ginger Rogers objected to the use of her name in the title, and brought a lawsuit against the filmmaker with a set of claims, chief among them, a complaint of a violation of Section 43(a) of the Lanham Act, which creates civil liability for "Any person who shall affix, apply, or annex, or use in connection with any goods or services . . . a false designation of origin, or any false description or representation . . . and shall cause such goods or services to enter into commerce . . . ." Rogers' claim alleged that the filmmaker created a false impression that the film was about her or that she endorsed, sponsored, or was otherwise involved with the film. She even provided market research that suggested moviegoers were misled to believe that she was connected to the film.

Upon review, the court acknowledged that movie titles have a dual purpose—to serve as a fundamental component of artistic expression and an important means of marketing the film to the public. Consumers have an interest in not being misled as well as an interest in enjoying the embodiment of the filmmakers expression. The court's position was that artistic expression is paramount and must not be restricted, so

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as long as it is relevant to the overall work, it will outweigh the commercial reservations some may have. As a result, the court held that a title would be an infringement only if it were being used to mislead consumers into thinking that the work is connected to the celebrity.

Taking this into consideration, the court found that the title "Ginger and Fred" was artistically relevant to the film's subject matter. The couple in the film were nicknamed "Ginger" and "Fred" and these names were chosen because they were integral to the film's story. They were not chosen as a ploy to take advantage of the notoriety gained by their real life counterparts. There is no indication that Rogers was involved with the film whatsoever. Moreover, although the survey demonstrates that some consumers assumed she was involved with the film, that misunderstanding is outweighed by the interests of artistic expression, halting any application of the Lanham Act.

Lastly, the court found that the title was not misleading. Their reasoning stemmed from the fact that the couple in the film are known as "Ginger and Fred." While there was a degree of actual confusion among moviegoers, the title was rooted in the filmmaker's artistic expression. Because the title was artistically relevant to the storyline, the court found that the expression should not be restricted.

## The Rogers Test in Application

The test set forth by the Second Circuit in *Rogers v. Grimaldi*, which has become known as the "Rogers Test," has been widely adopted as the proper method for balancing First Amendment considerations against the public interest in avoiding consumer confusion. The Rogers Test consists of two prongs: (1) does the title have artistic relevance to the underlying work?; and (2) is the use of the title explicitly misleading as to the content or source? Subsequent decisions have put their own spin on this test.

### *Does the title have artistic relevance to the underlying work?*

This prong has generally been interpreted liberally and is easily satisfied if the title makes any reference to the plot, content, tone, style, purpose, or intended appeal of the work. The level of artistic relevance need only be "above zero" to pass this prong.[7] Some titles are artistically relevant because they make an explicit reference to the prior mark. For example, in *Mattel, Inc. v. MCA Records, Inc.*, the court held that the first prong was satisfied because the contested song title *Barbie Girl* was making a direct reference to the plaintiff's Barbie branded doll since the song was satirically commenting on Barbie and the materialistic values that the songwriter contends the doll reinforces.[8] However, it's not necessary for the title to make an explicit reference to the prior mark. For example, in *Twentieth Century Fox v. Empire Distribution*,[9] the court rejected plaintiff Empire Distribution's argument that the television series title *Empire* failed to meet the relevance prong of *Rogers* because the use of the title was not a reference to Empire Distribution. The court instead held that the series title was a reference to the show's setting in New York, the Empire State, and the subject matter of the show which involved the business empire of the protagonist. Such relevance to the themes and geographic setting of the show was sufficient to satisfy the first prong.

### *Is the use of the title explicitly misleading as to the content or source?*

The general rule is that as long as a title has artistic relevance to the work, it does not matter if the later title is confusingly similar to the earlier mark. Instead the test is whether the use is "explicitly misleading." In *MCA*, the Ninth Circuit held that the use of "Barbie" in MCA's song title was not explicitly misleading: "The only indication that Mattel might be associated with the song is the use of Barbie in the title; if this were enough to satisfy this [explicitly misleading prong] of the Rogers Test, it would render Rogers a nullity." *Mattel, Inc. v. MCA Records*, Inc.[10] The court reiterated this point in *E.S.S.*, asserting that "the mere use of a trademark alone cannot suffice to make such use explicitly misleading." *E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc.*[11] There, the court held that using the name "Pig Pen" in a video game did not explicitly mislead consumers into believing that the game was sponsored or

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endorsed by the strip club owner. *Id.*

Even consumer surveys of confusion do not constitute sufficient evidence that a title is explicitly misleading. *Brown v. Electronic Arts, Inc.*[12] For example, in *ETW*, the Sixth Circuit held that the use of Tiger Woods's name and image in a sports artist's work was not explicitly misleading because there were no explicit indications on the face of the works of Woods's connection with them. *ETW Corp. v. Jireh Publishing, Inc.*[13] While a survey had been produced which showed that over sixty percent of the participants thought Tiger Woods was affiliated or connected with the work, the court held that "plaintiff's survey evidence, even if its validity is assumed, indicates at most that some members of the public would draw the incorrect inference that Woods had some connection with [the work]. The risk of misunderstanding, not engendered by any explicit indication on the face of the [work], is so outweighed by the interest in artistic expression as to preclude application of the [Lanham] Act." *Id.* In *Rogers* itself, the Second Circuit rejected similar survey data for the same reasons. 875 F.2d at 1001.

The essential question, therefore, was "whether there was an 'explicit indication,' 'overt claim,' or 'explicit misstatement' that caused such consumer confusion." *Brown*, 724 F.3d at 1245 (quoting *Rogers*, 875 F.2d at 1001). The correct type of evidence to prove the "explicitly misleading" prong of the Rogers Test "must relate to the nature of the behavior of the identifying material's user, not the impact of the use." *Brown*, 724 F.3d at 1246. For example, if a party produced evidence of "statements made in materials" accompanying the allegedly infringing work that explicitly mislead consumers, this may be sufficient. *Id.* However, while it is sufficient, it is not necessary that the defendant make an affirmative statement of the plaintiff's sponsorship or endorsement. McCarthy § 10:17.10 (noting that Rogers's second prong does not hinge on the junior user "falsely assert[ing] that there is an affiliation").

A circuit split has developed as to this second prong of the Rogers Test. In the Second Circuit, *Twin Peaks* made it a requirement to examine the standard likelihood of confusion factors as part of the second prong.[14] In order for the confusion to override the First Amendment interest, the likelihood of confusion must by "particularly compelling," according to *Twin Peaks.* Conversely, in the Ninth Circuit, courts simply ask if there has been an "overt misrepresentation."[15] Instead of comparing the two marks, this test examines what has been done to suggest or disclaim a connection between the two works. Until 2018, this has been a very low bar, because most creators claim their works rather than suggest they were created by someone else.

In 2018, the Ninth Circuit, in *Gordon v. Drape Creative, Inc.*,[16] further clarified the "explicitly misleading" prong, identifying two new considerations: 1. the degree to which the junior user uses the mark in the same way as the senior user; and 2. the extent to which the junior user has added his or her own expressive content to the work beyond the mark itself." *Id.* at 270. According to the *Gordon* court, if the junior user uses the mark as only one component of his or her larger expressive creation, such that the use of the mark at most implicitly suggests that the product is associated with the mark's owner, this is generally acceptable. *Id.* at 270-71. If the junior user uses the mark as the centerpiece of an expressive work itself, however, unadorned with any artistic contribution, this may reflect nothing more than an effort to create consumer confusion or impair the distinctiveness of the competitor's mark. *Id.* at 271.

### The District of Colorado's Reformulation of The Rogers Test in Stouffer v. National Geographic I

As outlined above, prior to mid-2019, the cases following *Rogers* established a fairly defendant-favorable regime, which made clearing and defending film and television titles comparatively easy compared to other types of marks. As long as the later title had some artistic relevance to the subject matter, and the producer of the later work was not crossing the line into explicitly or intentionally misleading consumers

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into thinking there was a connection with the earlier work, the later title was generally defensible, and many cases in this area were decided on Summary Judgement in favor of the defendant.

However, in a mid-2019 decision out of the District of Colorado, the court broke significantly from 30 years of *Rogers* jurisprudence and issued an initial decision that was much more plaintiff favorable, *Stouffer v. Nat'l Geographic Partners, LLC* (*Stouffer I*).[17] In the 1980s, Stouffer produced a nature documentary series titled *Wild America*, which had a successful run as "PBS's most watched show" for several years. Stouffer also obtained a 1998 trademark registration for WILD AMERICA covering a continuing television series depicting animals and their habitat.[18] Prior to its 2012 release of the *Untamed Americas* series, National Geographic and Stouffer had discussed licensing or purchasing options for Stouffer's film library, but National Geographic ultimately declined. National Geographic then asked Stouffer's permission to title a subsequent series "Wild Americas" or "Wildest Americas." Stouffer declined. Then in 2013, National Geographic released its *America the Wild* television series, which Stouffer claimed, "replicat[es] the most minute details of Wild America in its production." *Id.* (internal quotations omitted). Aside from similarity of the respective titles and general theme, Stouffer claimed *America the Wild* replicated the a number of elements from his own *Wild America* series, including host-grizzly bear interactions; interactions with rams; images of big horn sheep head-butting; episode structure, including following a specific animal throughout an episode; animal point of view shots, among other camera positioning similarities; similarities between show hosts; and similarities in DVD packaging. *Id.* at 1166-68.

Stouffer brought an action in the Federal District Court of Colorado against National Geographic for federal trademark infringement and a number of other federal and state claims. National Geographic moved to dismiss Stouffer's case based on First Amendment considerations as laid out in *Rogers*. *See Stouffer I*, 400 F. Supp. 3d at 1169.

Because neither the District of Colorado nor the Tenth Circuit had ever decided a case addressing the Second Circuit's widely accepted *Rogers* analysis,[19] the court elected to re-vamp the standard for trademark infringement in the title context. *See Stouffer I*, 400 F. Supp. 3d at 1173. While it agreed the Lanham Act should be limited to account for First Amendment rights, and that there must be some mechanism for relief without the need for a full likelihood of confusion analysis at trial,[20] the court found the two-pronged Rogers Test insufficient, particularly in situations where demonstrable artistic relevance might be difficult to discern. *Id.* at 1177-78 (discussing *Parks v. LaFace Records*, 329 F.3d 437, 452-53 (6th Cir. 2003) (finding that a reasonable person "could conclude that there is no relationship of any kind between Rosa Parks' name and the content of the song" in question). The court also addressed the Ninth Circuit's decision in *Gordon*, paying respect to its questioning of "[]artistic motives where the junior user uses the mark in the same channels, and in basically the same way, as the senior user." *Stouffer I*, 400 F. Supp. 3d at 1179 (quoting *Gordon*, 909 F.3d at 270-71) (internal quotations omitted).

With a view toward improving upon the Rogers Test, the court went on to devise its own test that took artistic relevance into consideration, but largely expanded on the explicitly misleading inquiry. This so-called "Genuine Artistic Motive Test" asks: "[d]id the junior user have a genuine artistic motive for using the senior user's mark or other Lanham Act-protected property right?" *Stouffer I*, 400 F. Supp. 3d at 1179. The court proffered several points to consider in answering this motive-centric query:

- "Do the senior and junior users use the mark to identify the same kind, or a similar kind, of goods or services?
- To what extent has the junior user added his or her own expressive content to the work beyond the mark itself.
- Does the timing of the junior user's use in any way suggest a motive to capitalize on popularity of

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the senior user's mark?
- In what way is the mark artistically related to the underlying work, service, or product?
- Has the junior user made any statement to the public, or engaged in any conduct known to the public, that suggests a non-artistic motive? This would include 'explicitly misleading' statements…;
- Has the junior user made any statements *in private*, or engaged in any conduct *in private*, that suggests a non-artistic motive?"

*Id.* at 1179 (internal quotations omitted).

The court did not shy away from clarifying it's lack of focus on artistic relevance, and noted that for its purposes, artistic relevance "is only a factor . . . not a threshold inquiry." *Id.* This shift in focus, from artistic relevance between title and work, to "objective" measures of a creator's "artistic motive," was rooted in concern with potentially abstract or *seemingly* random artistic elements in a work—the artistic relevance of which could be interpreted various ways. *Id.* at 1179-80 (emphasis added).

Ultimately, the court denied National Geographic's motion to dismiss the trademark claims,[21] giving Stouffer leave to amend his complaint under the new standard, and National Geographic leave to once again move to dismiss based on such amended complaint.

This decision caused significant concern in the film and television field because many of the Genuine Artistic Motive factors look to the subjective intent of the later creator, which is often difficult to establish in early stages of litigation. As such, it seemed that going forward, these cases would be much less likely to resolve at the Motion to Dismiss stage.

**Application of the Genuine Artistic Motive Test in Stouffer v. National Geographic II**

Following the *Stouffer v. National Geographic I* decision, Stouffer filed an amended complaint, and National Geographic filed a new motion to dismiss. In this second proceeding, National Geographic asserted that the court's reformulation of the Rogers Test was significantly at odds with the rule established in other Circuits and would amount to an "unwarranted chilling of free expression" particularly for works with a nationwide audience like film and television titles. *Stouffer v. Nat'l Geographic Partners, LLC* (*Stouffer II*).[22] However, in a decision issued in May 2020, the court declined to move away from its new conceptualization, stating "that the Rogers Test . . . is needlessly rigid and fails to account for the realities of each situation." It analyzed the facts as alleged under the new Genuine Artistic Motive Test and ultimately sided with National Geographic, dismissing Stouffer's complaint with prejudice. *Id.* at *9. A number of the factors supported Stouffer's position, including that the services were similar, the expressive content had a similar appearance, and National Geographic's request for consent could be seen as an acknowledgement of the similarity. However, the court held that other factors, including the gap in time between the two shows, and the descriptiveness of the titles and resulting lack of viable alternative titles for programs concerning wild animals in America, supported a conclusion that National Geographic had not selected the title based on a motivation to trade off the goodwill of Stouffer's show.

Ultimately, this case reached the same outcome that it likely would have had under the Rogers Test. As a result, concerns about the decisions significantly tilting the scale towards owners of prior titles may have been overblown. Nevertheless, the decision is more favorable to prior titles than the *Rogers* decisions in other jurisdictions. So, film and television producers should be mindful of the new test, particularly those that are subject to jurisdiction in the Tenth Circuit.

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## Conclusion

Clearing film and television titles is subject to different standards than clearing most trademarks. It is important to bear in mind the rules relating to protection and registrability of single titles as opposed to series titles. In jurisdictions applying the Rogers Test, it is generally easier to clear titles provided that minimal artistic relevance can be shown and the title is not explicitly misleading. Under the new Genuine Artistic Motive Test in the Tenth Circuit, however, practitioners must consider whether the objective circumstances surrounding selection of a title create the appearance that the creator chose the title for purely artistic purposes or in order to capitalize on the popularity of the prior title. If there could be an implication that the title was chosen for purposes of capitalizing on a prior title, there may be an increased risk of infringement in an action brought in the Tenth Circuit.

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## Endnotes

1. The author would like to acknowledge and thank Paymaneh Parhami, Kendrick Coq, and Gianna Cresto for their contributions to this article.

2. Copyright is a subset of intellectual property law which provides protection for creative works of authorship such as books, screenplays and audiovisual works such as films and television shows. But copyright does not protect titles, because titles and similar short phrases are deemed to contain an insufficient amount of authorship for protection.

3. This article primarily addresses trademark law as it relates to film and television titles, but the principles discussed in the article have been applied in an analogous way in the context of other types of expressive works, like the titles of songs, books, videogames, and the like.

4. 90 F. Supp. 2d 706 (E.D. Va. 2000).

5. *See e.g., Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492 (2d Cir. 1961); *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979)

6. 875 F.2d 994 (2d Cir. 1989).

7. *See, e.g.*, *E.S.S. Entertainment 200, Inc. v. Rock Star Videos, Inc.*, 547 F.3d 1095 (9th Cir. 2008).

8. 296 F.3d 894, 900 (9th Cir. 2002).

9. 875 F.3d 1192 (9th Cir. 2017).

10. 296 F.3d 894, 902 (9th Cir. 2002).

11. 547 F.3d 1095, 1100 (9th Cir. 2008).

12. 724 F.3d 1235, 1246 (9th Cir. 2013).

13. 332 F.3d 915, 937 (6th Cir. 2003).

14. *Twin Peaks Productions, Inc. v. Publications International*, 996 F.2d 1366 (2nd Cir. 1993).

15. *Mattel, Inc. v. MCA Records, Inc*., 296 F.3d 894 (9th Cir. 2002).

16. 909 F.3d 257 (9th Cir. 2018).

17. 400 F. Supp. 3d 1161, 1165 (D. Colo. 2019) (*Stouffer I*).

18. United States Trademark Registration No. 2,194,557.

19. *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 664–65 (5th Cir. 2000) ("Polo" clothing v. "Polo" lifestyle magazine); *ETW Corp. v. Jireh Pub., Inc.*, 332 F.3d 915, 920 (6th Cir. 2003) (Tiger Woods v. painter of Woods' 1997 Masters victory scene); *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 901–02 (9th Cir. 2002) ("Barbie" the doll v. Aqua's "Barbie Girl" song); *Univ. of Ala. Bd. of Trs. v. New Life Art, Inc.*, 683 F.3d 1266, 1278

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(11th Cir. 2012) (famous college football uniforms v. painter of football player scenes).

20. Without this relief, the court noted the time for trial may "unduly chill expression," or incentivize a senior user to bring a SLAPP (strategic lawsuit against public participation) suit. *Stouffer I* at 1178.

21. The court denied National Geographic's motion to dismiss with respect to the trademark claims, but granted it with respect to the trade dress and copyright claims.

22. No. 18-CV-3127-WJM-SKC, 2020 WL 2306854, at *5 (D. Colo. May 8, 2020) ("*Stouffer II*").

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# Delay of Game? The Time is Now for NIL Legislation

**By: Jonathan Stahler, Esq.**

## Introduction

University of Wisconsin Athletic Director ("AD") and former head football coach Barry Alvarez is the first major AD to warn student-athletes, employees, and fans of Wisconsin athletics that all Badgers' seasons are at risk if the football season is canceled because of the coronavirus pandemic. Alvarez stated "I believe we will reach a monumental crossroads in the coming days. We will have two choices: remain at the head of the class or fall behind."[1] Athletic programs "falling behind" due to the global pandemic may soon be experiencing what student-athletes have been experiencing for nearly 100 years. That is, they continue to help fund the National Collegiate Athletic Association "(NCAA") and their individual institutions, and those in revenue-generating sports who are predominantly male African-Americans and other minorities also help fund many less-publicized sports, all while being treated essentially as indentured servants.[2]

The Barry Alvarez/Wisconsin scenario is one of many Division I athletic programs with a $100 million plus annual operating budget also forced to make significant concessions like athletic departments' highest-paid employees taking voluntary pay cuts. Yet, it is another major example of a continued, evident problem in collegiate athletics that needs to be properly addressed now more than ever. The problem identified is the following: in the midst of a global pandemic that is having catastrophic effects on the American population, healthcare system, and economy, student-athletes continue to be exploited, treated unfairly on campus during both their collegiate careers and after college, are forced to make concessions over basic necessities, and are dramatically unfairly compensated when factoring in the level of revenue they generate for the NCAA, their athletic conferences, and own universities.

Enter the proposed and pending name, image, and likeness ("NIL") legislation. As Jay Bilas put it plainly, "[t]he ability of every person in the college space to profit off their NIL is a right that is not restricted in any way, with the exception of the collegiate athlete . . .

The only thing the NCAA needs to be concerned with is whether the player is a full-time student in good standing . . . Period."[3]

## History

This problem has quite the history dating back to the 1920s. In the past, segregation was the primary problem, inhibiting minorities, including largely African-Americans, from even getting the opportunity to participate in athletics on all levels. Professor Kenneth L. Shrophsire studied and found the following: "The most obvious [reason] was simply the desire of whites not to associate with African-Americans. . . . Associated with this desire for separation was . . . the other broad explanation: a view that African-Americans were inferior."[4] Sadly, the view finds its roots in slavery and can be still found today, now affecting all student-athletes.

Informal Jim Crow laws prohibited African-Americans from playing sports for the schools that admitted them.[5] The University of Kansas had its own informal rules of discrimination in the late 1920s and into the 1930s, which denied African-American students the right to participate in any of the school's mainstream social and extracurricular activities, including athletics. Thankfully, this no longer exists, but it set a precedent for lack of opportunities for student-athletes.

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Today, a convenient reason why many controversial decisions are made in collegiate athletics is because "it's all about the money."[6] Evidently, that argument is nothing new when you look back over 100 years ago in 1916 at Rutgers University. Paul Robeson, an African-American on the Rutgers University's football team and a two-time All-American, was prohibited from playing when Washington and Lee College threatened not to play in the game if he was allowed to participate. Washington and Lee College justified this by stating safety would not be a concern because there would be no threats of violence among fans if Roberson played.[7] Rutgers did not seem to think long or hard and decided if "it's all about the money," Roberson would be benched so Rutgers would not lose revenue from playing one less game. While these ugly situations occurred at Kansas and Rutgers between 1916 and the early 1930s, there is still an element of discrimination and inequity existing today, now affecting all student-athletes and their true values.

**NIL Legislation at the State Level**

Fast forward to October 2019. The National Football League Players Association ("NFLPA") and National College Players Association ("NCPA") announced a joint effort to "explore opportunities for college athletes in merchandise, gaming, licensed products", and "how recent developments impact television broadcast revenues in pursuit of fairness."[8] This partnership seemed to be a positive reaction of California's Fair Pay to Play Act, which was the first state legislation passed to grant California college athletes the ability to profit off their NIL starting in 2023.[9] The NCPA, which is made up of more than 20,000 former and current college athletes, and the NFLPA's group licensing subsidiary, REP Worldwide, have been looking into marketing "the group licensing rights of college athletes of *all sports* (*emphasis added*)."[10] The fact that the NFLPA has a subsidiary looking to help market all student-athletes are critical and addresses any Title IX concerns.

Rewind to 1972. In 1972, 20 U.S.C.S. § 1681, which is more commonly known as Title IX, was passed to ensure equal opportunities for women. It provides as follows: Prohibition against discrimination; No person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity receiving Federal financial assistance.[11] And while Title IX has helped solve gender inequity through increased participation and opportunities for females, it has also resulted in increasing racial inequity. Congress has yet to provide some sort of protection for men's basketball, football, and other male sports from any "adverse racial implications with gender equity efforts" when dealing with Title IX issues.[12] Rest assured, the NCAA has recently looked to Congress for help, but not particularly with this issue; more as I like to call it, a financial and public relations bailout for itself, akin to the $25 billion one that the airline industry received in this country very early in the pandemic not too long ago in April 2020.[13] More on this later.

Fast forward back to October 2019. Other states started to follow suit from California's Fair Pay to Play Act. Pennsylvania State Representatives Dan Miller and Ed Gainey announced their proposed legislation, also called the "Fair Pay to Play Act", will mirror California's bill.[14] Rep. Miller stated why he and Rep. Gainey are putting forth its own legislation for its state's universities like Pennsylvania State University ("Penn State") and University of Pittsburgh ("Pitt"): "Athletes are forced to give up their rights and economic freedom while the colleges [like Penn State and Pitt] make hundreds of millions of dollars off of their talent and likeness."[15]

Rep. Gainey agrees and really broke it down for even the most narrow-minded, backward-thinking leaders at the NCAA and institutional levels: "If a college football head coach can earn $4.8 million for coaching 'amateur student-athletes,' and if corporations can earn billions of dollars using the players' names and faces, then how is it not fair for them to earn some sort of financial compensation?"[16] Rep. Gainey is right and echoing what several other NIL advocates like Jay Bilas and I have been preaching,

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but he really hits the nail on the head with the rest of his reasoning here: "The chances of a professional contract and thus a payout for all of their hard work and pain are tiny, and we owe it to them to level the playing field."[17]

That is the key that is often overlooked. Many former athletes, who seek significant financial relief for alleged intellectual property infringement through class action litigation, do so largely due to current financial problems. ESPN aired a documentary film titled "Broke" in its "30 for 30" series back in 2012, which highlighted many former professional athletes who are facing serious financial troubles. Herman Edwards, current head football coach at Arizona State University and former National Football League ("NFL") player, talks about how rookies become the "breadwinner" for family members and friends who they feel they have an obligation to. Edwards states, "Many times half way through the season these guys tap out because they've over-extended themselves and it ends up affecting how they play. Typically, after their third year, guys start to figure it all out."[18] But what if they do not figure out how to manage their money by their third season as a professional, especially since the average career is about three years? And why should it take them three years, after college? And what about the vast majority of student-athletes that do not turn professional in their respective sports? Given the current economic state of this country, rising unemployment claims, and uncertainty of more stay-at-home orders, should we not limit economic opportunities for anyone when we can avoid such limitations, and when those opportunities continue to exist precisely for student-athletes who have the potential to be hugely impactful in providing for their families right now when it is needed more than ever?

Let's move ahead to June 2020. Florida followed California and Colorado and passed its own law allowing Floridian college athletes to make money from NIL-related endorsements as early as July 2021, eighteen months sooner than California's and Colorado's laws will go into effect.[19] Florida's law does have some restrictions, including that payments to athletes must be "commensurate with market value in order to preserve the integrity, quality, character and amateur nature of intercollegiate athletics…", and that colleges and universities like University of Miami and University of Florida are not allowed to pay their athletes directly.[20] Nonetheless, two (2) of the country's larger, heavily populated, and politically centric states with great athletic competition in California and Florida have forced the NCAA's hand. Oh, and 35 other states have proposed varied forms of NIL legislation, per Tulane University Sports Law Program Director and NCAA Compliance Associate Provost, Gabe Feldman.[21]

### NCAA's Response to State NIL Legislation

Clearly seeing the writing on the wall and hearing clamors from first college athletes to now state and federal politicians, the NCAA, through its Board of Governors and Federal and State Legislation Working Group, put forth what it is calling a Final Report and Recommendations ("Final Report"). Per the Final Report, student-athlete NIL is to be modernized to account for the new media and promotional landscape available to the public[22] Specifically, student-athletes would be compensated for third-party endorsements, including social media "influencer" activity, and by third-parties for use of their NIL. However, the NCAA has instituted several barriers, or "guardrails" as they like to call them, that still allows itself to keep that firm grip on student-athletes and their ability to profit off their own NIL.

Such "guardrails" include the following: (1) any compensation received by student-athletes for NIL activities represents a genuine payment for use of their NIL, and is not simply a disguised form of pay from third-parties for athletics participation; (2) colleges, universities and conferences play no role in student-athletes' NIL activities, including the sharing of profits; (3) schools and/or boosters are not using NIL opportunities as recruiting inducements; and (4) the role of third-parties in student-athlete NIL activities is heavily regulated.[23] The NCAA intended to draft such legislation by October 31, 2020, vote on it by January 31, 2021, and have it go into effect by July 31, 2021.[24] However, the global pandemic may

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have other plans. To be continued.

Please keep in mind that those "guardrails" are in addition to the many barriers already in place at the institutional level for advertising, marketing, or sponsorships. Specifically, many universities like University of Nebraska ("Nebraska"), Louisiana State University ("LSU"), and West Virginia University ("WVU") include specific clauses to protect their brand preemptively by outlining off-limits categories.[25] Such categories that are excluded from endorsement opportunities include sexual enhancement and feminine hygiene products (Nebraska), tobacco, alcohol, casinos and political advertising (LSU), and gambling, firearms, explosives, and adult entertainment (WVU).[26]

While some of those categories like political advertising, firearms, and explosives may seem obvious and reasonable to be restricted, especially at the collegiate level, others like feminine hygiene products and (legalized) gambling are not and should be on the table for opportunities. Sports journalist and former University of Maryland gymnast Bonnie Bernstein said it best when she said "If Serena Williams can be Tampax brand ambassador, there's no reason a female college student-athlete shouldn't be entitled to those same types of opportunities."[27] Coincidentally, approximately 60% of these collegiate multi-media contracts with tight restrictions are up for renewal and/or renegotiation in the next two (2) years, in which many colleges and universities intend to revisit contract language in light of the global pandemic.[28] Perhaps, the NCAA and its member institutions will loosen its hold and change with the times?

## Effects of NCAA Recommendations

Many writers and economists continue to argue that the NCAA's current governance is the best solution, so paying student-athletes would not work. Those who argue for a status quo advocate the importance of amateurism in collegiate athletics. According to Drexel University sports management professor Dr. Ellen Staurowsky, "What college sports did was take that amateur concept, which was so class-based, and broaden and democratize it. But they ultimately still made it favorable to the power-elite people who are running colleges and universities. It's created an exploitative system."[29] Staurowsky further states, "The rules have been set up in such a way to avoid a public understanding that athletes are already paid. It's just a matter of whether they are paid their value."[30] Ramogi Huma, a former University of California, Los Angeles (UCLA) linebacker who currently heads the NCPA, was forced to take toilet paper and soap from hotels on road games, accumulated excessive debt on a credit card during and after graduation, and did not eat the recommended five or six meals a day based on the calories he burned while playing football for the Bruins.[31] That, to me, is undervaluing Huma, especially when you consider what he meant to UCLA as a revenue-generator.

Despite Huma's example above, coaches' salaries continue to rise. The following five (5) reasons are why coaches' salaries do not reflect free market forces: (1) no monetary compensation is paid to the workforce, the student-athletes; (2) intercollegiate sports benefit from substantial tax exemptions or benefits; (3) there are no shareholders demanding dividend distributions or boards demanding higher profits; (4) athletic departments are backed by university and state financial support; and (5) coaches' salaries are negotiated by athletic directors, whose own salaries increase with the salaries of their employees, the coaches.[32]. Even if the NCAA has released its Final Report to the public, its position seems to not have changed and is parallel with the amateurism status quo argument stated above. Because of states like California and Florida, the NCAA is pleading for help from everywhere, including both Congress and the Supreme Court.

Let's start with Congress. Now that Florida's law is official and set to take effect by July 2021, the House of Representatives and the Senate have less than one (1) year to pass federal legislation if it is going to preempt such state law.[33] That is not a lot of time, especially when Congress may be preoccupied with an upcoming presidential election and the global pandemic with its lasting effects well into 2021. The NCAA

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has threatened previously to challenge such state laws like California and Florida based on the argument that they violate the Commerce Clause of the United States Constitution. However, NCPA President Huma says the NCAA is able to conduct its interstate business while dealing with varied state laws that result in unequal situations for college athletic programs.[34] This includes the NCAA's recent decision to support some of its member institutions like Clemson University and University of Texas resuming sports activities sooner than others based on how individual states where some of those institutions are located lifted coronavirus-related restrictions.[35] That seems a bit hypocritical, does it not?

The NCAA is not the only group asking for Congress to bail itself out. The Power 5 conference commissioners, comprised of the Atlantic Coast's ("ACC") John Swofford, Big Ten's Kevin Warren, Big 12's Bob Bowlsby, Pac-12's Larry Scott, and Southeastern's ("SEC") Greg Sankey, are right in line with the NCAA soliciting the assistance of Congress to enact federal legislation for NIL compensation in late May 2020.[36] In its signed letter to Congress, all five of the Power 5 commissioners stated "[a] critical aspect of the college model has been and remains that student-athletes are not paid for playing sports," and that payments should come from "third parties, not universities, and boosters must be kept out of the recruiting process". [37] The Power 5 are indeed aligned with the "guardrails" set by NCAA's Final Report: regulate third-parties and keep boosters away from student-athletes and close to the NCAA and its Power 5 institutions.

Let's move to the Supreme Court. Immediately following the July Fourth weekend, the NCAA released a statement that it would request that the Supreme Court of the United States ("SCOTUS") hear its case, Alston v. NCAA, No. 19-15566 (9th Cir. 2020), in which U.S. District Judge Claudia Wilken and the Court of Appeals have ruled that the NCAA "cannot have associate-wide limits on education-related benefits that college athletes can receive."[38] In this case, former WVU football player Shawne Alston led a class action against the NCAA for its rules restricting education-related benefits that its member institutions, like WVU, may offer to students who play Division I football and men's basketball. The case is very similar to O'Bannon v. NCAA, 802 F.3d 1049 (9th Cir. 2015) (O'Bannon II), in which the Court of Appeals affirmed that the NCAA illegally restrained trade in violation of the Sherman Act by preventing those same Division I football and men's basketball players from receiving NIL compensation. However, the same Court of Appeals declined to broaden U.S. District Judge Wilken's ruling, as Alston and the party plaintiffs requested, which allows the NCAA's limits on compensation not connected to education to remain…for now.[39] But why, you may ask, is the NCAA then still seeking to take the case to SCOTUS? Well, NCAA maintains the case has such merits because "intercollegiate athletics as overseen by the NCAA is a major feature of American life."[40]

### Student-Athlete Advocacy

What better way to answer federal litigation than with some more federal litigation? In House v. NCAA, et al., No. 20-cv-3919 (N.D. Cal. 2020) filed on June 15, 2020, Arizona State University swimmer Grant House challenges that the NCAA's restraints are not necessary to serve any alleged procompetitive purpose. More specifically, the NCAA's restraints are not necessary to preserve consumer demand for college sports, education and NIL compensation are not mutually exclusive, and the NIL restrictions do not prevent exploitation. In fact, House goes on to argue that there is significant support for allowing athletes to receive NIL compensation, in that local, state, national, and global corporate sponsors value student-athletes' NIL and would compete for the rights to use their NIL absent the NCAA's anticompetitive restraints. Does this sound familiar? If you're thinking of Alston v. NCAA outlined earlier, then you agree with U.S. District Judge Wilken's order that found House v. NCAA and its antitrust challenge against NCAA's NIL rules is necessarily related Alston v. NCAA and its challenge against NCAA's broad limits on compensation, thus consolidating the two cases.

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Can we discuss action outside the courthouses? Let's move to the campuses then. On June 1, 2020, the University of Colorado ("CU") announced the "Buffs with a Brand" program that will provide CU student-athletes with new educational resources related to personal brand management, entrepreneurship, and financial literacy.[41] CU AD Rick George supported the program and stated "building a personal brand, and developing the skills to be a successful entrepreneur will help other student-athletes capitalize and build on their time at CU and beyond."[42] Sounds like a great model to better prepare its student-athletes for their futures, right?

In March 2020, Nebraska and athlete marketing program Opendorse, led by former Nebraska linebacker and chief executive officer and co-founder Blake Lawrence, announced its "Ready Now Program", which will have an entire team dedicated to helping every Husker student-athlete build and maximize their personal brands.[43] Every student-athlete there will be given a valuation of their brand, insights into how to boost engagement and augment their social media followings, content calendars, and performance benchmarks. And much like it was acknowledged in the NCAA's Final Report, influencer marketing via social media will be the primary moneymaker of today's student-athlete per the Ready Now Program.[44] Being told as an eighteen or nineteen-year-old that I could garner five figures worth of endorsements, which could go to improving my living conditions for my family and me, especially during a global pandemic, and setting up myself for post-college life, is awfully appealing when considering which school to attend. I suppose that is why as of May 5, 2020, Nebraska head football coach Scott Frost has tendered 214 scholarships for the class of 2022, leading the nation and more than the rest of the Big Ten West Division combined.[45]

The Georgia Institute of Technology ("Georgia Tech") partnered with J1S, a creative agency that will consult with the Division I football team on branding as of April 2020.[46] To give the Yellow Jackets credit for promoting its student-athletes' brands even sooner, last season in 2019, a dry-erase board was added to the football sidelines for players to write their Instagram handles for public and television viewing if a player accounted for a turnover.[47] Perhaps those at Georgia Tech saw the aforementioned ESPN film titled "Broke" and paid attention to director Billy Corben's two staggering statistics: 78 percent of retired NFL players are bankrupt within two years; and 60 percent of retired National Basketball Association ("NBA") players are broke within five years.[48] Perhaps Georgia Tech is starting to implement changes on campus like at CU and Nebraska to better its student-athletes and not have them end up becoming another one of those unfortunate statistics.

That sounds great for the football and men's basketball players, but what about the rest of the student-athletes in other sports on campus? Enter Brown University alum and former ultimate frisbee player Zachary Segal, now founder of StudentPlayer.com, a concentrated crowdfunding platform allowing fans to contribute to future sponsorships for student-athletes even before they step foot on campus.[49] Each amount pledged as well as the cumulative contribution totals to a particular school, sport, and/or student-athlete at any given position is made available to the public and held in escrow until the straightforward and seamless sponsorship obligation is fulfilled. As of June 2020, StudentPlayer.com has already raised more than $100,000 in contributions made to more than 25 schools and 10 sports.[50] Duke University's men's basketball creative director Dave Bradley acknowledges that for as many as 95 percent of college athletes, their college careers will be their prime to grow and maximize their personal brands. Bradley stated "Unless America knows you on a first-name basis like Zion [Williamson] or Kyrie [Irving], fan affinity and networking opportunity peaks in college, [so], it's crucial for athletes to understand and maximize their brands from day one."[51]

Going back to Lincoln, Nebraska and its Ready Now Program as a prime example, the top student-athlete per sport by estimated potential annual earnings just through social media branding may surprise you.

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Of the top eight (8) student-athletes, four are men (1st, 3rd, 5th, and 7th) and four are women (2nd, 4th, 6th, and 8th). Adrian Martinez, starting quarterback of the Nebraska football team, has the first spot with 79,531 total Twitter/Instagram followers, an average earning of $1,501 per post, and $153,147 in potential annual earnings. Lexi Sun of the Nebraska women's volleyball team is second with 70,857 total Twitter/Instagram followers, an average earning of $1,160 per post, and $39,438 in potential annual earnings. Comparing Martinez and Sun with the seventh and eighth spots, respectively, Alex Thomsen of the Nebraska wrestling team has 14,808 total followers, $207 per post average earning, and $1,859 potential annual earnings; and Emma Worley of the Nebraska women's tennis team has 1,992 total followers, $56 per post average earning, and $1,124 potential annual earnings. All of these projections are based on potential deals done at the professional level, in which football players generate significantly more promoting opportunities than volleyball players when comparing Martinez with Sun. [52]

Nonetheless, student-athletes on the women's volleyball, women's basketball, baseball, track and field, wrestling, and women's tennis teams, or simply the non-revenue-generating sports, still stand to make four (4) to five (5) figures on NIL deals when focused solely on social media platforms. It is worth noting that Olympic athletes, given their amateur status, are awarded roughly $37,500 per gold medal, $22,500 per silver medal, and $15,000 per bronze medal from the United States Olympic Committee (USOC).[53] Besides football and men's basketball players, NIL deals will simply create a larger pool of potential Olympic sport student-athletes to endorse brands interested in reaching more of its target audience, and inevitably lead to compensation numbers similar to the USOC over the course of their collegiate careers.

## Conclusion

Did you know that per a recent study by the NCPA, more than eighty percent (80%) of student-athletes on full scholarships are left below the poverty line?[54] On the flip side, in 2016, the NCAA negotiated an eight (8)-year extension through 2032 of its media contract for the broadcasting rights to March Madness, the annual Division I men's basketball tournament. The NCAA stands to receive $1.1 billion per year, an annual increase of over $325 million from the prior contract, just from March Madness.[55] Let those figures sink in.

The NCAA's chief purpose is supposed to "create a safe, and equitable environment that allows student-athletes to reach their full potential in academics, athletics, and life, … united around one goal: creating opportunities for college athletes." Consider that with the fact that it has spent millions upon millions of dollars pursuing various legal avenues to avoid giving student-athletes one (1) cent all while lobbying Congress, the NCAA and the Power 5 have unjustly enriched themselves and their for-profit business partners.

Enter NIL legislation. But what about Title IX implications? Title IX does not apply to NIL compensation paid by third-parties. Why? The NCAA lacks jurisdiction as a private entity to regulate agents or third-parties in general directly, so any penalties it tries to impose for rule violations fall disproportionality on student-athletes based on archaic legislation and outdated rules before its recent Final Report acknowledging the modern, new media landscape.

Let's not wait for the NCAA to prolong various legal battles while waiting for Congress and/or SCOTUS to bail them out. Jay Bilas puts it pretty simply that even the NCAA can follow without applying an unconscionable, antiquated rule: allow student-athletes the same economic rights as every other student with zero restrictions on what they can earn or accept.[56]

If it deems that school officials cannot be involved in recruiting, then let restrictions be set at the university level for its own employees. And "overzealous" boosters are not "overzealous" when donating

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money to the schools or its employees, so student-athletes should earn or accept compensation without the NCAA's opinion in the matter. Recruiting battles have long existed over school history and tradition, playing time, and "professional" opportunities, so why not add NIL valuations to that list in 2020? Allow the proper guidance of both an attorney on behalf of the university's compliance department, and a private attorney and/or registered agent that the student-athlete may choose on his or her own review NIL deals so the student-athletes are legally protected, and the schools can determine whether they wish to allow the use of its brand or mark in any such deal involving that student-athlete, including group licensing.[57] Even if a portion of the monies accumulated from NIL is temporarily held in trust until (1) graduation, (2) the student-athlete turns professional, or (3) the option to access such funds in emergency situations is exercised so long as he or she is a full-time student in good standing, a sum of these earned funds will be set aside for their future reserves.

Today, if student-athletes can sign waivers to participate in their respective sports, all while the rest of their classmates are not on campus doing distance/virtual learning with the ability to make money from their own social media "influencer" activity, then those same student-athletes should be allowed to sign their own NIL deals. Of course, we do not know exactly how much student-athletes will be able to truly make for their NIL, especially in such an uncertain economy with the continued global pandemic. Yet, from sponsorships with local businesses, to appearance fees for autograph sessions, to social media influencer marketing, all provide a wide reach and potentially immediate fiscal return. Come on, NCAA. No more delay of game. Be a team player and play ball.

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# Litigation & Industry Updates

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## Atlantic Recording Corp. Spinrilla, LLC – A Win for the Labels

Jeffery Dylan Copeland, founder of Spinrilla, a streaming and downloading service for hip-hop music, was sued by several major record labels after they allegedly failed to remove infringing sound recordings from their website and related Apple and Android applications.

Spinrilla began in 2013 as an online music service but quickly grew to nearly 20 million registered users and 1.5 million daily users, with nearly 1.4 million songs available for download and streaming by 2017. Hip-hop DJs setup "artist accounts" in order to upload their respective music to the site. However, in early 2015, several labels took notice of unlicensed music on the site and began sending Sprinrilla notices of copyright infringement. In fact, from 2015 to 2017, Spinrilla had received 59 takedown notices demanding that over 400 sound recordings be removed from Spinrilla's website and related applications.

Spinrilla's policy on repeat copyright infringers was first provided in its Terms of Service in 2017 and provided that user accounts would be terminated. Spinrilla also designated its Digital Millennium Copyright Act (DMCA) agent with the U.S. Copyright Office around the same time it modified its Terms of Service to address repeat infringers. However, all of these steps occurred after Plaintiffs filed suit against them.

Although Spinrilla maintained that it removed any infringing sound recordings following the labels' notices of copyright infringement, Plaintiffs argued Defendants failed to remove them all and identified specific instances in support. Specifically, Plaintiffs alleged that Spinrilla infringed on over 4,000 sound recordings and further alleged that Spinrilla and Copeland were directly liable for copyright infringement, as streaming the songs amounted to "public performances", which were an exclusive right of the copyright holders. Namely, Plaintiffs argument centered on the DMCA's exclusive right to publicly perform sound recordings by means of a digital audio transmission, which includes the right to transmit or otherwise communicate a performance to the public, by means of any device, whether those receiving it are in the same or separate places at the same or different times.

There was no dispute that the 4,000 sound recordings in question were in fact uploaded and streamed, but Spinrilla argued it had no liability for those songs given its customers had engaged in the infringing activity, and not Spinrilla itself. In support of its position, Spinrilla relied on a number of cases that provided Internet Service Providers (ISPs) with insulation from copyright infringement liability. Determining who was liable for streaming music online, Spinrilla or its users, became the central issue for the Court.

To support its position that Spinrilla itself was liable, the Plaintiffs looked to *ABC v. Aereo* and similar case precedent that established that an ISP communicates images and sounds to the user by means of a device or process, and transmits the images or sounds when the communication is contemporaneous

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with the images or sounds that are either visible or audible on the end user's device. 573 U.S. 431 (2014). Applying this same logic and case law, the Court concluded Spinrilla was directly liable for copyright infringement.

Copeland and Spinrilla moved for summary judgment arguing the DMCA's "safe harbors" provision insulated them from liability. However, those protections are only afforded to ISPs when very specific conditions are met. Namely, they must not have had knowledge of infringing activity or at least must have acted quickly to remove or disable that content upon notification by the copyright holder. Moreover, ISPs are required to have designated registered agents for receiving these notices and not only list them on their website, but also register them with the U.S. Copyright Office. Additionally, ISPs must create and communicate its repeat infringer policy to its users and execute it accordingly.

Because Spinrilla's steps to comply with the DMCA's safe harbor provision came in 2017, after plaintiffs filed the present lawsuit, the Court found that Defendants could not take advantage of the DMCA safe harbors for any infringing activity pre-dating that time. The Court further condluded that there was no need to determine application of the safe harbors after July 2017 since the 4000+ works at issue did not include any sound recordings that Plaintiffs identified as involving repeat infringement. In so concluding, it appears the Court determined that lack of compliance with the repeat infringer policy only disqualifies that ISP from the safe harbors as to such infringements involving repeat infringers.

After ruling in favor of the Plaintiffs on Defendants' safe harbor defense, the Court ordered the parties try the case to determine appropriate damages.

### Equal Pay Claims Out in Women's Soccer Suit

Sports associations with both professional men's and women's teams have a unique challenge, how to equitably structure compensation between the two teams. In the world of international soccer, the men's and women's national teams each are governed by separate collective bargaining agreements with United States Soccer Federation (U.S. Soccer), the sport's governing body. Members of the United States Women's National Soccer Team (USWNT) coming off their 2019 World Cup victory believe that their suit alleging violations of the Equal Pay Act and Title VII of the Civil Rights Act is an attempt level the playing field between them and their male counterparts. Members of the team sought $66 million in compensatory damages that members of the team claimed would have been paid to them under a system similar to the male team's compensation structure. A federal district court dashed the team's hopes when it granted in part U.S. Soccer's motion for summary throwing out the equal pay claims, but the court allowed claims focused on inferior travel and support services to survive. *Morgan v. United States Soccer Fed'n, Inc.*, 455 F. Supp 3d 635 (C.D. Cal. 2020).

The court focused on the rate of pay rather than total or potential compensation and examined the terms set forth in each team's independently negotiated collective bargaining agreement. By comparing the two teams during the period covered in the suit, the women's team played 111 games and was compensated $24.5 million averaging $220,747 per game. *Id.* at 654. The men's team played 87 games and was compensated $18.5 million, averaging only $212,639 per game approximately. *Id.* This women's team was paid $8,000 more on a per-game basis. These calculations suggest that the women were paid a rate of pay that was similar if not greater than their male counterparts. Next, the court addressed the argument that if the women's team would have been paid under the same compensation structure the team would have been paid sustainably more. The court focused on the history of negotiations between the parties highlighting that the women's team rejected an offer to be paid under the same pay-to-play structure as the men, and instead requested to forgo higher potential bonuses for different contractual benefits such as greater base compensation. *Id.* at 655. The court did not think it should be allowable for the USWNT to

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alter the CBA retroactively to have the most optimal outcome.

The issue of disparity in compensation between women's and men's professional sports teams will continue to be highlighted as societal views of equality and justice continue to evolve, particularly in sports and entertainment. This case presented some insight into how future courts will analyze and address the issue, specifically when both teams fall under a common organization. The trial on the issues of travel accommodations and support services have been delayed until a later date due to the COVID-19 pandemic. This case could be the first step in ensuring equality for professional athletes.

### Antitrust and Forced Arbitration in International Matches

The ability of independent organizers to hold, promote, and profit from international soccer matches is subject to a web of complex agreements involving both the international and national soccer organizations. Relevent Sports, a soccer promotion company based out of Miami, Florida, alleged that U.S. Soccer has unlawfully conspired with FIFA and other member organizations to punish clubs and players that participate in matches in the United States that have not been approved by U.S. Soccer. To host a match outside of a team's home territory a promoter must obtain approval from: each team's national association(s); (b) each team's regional confederation(s); and (c) the host country's regional confederation. *Relevent Sports, LLC v. United States Soccer Fed'n, Inc.*, No. 19-CV-8359 (VEC), 2020 WL 4194962, at *1 (S.D.N.Y. July 20, 2020). Matches will also only be approved if the organizer uses a FIFA licensed match agent. *Id.* at *2. Relevent sports argued that this agreement is an anti-competitive measure to protect and benefit U.S. Soccer's marketing partner, and prevents fans from seeing their favorite international teams compete in the United States. In both 2018 and 2019, Relevent tried to organize matches between international teams to be played in the United States. *Id.* Acting through its agent, Relevent applied for U.S. Soccer's approval, and the application was denied. U.S. Soccer cited a FIFA rule that requires "exceptional circumstances" to host an event outside a team's territory. Relevent without U.S. Soccer's approval was unable to hold the match as planned. *Id.*

U.S. Soccer filed a motion to compel arbitration or in the alternative, dismiss the suit entirely. The district court granted the motion in part and denied the motion in part. *Id.* at *1. The court held that the plaintiff is bound by the arbitration agreement with respect to the tortious interference claim. However, the court disagreed that FIFA was the appropriate venue to address the antitrust claims, and denied the motion to compel arbitration for that portion of the claim. *Id.* at *9. The court also required Relevent to file an amended complaint in the antitrust matter with more substantial factual allegations, which it filed in September. The plaintiff also released a letter sent from the Department of Justice to U.S. Soccer and FIFA stating the department was concerned "that FIFA could violate U.S. antitrust laws by restricting the territory in which teams can play league games." Victoria Graham, *FIFA, U.S. Soccer's U.S. Match Ban May Violate Antitrust Laws*, Bloomberg Law (Sept. 2, 2020, 12:25 PM), https://www.bloomberglaw.com/product/blaw/document/XBR0L2GK000000 . If the amended complaint is accepted by the court, the results of the antitrust claims have the potential to fundamentally alter the ability of international organizations to set requirements on holding events in the United States.

### Kanye's 'Servitude' Claim Against EMI: A Reminder that Governing Law Really Does Matter

While many artists live and work in California, record labels and publishers apply New York law to artists' contracts in order to avoid certain California laws. One law in particular is California's personal servitude statute. The California statute prohibits a label from enforcing obligations under a personal service contract for more than seven calendar years. Cal. Lab. Code § 2855(a). This law is clearly favorable to artists in allowing them flexibility and freedom to renegotiate contracts or even change record labels. Kanye West brought this issue to light in a suit he filed against EMI Records.

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West sued his record label and publisher, EMI, in 2019. West stated he was in a contract of "Servitude" and "Slavery." The California Labor Code section 2855(a) states the only relevant fact is whether the contract services began more than seven calendar years earlier. West argued that after seven years, the one who renders a personal service contract is entitled to a "moment of freedom" to decide whether they'd like to continue working for the same employer. West Compl. 1:22. With this in mind, he noted his contract's seven-year period ended on October 1, 2010. This suit was filed in 2019, with West and EMI continuing to operate under the same contract, as amended and extended various times.

West further claimed the California courts had proper subject matter jurisdiction because West was a resident of Los Angeles, EMI maintained an office and did business within Los Angeles, and the wrongful acts by EMI occurred in Los Angeles. West Compl. 2:10-15.

EMI filed countersuit in New York, claiming West chose to enter into an extensively negotiated co-publishing agreement with EMI in 2003. Modifications and options were agreed to in 2004, 2005, 2006, 2009, 2011, 2012, and 2014. In all of these modifications, West agreed to be subjected exclusively to New York forum selection and New York choice of law. EMI Compl. 1. EMI rebutted West's attempt to forum shop by reiterating the New York clauses. These clauses state EMI was entitled to a declaratory judgment because § 2855, the sole basis that West relies upon in his California Action, does not apply to the agreement because New York law, not California law, governs the agreement.

To fully appreciate why the choice of law is so important, let's rewind to the 1944 landmark decision in De Havilland v. Warner Bros. Here, actress Olivia de Havilland contracted with Warner to a one-year agreement with six options to renew by the studio. De Havilland wanted more creative freedom, and so she attempted to terminate her contract after seven years. Warner argued it had the right to extend the contract due to interruptions caused by several interim De Havilland suspensions for various improprieties. If allowed, the contract would be enforced for well beyond seven years. The Appellate Court ruled in favor of De Havilland based on the common sense interpretation of the California Labor Code section 2855(a) that a studio cannot enforce a personal service contract for longer than seven calendar years. *See De Havilland v. Warner Bros.,* 67 Cal. App. 2d 225, 236 (1944). This statute, which is the basis for West's "moment of freedom" assertion, became known in the industry as The De Havilland Law.

The De Havilland Law became a powerful tool for artists. However, in 1987 the statute was amended to exempt recording artists from the seven-year protection. Cal. Lab. Code § 2855(b). This was to obligate recording artists to produce the agreed upon number of qualified compositions and albums irrespective of the seven-year mark. If an artist wants to terminate a contract, the amendment states the artist must give written notice to its counterparty of intent to terminate the contract. Id. at § 2855(b)(1). The artist would be liable for damages to the record label if the artist had failed to satisfy the contractual production commitment, notwithstanding the seven-year limit. Id. at § 2855(b)(2). This amendment means artists could be tied up well beyond seven years trying to turn out qualified compositions and albums or deal with likely lengthy settlement negotiations to determine the value of the abstract damages arising from this.

Under this amendment, if West had not fulfilled his contractual obligations at the time of filing suit he might have been subject to paying damages agreed upon between the parties. However the California statute could still have been his ticket to freedom if his real objective was to break the contract with EMI. For West to succeed in this argument, he would have had to demonstrate that extension options EMI exercised failed to provide West with a "moment of freedom" mandated by the California statute. Of course, under New York law West had no claim because no servitude statute exists in New York.

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Nevertheless, this suit resulted in West and EMI settling after arduous negotiations. The interests of other recording artists and, for that matter, the recording labels might have been very well served had governing law been litigated. Lacking clarity, both sides will continue dancing around the governing law question for recording artists.

Overall, when new artists and attorneys are negotiating contracts for recording artists, they must be mindful of the governing law. The California Labor Code is a friend of recording artists, and should be fought for when possible.

**BMG Bridges the Gap caused by Controlled Composition Clauses**

BMG has announced it will eliminate Controlled Composition clauses from any new US record contracts. Controlled composition clauses are notorious for reducing the income of songwriters, composers and lyricists. Last year alone, they lost an estimated $14 million through these clauses. For many starving artists, BMG's decisions is extremely good news. For BMG, and the others following, *the times they are a changin'*.

The majority of agreements contain a controlled composition clause providing if the recording artist or producer has written or co-written a song, has ownership or control of a song, or any interest in any composition on the album or single, the mechanical royalty rate payable by the record company for that composition is reduced. Usually, this is reduced to a 75% rate, which is a statutory rate of $0.091 per copy of a composition. In addition, these clauses often include a cap on the number of songs per album that can have mechanical royalty fees; usually 10-12 songs regardless of how many songs are actually on that album.

Composition owners have incurred significant opportunity costs because of these clauses. With this in mind, BMG has decided, effective immediately, it will no longer apply any reductions in new record deals as well as remove these reductions from its catalog over the course of the next year. The purposes behind this movement are to improve fairness in music contracts and to differentiate BMG as a leader and musician-friendly group in the marketplace. The music industry has seen the power pendulum swing too far and this proactive change is a welcomed sign, recognizing and valuing the importance and strength of the actual music and its creators.

BMG states, "the move forms part of its ongoing program to rebalance the music industry in favor of artists and songwriters by abandoning longstanding practices designed to reduce the incomes of musicians." Murray Stassen, BMG Eliminates 'Poisonous' Controlled Composition Clauses From Its US Record Contracts, Music Business Worldwide (October 29, 2020), https://www.musicbusinessworldwide.com/bmg-exterminates-poisonous-controlled-composition-clauses-from-its-us-record-contracts/. This is a noble move by BMG, even if a nudge or two by Taylor Swift and the like contributed to this rebalancing.

BMG's CEO further states that amidst the coronavirus, music companies must support their artists rather than burden them with unfair terms. BMG feels this is the best way to provide support to its artists. In addition, the music business is ever changing. BMG's Ben Katovsky acknowledged the controlled composition deduction is "an anachronism which has no place in the new music business." Id.

Music companies around the globe such as The Ivors Academy, SONA, NMPA, and NSAI support BMG. NSAI's Bart Herbison applauded BMG's move. Id. BMG's elimination of controlled composition clauses is a huge step forward for songwriters, composers and lyricists. Music professionals around the world hope this is the first step of many toward a stronger and fairer industry. The industry seems to have figured out it's time once again to let the music do the talking.

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**Major League Baseball 2020 Season Negotiations—A Follow-Up**

Well, the 2020 baseball season came and went like the excitement of a new school year, and so the offseason is now upon us. That is not to say that the baseball season was not entertaining and exciting in its own right. In fact, in the most 2020-esque fashion, the baseball season almost ended faster than anyone could have been imagined when two Major League Baseball ("MLB") teams experienced coronavirus outbreaks just weeks into the season. MLB Insiders, *Is their season in jeopardy? What the Marlins' coronavirus outbreak means for the team -- and MLB*, ESPN https://www.espn.com/mlb/story/_/id/29547022/what-marlins-coronavirus-outbreak-means-mlb.

However, the season chugged on and the teams completed the full 60-game schedule with very few cancellations. That is not to say controversies regarding player conduct did not occur, such as when Cleveland Indians' players broke Covid-19 protocols, ultimately leading to clubhouse turmoil and one player being shipped across the country to another franchise. Jeff Passan, *Broken curfews, COVID outbreaks and ... bubble ball? Passan on MLB's latest 2020 battles*, ESPN https://www.espn.com/mlb/story/_/id/29679112/broken-curfews-covid-outbreaks-bubble-ball-passan-mlb-latest-2020-battles . Notwithstanding, baseball gave sports fanatics something to look forward to especially as the regular season came to a close and the postseason commenced.

As was described in the previous edition of the *ABA Entertainment and Sports Lawyer*, the negotiations between MLB and the Major League Baseball Players Association ("MLBPA") were very contentious and ultimately led to Commissioner Manfred implementing the 60-game season. This implemented season also included a postseason comprised of the normal 10-team format. See Jeff Passan, *MLBPA, owners clear final hurdles; players set to report to camps July 1*, ESPN https://www.espn.com/mlb/story/_/id/29354014/sources-mlbpa-agrees-report-july-1-discussing-health-safety-protocols. These combative negotiations occurred in the backdrop of future renegotiations regarding a collective bargaining agreement set to expire in the winter of 2021 and the possibility of potential grievances filed by both the MLBA and MLB. As a result, MLB attempted to restore a peaceful relationship by meeting the MLBPA on its earlier demands for an expanded postseason format.

A part of the way through the 2020 baseball season, MLB decided to expand the playoff format to include 16 teams, an original proposal from the MLBPA, and move the site of the playoff contests to several bubble locations. ESPN.com, *MLB's expanded playoffs format for the 2020 postseason*, ESPN https://www.espn.com/mlb/story/_/id/29831991/mlb-expanded-playoffs-format-2020-postseason. The nature of this expanded format was quite unique in that it provided a path for a team that was below .500 to come within one game of reaching the world series—not to mention that this team was also subject to significant controversy for its role in a sign steeling scheme in previous seasons. Even with the peculiar nature of the new format—a format that seemed ripe for upsets—a situation occurred that is quite rare. Not only did the best team in baseball hoist the Commissioner's Trophy as champions, but the best team in each league, both American and National, dueled it out in the World Series.

One may question the reason the Commissioner and MLB felt obligated to expand the postseason. On one hand, MLB recognized the need to generate additional revenue in lieu of the lost revenue from ticket sales and other stadium sales. Tyler Kepner*, M.L.B. Expands Playoffs for 2020 Season,* The New York Times https://www.nytimes.com/2020/07/23/sports/baseball/mlb-playoffs.html. In turn, MLB estimated the expanded format would generate an additional $100 million in revenue, a return that would significantly benefit the many stakeholders. See Barry Bloom, *MLB Playoffs Begin Anew With More Teams, Revenue, and Safety Bubbles*, Sportico https://www.sportico.com/leagues/baseball/2020/mlb-to-start-expanded-playoffs-tuesday-with-increased-revenue-1234613746/.

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Alternatively, the Commissioner may have felt pressure to cool any tensions between MLB and the MLBPA in light of the upcoming collective bargaining negotiations and the potential grievances. There is no denying the boiling tension between MLB and the MLBPA due to the quarrels regarding the implementation of the 2020 baseball season. Both sides were worried these spats would carry over into the offseason, whether it be in the form of grievances filed by both sides arguing bad faith negotiations and violations of the original agreement between MLB and the MLBPA for the 2020 season or in the form of combative collective bargaining negotiations.

Whatever the reason for the expanded postseason, the outcome appears to be a success for all those involved. At the time being, there seems to be a sense that MLB and MLBPA are on good terms as the offseason begins. However, I do not think this means either party will forget how the 2020 baseball season negotiations were handled just a short time ago.

**Name, Image, Likeness Bill Introduced in Congress—Another One?**

The hottest debate in all of college sports is whether student-athletes should be paid for their "services." Originally, the argument for why student-athletes should be compensated took the form of an employer/employee relationship. These arguments went far and even included attempts by players to unionize. Ultimately, the issue of whether student-athletes can be considered employees reached the courts and not long thereafter the cause shifted. Now, the main arguments relate to compensation for use of the name, image, and likeness (NILs) of student-athletes—an argument that is not new or novel but has gained significant force over the years.

The first time this concept really hit a national level was when multiple federal appellate court cases determined that a college football video game was subject to a right of publicity claim by student-athletes. *See Hart v. Elec. Arts, Inc.*, 717 F.3d 141 (3d Cir. 2013); *Keller v. Elec. Arts Inc.*, 724 F.3d 1268 (9th Cir. 2013). More recently, the debate on whether student-athletes should be paid for use of their NILs hit a turning point when California became the first state to develop a legislative effort to recognize a student's right to be compensated for the use of his or her NILs. *See* Cal. Educ. Code § 67456. Soon after, several states followed suit and the National Collegiate Athletic Association ("NCAA") Board of Governors showed support for rule changes that would allow student-athletes to be compensated for their NILs while still maintaining their amateurism.

As the movement within states and the NCAA itself continued, the federal legislature recognized an opportunity to proactively approach this challenge and develop a uniform system. There have been several federal legislative proposals regarding NIL bills and even an attempt to establish a "College Athlete Bill of Rights." Most recently, Rep. Anthony Gonzalez (R-Ohio) and Rep. Emanuel Cleaver (D-Mo.) have orchestrated a bipartisan effort to draft a NIL bill and to subsequently introduce the piece of legislation. Dan Murphy, *Bipartisan federal NIL bill introduced for college sports*, ESPN https://www.espn.com/college-sports/story/_/id/29961059/bipartisan-federal-nil-bill-introduced-college-sports.

The bill itself is a huge step toward providing student-athletes the flexibility to earn compensation from a variety of endorsement deals. In fact, the bill, even though it provides for federal preemption and certain restrictions regarding what products or companies a student-athlete may endorse, neglects to implement several of the restrictions the NCAA and college administrators have asked to be imposed on any NIL bill. In turn, this bill is more student-athlete friendly than any other piece of federal legislation previously introduced, although it does provide that schools can prohibit the student-athlete from wearing endorsement gear during games or at university sponsored events and that universities themselves should not directly compensate the student-athletes for the use of their NILs. Ross Dellenger, *Bipartisan Name, Image, Likeness Bill Focused on Endorsements Introduced to Congress*, Sports Illustrated https://www.

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si.com/college/2020/09/24/name-image-likeness-bill-congress-endorsements.

Additionally, the bill makes a conscious effort to preserve the student-athlete's right to sign endorsement deals with competitors of companies that sponsor their school. This is important because it keeps the marketplace open for student-athletes to exploit, as opposed to allowing a situation in which schools could dry up the entire market.

One of the key components of this bill is the creation of a 13-member commission that would provide recommendations for how the law could be developed to respond to changes in collegiate athletics. This commission will consist of current or former student-athletes, coaches, athletic directors, conference administrators, sports marketing experts and corporate governance experts. Congress will appoint 12 of the members and those members will select the 13th member whom will also act as the leader of the commission.

The bill also allocates oversight and enforcement of the NIL law to the Federal Trade Commission. In this respect, the key issue is that there is no guidance on how the FTC is to distinguish between an endorsement deal and mere payments for the recruit disguised as an endorsement deal. The drafters did not believe they could legislate fair market value on endorsement deals, but instead trust that the market will work itself out overtime. Further, these are the types of issues the aforementioned 13-member commission will opine on.

Whether or not this bill is passed into law is still to be seen. There appears to be several other bills that have been introduced or are currently being drafted, including a potential NIL bill presented by the NCAA. Further, there is a divide on how far any federal NIL bill should go with some viewing the issue as one that should be addressed by state legislators and others believing any federal legislation needs to expand beyond NIL. Even though many in the industry believe that any federal bill will not pass until well into 2021, there is sort of a de facto deadline in that some state NIL statutes, such as in Florida, are set to take effect in the summer of 2021. This leaves little answered in the world of student-athlete NIL bills at the moment, but one thing is certain: college sports, and the NCAA as a whole, are in for one wild ride in 2021.

### The Politics of Music Use for Campaigns

Since America's founding, music has been an important aspect of political campaigns, beginning with the creation of a parody of "God Save the King," on behalf of George Washington called "God Save Great Washington." Politicians use music as an avenue to relate to and convey their values to their target audiences while energizing the crowd at their campaign stops. Today, politicians are frequently under fire for using popular songs as part of their campaigns. Musicians take to Twitter, and other social media sites to express their disapproval of being associated with a specific politician or party, especially if the artist's political values do not align. In 2008, Sam Moore asked Barack Obama to stop playing "Hold On, I'm Comin'" at his rallies where the audience would replace the words with "Hold on, Obama's comin'." Moore explained that his vote is a private matter and that he had not endorsed Obama. Most recently, Tom Petty's family issued an official cease and desist notice to the Trump Campaign for using "I Won't Back Down," indicating that Donald Trump was not authorized to use this song to "further a campaign that leaves too many Americans and common sense behind." Although this may result in positive publicity for the artist, it can also turn into negative publicity for the politician.

But how does a politician obtain authorization to use a song for their campaign and avoid a public reprimand from the musician? It appears that the only way a politician can guarantee she will not be threatened with a lawsuit is if the campaign obtains permission directly from the artist or the artist's

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estate, even if the candidate has already fulfilled the necessary legal requirements for using the music. Under the Copyright Act, the owner of a creative work has the exclusive right to publicly perform that work. Thus, in order to legally exploit another's copyrighted work, the user must obtain licenses to ensure that everyone who contributed to the creation is paid for its use. To publicly play an original pre-recorded song, the campaign must obtain a public performance license, mechanical license for the use of the composition, and master license for the use of the recording. If the candidate wants to use the song for a campaign commercial that will be aired on television or the internet, the candidate must obtain a synchronization (sync) license from the copyright holder in place of a mechanical license. A sync license is necessary whenever one combines any visual work with music. Most large arenas and convention centers have blanket performance licenses with at least one performing rights organization (PRO). This allows the entire catalogue of the PRO to be played at the venue without the venue having to negotiate directly with each individual publisher or artist for the performance of his or her song. However, PROs like ASCAP and BMI exclude music used during conventions, expositions, and campaign events from their blanket licenses and require that the campaign itself obtain a public performance license. This license extends until the candidate is sworn into office and covers every campaign stop along the way. Additionally, if an ASCAP or BMI artist do not want his creations associated with any political party, the artist can request to withhold the use of his music at any political event.

Even after then-candidate Donald Trump played "Rolling in the Deep" and "Skyfall" at one of his 2016 rallies in New Hampshire and obtained the appropriate licenses, a spokesperson for Adele publicly stated that Adele did not give permission for her music to be used "for any political campaigning." Although Trump may not have violated Adele's rights under copyright law, it is still possible to be sued by an artist under the Lanham Act, which was created to cover trademark infringements, for right of publicity, and for unfair trade practices. A trademark is a word, symbol, or phrase, while a publicity right is an individual's image and likeness. Thus, if an artist attempted to sue a politician for using his song, the artist would argue that the politician's use of the musician's name, as tied to the song and thus the campaign, would cause dilution or confusion of the artist's mark. Further, the musician could assert that under the right of publicity, the artist has not consented to his image or likeness being associated with a political campaign. Lastly, the artist could declare that the politician's use of his song led to a false endorsement of the candidate by the artist. In Adele's case, the statement revoking permission of use of her songs may prevent future use of her music by campaigns due to BMI's allowance of artists to opt out of the blanket political license. However, it is unlikely that Adele would have much footing to pursue legal action against the President for any use prior to her public statement. Additionally, it is improbable that merely playing a song at a campaign would indicate an endorsement of the politician by the artist. Adele's public statement that she did not grant the Trump Campaign permission to use her music expressly indicated to a reasonable person that she in fact did not endorse the candidate through permitting the use of the songs.

In the end, if a campaign wants to ensure that it will avoid all legal action for the use of an artist's music at a political event, it is not enough for the candidate to merely obtain the required licenses; the campaign must acquire approval from every artist for every song that it seeks to feature. This current necessity contradicts a key purpose of blanket licenses and PROs, which were created to reduce the transaction costs of negotiating personally with every artist for the use of their songs. Further, federal consent decrees bar PROs from discriminating between similarly situated licensees and if there appears to be a pattern of music being denied only to a specific political party, the PROs may be subject to litigation themselves. While it is understandable that musicians may not want to be tied to polarizing political views, this unspoken policy is not sustainable in the long run. It is possible, as well as probable, that if the pattern of threatening legal action continues, artists will end up losing out on licensing fees and publicity from events that draw hundreds to thousands of people as campaigns turn to more available alternatives such as creating their own music specifically for these events. This is the future that the music industry must

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consider in its pursuit of this new permission-focused methodology.

### #SaveOurStages: Small Venues Suffer Amid the Economic Shutdown

As COVID-19 swept across the globe, countries took swift action in order to quell the effects of the virus. In the United States, legislation was quickly passed that offered relief to small businesses spanning several industries as many were forced to close with no timeline on when they would be able to reopen. Now, in the second half of 2020, as many states have initiated reopening strategies to send employees back to work and consumers back into the market, one industry in particular has remained shut off from these plans. The independent venues that lend their stage to your local theatre group, your best friend's high school cover band, or your favorite comedy show, have to face the devastating reality that they will be the last to open their doors. These independent venues are the launch pad for globally successful artists like Taylor Swift, Luke Combs, and Willie Nelson, who all began their careers singing on small stages. The venues that host these up and coming entertainers foster a city's culture while promoting the next generation of artists. In addition to the value they bring to the arts community, independent venues generate revenue for neighboring businesses. A Chicago impact report estimated that for every $1 spent on a ticket, a total of $12 in economic activity was generated. The estimated direct annual economic impact these small venues bring to their local communities is almost $10 billion. However, due to the necessity of maintaining close proximity between audience members and between those on stage, venues are included only in the last stages of most states' reopening plans. This puts them on track to reopen in 2021 or until there is a vaccine.

The unique differences that small independent venues share compared to other types of small businesses amplify the effects of the economic shutdown. Not only are venues unable to generate revenue during the closure, but they also must refund previous ticket revenue from cancelled shows. Secondly, due to the national routing of most tours, this industry is unlikely to recover until the country as a whole has opened to one-hundred percent capacity. Further, most venues are unable to open at partial capacity since rents, utilities, payroll, taxes, insurance and artist pay are not available on a sliding scale to reflect the volume the venue is allowed to host. Thus, most small venues would lose more money by reopening at a reduced capacity than they would by remaining completely closed. Because these small businesses were the first to shut down at the start of the pandemic, many have already permanently closed, while others are struggling to manage their fixed costs with no income stream.

In order to properly address the different circumstances that venues face and "to fight for the survival of independent venues, their employees, artists, fans and their communities" the National Independent Venue Association (NIVA) was created on April 17, 2020. The group debuted with over 450 members from 43 states, and now boasts more than 2,000 members in all 50 states including the 9:30 Club in D.C., First Avenue in Minneapolis, Chicago Independent Venue League, World Café Live in Philadelphia, Pabst Theater Group in Milwaukee, Red River Cultural District in Austin, and Exit/In in Nashville. Over 600 artists are supporting NIVA's request for federal relief from Congress under the hashtag #SaveOurStages. Artists such as Mavis Staples, Joni Mitchell, Kacey Musgraves, Coldplay, Willie Nelson, Billie Ellish, Miranda Lambert, Wyclef Jean, Bon Iver, Tiffany Haddish, and Jeff Foxworthy have joined a letter asking Congress to honor NIVA's request for financial assistance and to remind Congress that "[e]ntertainment is America's largest economic export, with songs written and produced by American artists sung in every place on the globe." Many of the signees are artists who started their careers performing in small venues.

There are three main pieces of legislation currently proposed in Congress that NIVA supports for providing the necessary relief to small venues for the remainder of the economic shutdown. First, the RESTART Act (S. 3814) led by Senators Todd Young (R-IN) and Michael Bennet (D-CO) and (H.R. 7481) led by Representatives Michael Kelly and Jared Golden. The RESTART Act finances the equivalent of six

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months' worth of payroll, benefits and fixed operating costs, allows for flexible use of loan proceeds and loan forgiveness with no minimums on the percentage dedicated to any one expense. It expands eligibility to ensure access for small businesses that have many part-time employees, allows up to 90% loan forgiveness for businesses with fewer than 500 Full Time Equivalent Employees (FTEs) and high revenue loss, and implements a 7-year payback schedule wherein principal payments are not required for two years and interest payments are not due for the first 12 months.

Second, the Save Our Stages Act (S. 4258) is led by Senators John Cornyn (R-TX) and Amy Klobuchar (D-MN) and (H.R. 7806) led by Representatives Peter Welch (D-VT) and Roger Williams (R-TX). This bill establishes a $10 billion grant program for live venue operators, promoters, producers and talent representatives. Eligible recipients must have fewer than 500 FTEs, not be publicly traded companies, and not own or operate venues in more than 1 country or more than 10 states. Each recipient is eligible for a grant no greater than 45% of gross revenue from 2019 or $12 million, whichever is less. Grant funding may be used for expenses incurred between March 1, 2020 and ending on December 31, 2020. A recipient is eligible for a supplemental grant equal to 50% of the initial grant if the entity is still experiencing 80% or greater revenue loss on December 1, 2020. Grant funding may be used for payroll and benefits, rent, utilities, mortgage interest payments, interest payments, insurance, PPE, existing loans, payments to 1099 employees, and other ordinary and necessary business expenses.

Lastly, NIVA supports the Entertainment New Credit Opportunity for Relief & Economic Sustainability (ENCORES) Act (H.R. 7735) introduced by Representatives Ron Kind (D-WI) and Mike Kelly (R-PA). This bill will provide a tax credit for 50% of the value for refunded tickets to businesses with up to 500 full-time equivalent employees that promote, produce, or manage live concerts, comedy shows, non-professional sporting events, and live theatrical productions.

Although the passage of any one of these bills may provide small venues with enough funding to temporarily cover their immediate fixed costs, there is no government legislation that can fully substitute or replicate the value of an active venue in a community. While venues are closed, local artists do not have the ability to hone their craft in front of a live audience and neighboring small businesses are losing out on the additional revenue that venues generate by hosting a live performance. Patrons attend shows to experience things that money cannot buy—wonder, laughter, euphoria, and all of the emotions that arise from relating to another human being. The actual work of running a small venue that provides a stage for another individual to share their art has moral value in itself. These costs cannot be quantified, but they are still present. When considering appropriate relief bills and when to reopen small venues, Congress and local governments must consider both the monetary and non-monetary costs to their decisions. For more information on NIVA and how to support small venues, visit http://www.nivassoc.org.

### DMCA Safe Harbor in Danger

Copyright law is an ever-developing subject matter, especially as technology continues to advance, as it seems, exponentially. One of the major progressions in this area of law was the creation of the Digital Millennium Copyright Act in 1998 (referred to herein as the "DMCA"). The intention of the DMCA was to limit copyright infringement liability for online service providers ("OSPs") in certain circumstances.

The most crucial aspect of the DMCA was the establishment of the safe harbor provisions in Section 512. Under the DMCA safe harbor provisions, OSPs are protected from monetary damages and copyright liability for the infringing activities of their users if the OSP meets certain requirements set out in the Copyright Act. 17 U.S.C. § 512. Of note, the DMCA safe harbor provisions provide that the copyright owner may demand removal of the infringing content from the OSP by filing a takedown notice. *Id.* at § 512(c)(3). The OSP must then respond and typically remove the allegedly infringing material. *Id.* at §§

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512(b)(2)(E), (c)(1)(C), (d)(3), (g).

This copyright liability safe harbor has been one of the key contributors to the growth and expansion of OSPs and has, in turn, allowed the Internet to act as a conduit for creativity and innovation. On the other hand, copyright owners and many other parties in the entertainment industry have found that the whole notice and takedown procedure has, in effect, generated a type of "Whack-A-Mole" where infringing material continues to resurface after the initial takedown.

The issues with Section 512 of the DMCA are nothing new to those actively involved with protecting copyrights. These safe harbor provisions have been the cause of significant controversy since they were adopted in 2000 and have been the focus of many court decisions in the last two decades. To say the least, the Copyright Office recognized that "the operation of copyright liability in the online environment has tremendous legal, social, economic, and technological implications." U.S. Copyright Office, *Section 512 of Title 17: A Report of the Registrar of Copyrights* (May, 2020). It should come as no surprise to anyone in the legal industry that the effectiveness of the DMCA and the controversies surrounding the safe harbor provisions have come under extreme scrutiny.

With the evolving nature and growth of both technology and copyright law, the Copyright Office conducted an extensive study spanning several years and concerning, among other aspects of copyright law, the DMCA. The intention of this study was to "assist Congress with evaluating ways to update the Copyright Act for the 21st century." *Id.*

Included in this study was a comprehensive analysis of Section 512 of the DMCA, the safe harbor provisions. The study culminated with the construction of a 198-page Report created by the Copyright Office highlighting its conclusion regarding the current landscape of the DMCA safe harbor provisions: Congress's intended balancing act of "providing important legal certainty for OSPs" in order to help the Internet prosper while still "protecting the legitimate interests of authors and other rights holders" against infringement "has been tilted askew." *Id.*

The study conducted by the Copyright Office was quite encompassing and as the Report's Executive Summary states, the study "resulted in two notices of inquiry, tens of thousands of written responses, nine empirical studies, and public roundtables in New York, San Francisco, and Washington, DC." *Id.* Essentially, the Copyright Office wanted to hear from the different parties affected by the DMCA safe harbor provisions and whether those parties believed the safe harbor provisions effectively balanced the interests of OSPs and rights holders.

In conducting the study, the Copyright Right office did not lose sight of the guiding principles for both copyright law and the DMCA. These principles include: (1) creating meaningful online protection for rights holders against infringement; (2) providing legal certainty and protection for many OSPs that act in good faith so as to benefit the many OSP stakeholders, including society as a whole; (3) incorporating balanced legislation along with motivation for OSPs and rights holders to cooperate in the online market; (4) understanding that solutions are limited due to the inaccessibility of the data used in the operation of the safe harbor provisions; and, (5) development of a policy that balances the different interests among those involved in the entertainment industry. *Id.*

With these guiding principles at the forefront, the Copyright Office examined the judicial interpretations of the safe harbor provisions and subsequently made recommendations regarding numerous areas of the DMCA. Specifically, the Copyright Office recognized several different areas where the current safe harbor provisions do not align with Congress's initial intent to balance the interests of both OSPs and

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rights holders. These areas include OSP eligibility requirements, repeat infringer policies, knowledge requirements for OSPs, takedown notices and knowing misrepresentation, standard and non-standard takedown notice requirements, time frames, subpoenas, and injunctions. *Id*. The Copyright Office makes further recommendations regarding non-statutory and alternative stakeholder proposals.

The Copyright Office clarified that the objective of the Report was not to propose any extensive changes to the DMCA or safe harbor provisions. Instead, the recommendations are merely directing Congress's attention to reexamine certain areas where Congress may want to "fine-tune" the operation of the DMCA and safe harbor provisions so as to coincide with Congress's intention of balancing the competing interests. Further, the Copyright Office explicitly rejected making any recommendations to reevaluate the proper balance of interests in the modern environment or to develop measures beyond the current safe harbor provisions, and instead left those decisions to Congress.

Although the Copyright Office does not suggest any wholesale changes, the study and corresponding Report may shake up the online environment as it stands today. Rights holders may view this study and Report as a large step in the right direction toward creating the adequate balance between providing legal certainty to OSPs while still protecting rights holders from copyright infringement. Alternatively, OSPs will be concerned that they will lose some of the protections that have developed and which have helped advance the Internet and creative innovation. Irrespective of a party's position on the pendulum, this study and Report will create some noise on Capitol Hill and spark lobbying efforts, along with a close examination by Congress.

## Reclaiming Rights

The dynamic nature of copyright law as applied to the music and broader entertainment industries has created consistent controversy. Notably, the music industry has always pondered whether a sound recording could be classified as a "work made for hire," or whether the rights to a sound recording are administered pursuant to an assignment. The distinction is of extreme importance because of termination rights provided by Section 203 of the Copyright Act.

Several musicians have recently filed a lawsuit against UMG Recordings ("UMG") claiming the record label giant "routinely and systematically" refuses to honor termination notices. *Waite v. Umg Recordings, Inc.*, No. 19-cv-1091 (LAK), 2020 U.S. Dist. LEXIS 56198 (S.D.N.Y. Mar. 31, 2020). See also *Johansen v. Sony Music Entm't Inc.*, 2020 U.S. Dist. LEXIS 56675 (S.D.N.Y. Mar. 31, 2020) (A similar lawsuit brought against Sony Music Entertainment earlier this year). See *Johansen v. Sony Music Entm't Inc.*, 2020 U.S. Dist. LEXIS 56675 (S.D.N.Y. Mar. 31, 2020).

In March of this year, the Southern District of New York allowed the suit against UMG to move past the motion to dismiss stage. *Id*. The claims center along two lines: (1) copyright infringement and (2) copyright authorship and ownership, specifically whether the works in question are and, more generally, whether a sound recording can be a work made for hire.

Copyright protection vests when a work is fixed into a tangible medium of expression for more than temporary duration. 17 U.S.C. § 201(a). The author(s) of such a work are provided with copyright ownership and any corresponding rights.

If a work is classified as a work for hire, the legal author who obtains copyright ownership of the work is the employer or party for whom the work is created. *Id*. at § 201(b). A work for hire arises when a work is "prepared by an employee within the scope of his or her employment" or if the parties agree in writing to the work for hire status of the work and the work is "specially ordered or commissioned for use" as

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one of the nine works specifically enumerated in the Copyright Act. *Id*. at § 101.

Copyright law allows the author(s) of a work to transfer copyright ownership and any of the corresponding rights by a conveyance. *Id*. at § 201(d). Notwithstanding, Section 203(a) of the Copyright Act provides an author with the right to terminate any such transfer of rights. These termination rights vest thirty-five (35) years after the original grant of rights. *Id*. at § 203(a)(3). Upon termination, any interest in the work reverts back to the author. However, this termination right does not apply to any work made for hire.

Congress's intent in creating the right of termination in the case of a copyright assignment was to allow artists who generally have little bargaining power in relation to publishers and record labels a "second bite at the apple." Many artists have used the right of termination to reclaim rights to their musical compositions and/or sound recordings and, effectively, renegotiate more favorable royalty and compensation deals. Due to the long wait time (thirty-five (35) years from the original grant of rights), these termination rights have become very powerful and have even reached other areas of entertainment, such as the film industry. See *Horror Inc. v. Miller*, 335 F. Supp. 3d 273 (D. Conn. 2018); *Horror Inc. v. Miller*, appeal pending, No. 18-3123 (argued Feb. 13, 2020).

Recording agreements have long included language that sound recordings are works made for hire. As such, record labels, as alleged in plaintiffs' complaint, have consistently responded to termination notices taking the position that sound recordings are works made for hire, and thus, musicians do not have any right of termination. In *Waite*, UMG made several arguments for dismissal of the lawsuit, including those based on "work made for hire" provisions in recording agreements, statute of limitations, and errors and omissions in the termination notices. No. 19-cv-1091 (LAK) (S.D.N.Y. Mar. 31, 2020).

The court did not feel obligated to resolve at the motion to dismiss stage whether the recording agreements created work for hire status of the sound recordings. The court reached this conclusion because UMG only argued that the work for hire contractual language "is relevant to the question of when the statute of limitations began to run on plaintiffs' claims." *Id*. In turn, the main issue resolved by the court was whether the infringement claim was barred by the three-year statutory period.

UMG argued that the three-year statutory period began to run when the recording agreements were signed because the work for hire language put the musicians on notice of a copyright authorship or ownership dispute, and therefore, the plaintiffs' claims are time barred whether or not the sound recordings are works made for hire. *Id*. After noting that the issue is a close call, the court recognized that copyright authorship is relevant to the plaintiffs' claims, but "the gravamen of plaintiffs' claim is defendant's refusal to recognize their termination rights," not copyright ownership. *Id*.

The court then noted "it is impossible for there to be a legally cognizable infringement claim until a termination right vests, a valid and timely termination notice is sent, is ignored, and the copyright's grantee continues to distribute the work." *Id*. Ultimately, the Southern District of New York held that the plaintiffs' suit is not time barred because finding that the three-year statue of limitations begins to run from the time the recording agreement is entered into would be inconsistent with termination rights and limiting termination rights because of the artist's failure to bring a claim within three years of signing a recording agreement would frustrate Congress's intent in creating the right itself. The court further quickly rejected UMG's argument that errors and omissions in the termination notices render them invalid, although this holding is case specific.

Alternatively, plaintiffs' sought declaratory judgment that sound recordings cannot be considered works

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made for hire under the Copyright Act and relating to issues of breach of contract. The court rejected plaintiffs' claims for declaratory judgment leaving the question of whether a sound recording could be a work made for hire to another day.

The most chilling conclusion the court reached may be related to artist loan-out companies. The court held that a grant of rights may only be terminated if the author executed such a grant. Therefore, "third parties to a contract and loan-out companies, which 'loan' out an artist's services to employers and enter into contracts on behalf of the artist, do not have a termination right under the statute." *Id*. In this light, the court unambiguously stated that the plaintiffs are precluded from "terminating the copyrights granted by third parties." *Id*. This holding may have some serious implications as musicians may have to choose between immediate tax advantages or copyright benefits such as termination rights. Even so, the court avoids any discussion relating to a situation in which an artist terminates a grant of rights to a third party or loan-out company. This newly created issue is also left to another day.

The issues purported in *Waite* have been decades in the making and do not appear to be going anywhere anytime soon. Although the holdings of the Southern District of New York seem to be a major victory for authors as it relates to termination rights, the parties involved will likely push the issues to receive appellate review. How this case will affect the music and entertainment industries is yet to be determined, but the magnitude of the court's holdings will be far from avoidable.

### Social Media Rights—Who Has 'Em?

Social media users have continually been warned to be cautious when posting content on to platforms. The creative community is particularly concerned with what rights, if any, are given to a social media website when a user shares a post. This caution rings especially true when it comes to appropriating images posted on social media accounts. One question has loomed: does posting an image online provide a party with the right to use the image in a different forum? In April of this year, one federal court in New York provided a frightening answer to this question, but has recently balked at its original conclusion.

The issue related to a picture posted on Instagram by professional photographer, Stephanie Sinclair. Sinclair is most prominently known for her work regarding gender and human rights issues around the world. As a professional photographer, she maintains both a public website and Instagram account used to showcase her photographs.

The photograph in question is titled "Child, Bride, Mother/Child Marriage in Guatemala" and was posted by Sinclair to her "public" Instagram account. *Sinclair v. Ziff Davis, LLC*, No. 18-CV-790 (KMW) (S.D.N.Y. Apr. 13, 2020). Mashable, Inc. ("Mashable"), an entertainment and media platform, then contacted Sinclair to obtain a license in order to use the photograph in an article about female photographers that it was publishing and posting to its website. *Id*.

Despite Sinclair rejecting to provide a license for use of the photograph, Mashable went ahead and published the article with the photograph embedded—a process by which a website coder "incorporate[s] content, such as an image, that is located on a third-party's server, into the coder's website." *Id*. Using this technical process of embedding the image, Mashable used the copy of the image Sinclair posted to Instagram in its published article.

It is important to briefly discuss some of Instagram's relevant services. Through a service called "application programming interface" ("API"), Instagram "enable[s] users to access and share content posted by other users whose accounts are set to 'public' mode." *Id*. In light of this service and other Instagram policies, users can embed publicly-posted "Instagram posts in their website." *Id*.

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Additionally, Instagram relies on a Terms of Use agreement signed by users when they create an account on the platform. Of note, these Terms of Use state that, "by posting content to Instagram, the user 'grant[s] to Instagram a non-exclusive, fully paid and royalty-free, transferable, sub-licensable, worldwide license to the Content that you post on or through [Instagram], subject to [Instagram's] Privacy Policy.'" *Id.* Further, users must designate their account as either "private" or "public" when registering with the social media platform. The API service combined with the Terms of Use agreement are very important to the issue in the case and the court's corresponding analysis.

Essentially, Mashable used the API service to embed into its article a copy of the photograph Sinclair posted to her "public" Instagram account. In turn, Sinclair issued a take down demand and subsequently brought a copyright infringement lawsuit against Mashable and the owner of Mashable, Ziff Davis, LLC ("Ziff Davis"), when Mashable refused.

Sinclair advanced numerous arguments, all of which were rejected by the court. First, Sinclair argued that Mashable must obtain a license directly from the copyright owner in order to use the image. *Sinclair*, No. 18-CV-790 (KMW) (S.D.N.Y. Apr. 13, 2020). In other words, Mashable should not have been able to obtain or rely on a sublicense from Instagram for use of the photograph. The court rejected this argument finding that each right, Sinclair's right to license the photograph and Instagram's right to sublicense the photograph, were independent rights. *Id.* Thus, Mashable was within its right to obtain and rely on a sublicense from Instagram.

The court further rejected Sinclair's several other arguments, which included claims that: the court could not take "judicial notice of the meaning of Instagram's agreements and policies because they are complex and subject to different interpretations;" "the agreements between Instagram and Plaintiff cannot confer a right to use the Photograph upon Mashable because Mashable is not an intended beneficiary of any of the agreements;" and, "it is unfair for Instagram to force a professional photographer like Plaintiff [Sinclair] to choose between 'remain[ing] in "private mode" on one of the most popular public photo sharing platforms in the world,' and granting Instagram a right to sublicense her photographs to users like Mashable." *Id.*

Being that Instagram has dominated the photograph and video sharing market, the court recognized the difficulty a user such as Sinclair has when deciding to share photographs on either a "private" or "public" account on Instagram. Even so, the court found that Sinclair made her decision when she posted the photograph to her "public" Instagram account. As such, the court held Sinclair to the agreements she made and granted a motion to dismiss concluding that "because Plaintiff [Sinclair] uploaded the Photograph to Instagram and designated it as 'public,' she agreed to allow Mashable, as Instagram's sublicensee, to embed the Photograph in its website." *Id.*

Although the court had reached such an alarming conclusion, the chills sent through the creative community can rest for now. In June of this year, the same court relied on the opinion of another New York federal court, *McGucken v. Newsweek LLC*, 19-CV-9617, 2020 U.S. Dist. LEXIS 96126, 2020 WL 2836427 (S.D.N.Y. June 1, 2020), and granted Sinclair's motion for reconsideration finding that Sinclair's "copyright claim against Mashable cannot be dismissed on the basis of Mashable's sublicense defense on the record presently before the Court." *Sinclair v. Ziff Davis, LLC*, No. 18-CV-790 (KMW) (S.D.N.Y. June 24, 2020).

The court confirmed part of its original opinion holding that Sinclair, by agreeing to Instagram's Terms of Use, provided Instagram with the power to grant Mashable, an API user, a sublicense to embed the image she posted to her "public" Instagram account. However, the court backtracked from its original holding

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by finding that the "pleadings contain insufficient evidence that Instagram exercised its right to grant a sublicense to Mashable." *Id*.

The court, by relying on *McGucken*, then concluded that Instagram's Platform Policy, which provides that the "API enables users to embed publicly-posted content in their websites," is open to multiple interpretations. *Id*. Thus, it is plausible that Instagram did not explicitly grant a sublicense for the use of the embedded image on Mashable's website. Ultimately, the court held that although Instagram's Platform Policy may be interpreted as granting "API users the right to use the API to embed the public content of other Instagram users," the terms themselves are insufficient to dismiss Sinclair's copyright infringement claim at the motion to dismiss stage of litigation. *Id*.

Social media users and the creative community alike can take a sigh of relief after the New York federal court's reconsideration opinion. As it stands at the moment, media platforms and other users of content posted to Instagram cannot escape copyright infringement claims on the basis that Instagram's user terms provide a sublicense for embedded images.

### Major League Baseball 2020 Season Negotiations

When the global Covid-19 crisis crushed the United States, the sports and entertainment industries were not immune to the devastating effects. Many sports leagues shocked the world as they began to postpone games and eventually entire seasons. As Major League Baseball (hereinafter referred to as "League" or "MLB") was in the midst of Spring Training and preparing for another successful baseball season, the League was required to make this tough decision and forgo millions, if not billions, of dollars in revenue. A season that is typically filled with sunshine, nice weather, and high hopes was full of gloom, tears, and heavy hearts.

After a several month hiatus, MLB began its 2020 season with exhibition games beginning on July 18th and regular season games beginning on July 23rd. This new season, however, was preceded by long, intense negotiations between the Major League Baseball Players Union ("MLBPA" or "Union") and the League, which eventually ended in an impasse and MLB implementing the newly designed 2020 baseball season.

Pursuant to Paragraph 11 of the uniform player contract, MLB Commissioner Rob Manfred could have suspended player deals in the event of a national emergency declaration. In order to avoid such an occurrence, the MLBPA and MLB reached an agreement regarding how the 2020 season would be handled soon after the season was suspended in mid March. This agreement concerned many of the issues that the League would eventually face in navigating a safe return to baseball, including resuming play, season scheduling, player service time, player pay, arbitration matters, and salary cap and luxury tax issues.

Of particular importance was the doomsday scenario, a situation in which the 2020 season would be cancelled entirely. The Union and players insisted on receiving full service time regardless of whether a season was played. This would allow players to earn a year of service toward free agency, arbitration, etc. The League eventually conceded on this point with a requirement that certain prerequisites be met, such as a player accruing a full year of service in 2019.

The MLBPA and MLB were also particularly concerned about player compensation. Every day in which the season was not played, the League was losing millions of dollars. In turn, the agreement provided that players would be compensated on a prorated basis. While the players agreed not to sue the League or file grievances against the League for full salaries in the event the season is cancelled entirely, the teams

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advanced some $170 million for player salaries. If the entire season had been lost, this money alone would have been disbursed to the players to pay for salaries. Alternatively, since the money was advanced and the season is now under way, the money will be factored into player paychecks.

Most importantly, this agreement required both the Union and League to work together in good faith to complete as much of a 2020 baseball season and postseason as economically possible. The agreement further provided three stipulations in order to begin the 2020 season. These stipulations were: (1) no restrictions on gatherings that would prevent teams from playing in home stadiums; (2) no travel restrictions; and, (3) a determination that playing would not expose players, fans, or staff to health risks.

Notwithstanding the foregoing, MLB Commissioner Rob Manfred could have overridden such stipulations and considered playing the 2020 season at neutral sites and without fans. Ultimately, the agreement provided the League with the right to implement a schedule if a subsequent agreement between the Union and League regarding the 2020 season could not be reached. For a detailed explanation on this agreement see ESPN, MLB, MLBPA agree on stipulations for return of 2020 season (Mar. 27, 2020) https://www.espn.com/mlb/story/_/id/28962850/mlb-mlbpa-agree-stipulations-return-2020-season; Jeff Passan and Kiley McDaniel, What the MLB deal with players means for 2020 season and beyond, ESPN (Mar. 28, 2020) https://www.espn.com/mlb/story/_/id/28964249/what-mlb-deal-players-means-2020-season-beyond.

The negotiations between the League and the Union leading up to the implementation of the 2020 season contained some of the most hostile exchanges between the parties in recent history. At one point, the hostility grew so rampant that MLB Commissioner Rob Manfred said he was not positive whether a season would take place this year. As expected, this was met with inimical responses by both players and representatives from the Union.

In the face of strong adversity, both sides were starkly concerned with player compensation. The League held the position that it was not feasible to pay the players a full pro-rata salary without fans in the stands. Alternatively, the Union was adamant that it would not accept another pay reduction.

MLB offered the players its first proposal for a 2020 season near the end of May. This offer consisted of an 82-game season with sliding scale player compensation and a 14-team postseason in 2020. Under the sliding scale arrangement, the higher the player salary, the lower percentage of salary the player would receive in compensation. Essentially, the sliding scale compensation was a nonstarter for the Union.

Less than a week later, the Union responded to the League with a counter offer. Under the Union's proposal, the season would consist of 114 games, a 14-team postseason for two (2) years, full prorated player compensation, a salary advance, and other stipulations with the intention of boosting revenues. Without hesitation, the League rejected the Union's proposal. For starters, the League was insistent that the regular season end in September and the World Series conclude in late October. The Union's 114-game regular season alone would have lasted all the way until to the end of October.

With the respective offers being worlds apart on many of the key issues, the League progressed forward with another offer, albeit with certain concessions. This time the League proposed a 76-game season, but with the players receiving 75% of the prorated salaries. The Union did not wait long to stamp a big NO on MLB's proposal.

The following day, the Union presented the League with its second counterproposal. This time, the Union proposed an 89-game season, a 16-team postseason in both 2020 and 2021, and full-prorated salaries.

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Under this offer, the regular season would last no later than October 10th. MLB unequivocally rejected the Union's proposal. The minor concessions from both parties exemplified how far they were from striking a deal, and the hostility only grew stronger.

On June 13th, the League made a third proposal to the Union: a 72-game regular season and 16-team postseason, with player compensation maxing at 80% of the full-prorated salaries. With the Union's rejection of this offer, the bargaining had reached a pinnacle. In response to the even shorter season and instead of making a counterproposal, the Union asked MLB to set a schedule for the 2020 season as was its right under the original March agreement. The Union believed the negotiations reached an impasse and any further dialogue would be futile. This set the stage for the League to implement a much shorter season (the League maintained through negotiations it would be around 48-54 games), and made it all but certain that the Union would respond with filing a grievance against the League for bad faith negotiating and breaching the parties earlier agreement. See Jeff Passan, *MLB players reject latest offer, ask league to set 2020 season schedule*, ESPN (Jun. 13, 2020) https://www.espn.com/mlb/story/_/id/29307988/mlb-players-reject-latest-offer-ask-league-set-2020-season-schedule.

The League instead decided to make one last proposal. With the labor contentions at a peak, the League conceded on full-prorated player salaries. However, the League also reduced the number of games to 60 and remained steadfast at a 16-team postseason for one (1) season. The Union responded with a counterproposal of its own: a 70-game season, 16 team postseason for 2020 and 2021, and full-prorated player salaries.

The League said it would not respond to the Union's counterproposal, as it will not play more than 60 games. Days later, the MLBPA rejected the offer leaving MLB Commissioner Rob Manfred to impose a season on the players and implement a 2020 schedule. See ESPN News Services, *MLB commissioner Rob Manfred quickly rejects union's 70-game proposal*, ESPN (Jun. 18, 2020) https://www.espn.com/mlb/story/_/id/29329357/union-proposes-70-game-plan-mlb-sources-say. For a detailed timeline of the negotiations see ESPN.com Staff, *MLB 2020 season proposal timeline: Owners' offers and union counteroffers*, ESPN (Jun. 19, 2020) https://www.espn.com/mlb/story/_/id/29290117/mlb-deal-line-owners-offers-union-counteroffers.

That same day, MLB owners unanimously voted to proceed with a 2020 season and provided Manfred with the power to unilaterally implement a schedule. The season imposed by the League includes a 60-game regular season, the normal 10-team postseason structure, and full-prorated player salaries, but without any of the other revenue increasing ideas proposed by either party. See Jeff Passan, *MLBPA, owners clear final hurdles; players set to report to camps July 1*, ESPN https://www.espn.com/mlb/story/_/id/29354014/sources-mlbpa-agrees-report-july-1-discussing-health-safety-protocols.

The implementation of the 2020 season followed months of animosity and failed negotiations between the Union and League. The one bright spot in the end is that both sides agreed to the implementation of the season and so baseball returned. However, the Union is expected to file a grievance against the League for not employing as full a season as possible, a requirement under the parties' original agreement. In turn, the League will respond with a grievance against the Union for bad faith negotiation as it relates to player salaries.

In the midst of the intense back and forth between the League and Union, both parties are fully aware that they are in for one wild and unprecedented baseball season, one that is shorter than ever before. The only thing certain in these unusual circumstances is "three strikes and you're out at the old ball game." One can only wonder whether a successful 2020 campaign can cool the tension between the MLBPA and MLB,

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or if the relationship has reached a boiling point that will inevitably spill over into labor negotiations to replace the current Collective Bargaining Agreement that is set to expire in December of 2021.

**Sherlock Litigation**

The estate of Sir Arthur Conan Doyle filed a lawsuit against Netflix and other plaintiffs, alleging that the streaming service's upcoming film violates the estate's copyright by portraying Sherlock Holmes as friendly and respectful to women.

"Enola Holmes," is scheduled to be released on Netflix sometime in September, centers around the adventures of Holmes's teenage sister and is based off the book series "Elona" by Nancy Springer, a co-plaintiff in the suit. Both the film and the novels upon which they are based draw from the original works, the bulk of which falls outside of the 95-year window for copyright protection in the U.S. and are in the public domain. Conan Doyle's final 10 stories, however, remain under copyright until 2023.

The estate argues, however, that the film and Springer's portrayal of Holmes as a warm, empathic character violates the copyright, as this character development is an exclusive feature of the final 10 Sherlock Holmes stories. Citing Conan Doyle's loss of his son and brother, in addition to his experience grappling with the atrocities of World War I, the estate claims these events caused the author to experience an artistic shift that required he make Holmes more empathic.

"When Conan Doyle came back to Holmes in the Copyrighted Stories between 1923 and 1972, it was no longer enough that the Holmes character was the most brilliant rational and analytical mind. Holmes needed to be human," the complaint alleges. "He became capable of friendship. He could express emotion. He began to respect women."

Holmes' emotional overhaul from the purely rational, steely-eyed detective to a dependable, brilliant friend, the estate suggests, is unique to the copyrighted works, and both the book series and the upcoming Netflix film infringe on the copyrighted works by demonstrating that Sherlock Holmes is capable of forming friendships. Holmes' friendship with Watson and his emotional interest in his sister are cited by the estate as evidence of infringement.

"Nowhere in the public domain stories does Holmes express such emotion about the well-being of his companion John Watson," the estate claims. "This friendship was not created by Springer in the Enola Holmes Mysteries. It was created in the Copyrighted Stories and copied by Springer."

The estate of Arthur Conan Doyle has a history of ardently attempting to rights in Sherlock Holmes. In 2014, the 7th Circuit Court of Appeals found in favor of editor Leslie Klinger, who sought to publish a modern anthology series about the famous detective, finding that most of the Sherlock Holmes novels were no longer under copyright, thus no license was required for use of the material.

Here, the court rejected the estate's appeal to extend the copyright further, barely hiding its disdain for the estate's argument that a copyright should be extended so as to include later works wherein its "complex" characters are fully realized and developed. "We cannot find any basis in statute or case law for extending a copyright beyond its expiration. When a story falls into the public domain, story elements—including characters covered by the expired copyright—become fair game for follow-on authors, as held in *Silverman v. CBS Inc.*; *Klinger v. Conan Doyle Estate, Ltd.* 755 F.3d 496,499 (7th Cir. 2014); *Silverman v. CBS Inc.,* 870 F.2d 40, 49–51 (2d Cir.1989).

The copyrights on the derivative works, corresponding to the copyrights on the 10 last Sherlock Holmes

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stories, were not extended by the incremental additions of originality in the derivative works, the court found, while further doubling down on its dislike of the estate's distinction between "flat" and "round" characters. *Klinger,* 755 F.3d 496 at 502.

"What this has to do with copyright law eludes us," the court states. "There are the early Holmes and Watson stories, and the late ones, and features of Holmes and Watson are depicted in the late stories that are not found in the early ones. … Only in the late stories for example do we learn that Holmes's attitude toward dogs has changed — he has grown to like them — and that Watson has been married twice. These additional features, being (we may assume) 'original' in the generous sense that the word bears in copyright law, are protected by the unexpired copyrights on the late stories." *Id*.

"The Doyle estate tells us that 'no workable standard exists to protect the Ten Stories' incremental character development apart from protecting the completed characters.' But that would be true only if the early and the late Holmes, and the early and the late Watson, were indistinguishable — and in that case there would be no incremental originality to justify copyright protection of the 'rounded' characters … in the later works." *Id*.

Yet in the present case against Netflix, it is unclear what degree the Netflix adaptation and the novels upon which they are based draw from the original features versus the copyrighted final 10 stories. This, along with what degree of character change is considered incremental to the original will likely be points at issue in this upcoming litigation.

Similarly 2015, Conan Doyle Estate raised a comparable argument against Miramax, alleging that the film "Mr. Holmes," starring Ian McKellen, infringed on the remaining 10 stories because of its emotional portrayal of Sherlock Holmes. This case was settled out of court and eventually dismissed.

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# Pitfall! Navigating the Tunnels With a Privacy-By-Design Framework

**By Sean Michael Ashworth**

If you are a child of the 80s, or just an enthusiast for the nostalgia of the Neon Age, you probably have fond memories of sitting in front of your parents' Sears television set – toes gripping the shag carpet in a frantic state of anxiety – as you power your strength by mainlining Yoo-hoo and gripping the joystick of your Atari 2600. Every twenty minutes, as another session comes to pass, and you release your grip on your console's controller – as well as that carpet – you start another round of Pitfall! For the uninitiated, a player controls Pitfall Harry through a jungle of quicksand and fire, snakes and scorpions, and of course, pits and tunnels. Over the span of twenty minutes Harry's goal is to avoid these obstacles while accumulating as much treasure as possible in the hopes of achieving a perfect score of 114,000 points. Those precious points may be lost, however, if Harry encounters the game's obstacles. Moreover, the game is impossible to win if Harry refuses to descend the game's ladders into a maze of subterranean tunnels. While Harry can traverse the length of the jungle more quickly through these tunnels, they are rife with dead ends that lead to wasted time and other life-threatening obstacles. To win the game, Harry needs to understand these tunnels ahead of time in order to obtain all of the game's available points. Without a lay of the land, he is lost in the labyrinth.

Harry may lose his life to scorpions lying in wait, but his creator, David Crane, safely avoided the obstacles that video game developers must address today. Internet of things, subscription-based services, machine learning predictive activities, and their ilk, create externalities to consumers' privacy interests that businesses ought to reconcile. Privacy laws enacted over the past twenty years attempt to mitigate the externalities by imposing obligations on businesses and creating rights for consumers. Companies, to effectively comply with these laws, should adopt privacy-by-design principles to enhance their privacy and security practices.

This article examines privacy-by-design through its historical context and current state of law, while also consulting with jurisdictional guidance. Where appropriate, the article provides examples relating to the gaming industry. However, application of privacy-by-design principles must be administered on an industry and company specific basis. While the expense of compliance may be great, privacy-by-design frameworks should be viewed as helpful roadmaps providing value to users rather than roadblocks to innovation.

## I. Foundational Principles of Privacy-By-Design and the Oecd Guidelines

Privacy-by-design requires accountability of companies collecting and maintaining personal information. The concept of accountability regarding personal information, however, is not new. In 1980, The Organization for Economic Co-operation and Development (OECD) published its Guidelines on the Protection of Privacy and Transborder Flows of Personal Data (Guidelines);[1] an influential text that informs many principles found in the General Data Protection Regulation (GDPR). The Guidelines offer rules to be adopted by member states that govern data flows between countries without disrupting economic growth and employment. Due to disparate regulations within the European Community at the time, the OECD endeavored to homogenize the protection of personal information and privacy through the Guidelines. "Accountability" in the Guidelines suggests that data controllers, i.e. organizations

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collecting and processing personal information, should comply with measures that ensure the following "principles:"

- Collection Limitation - limits the amount of information collected and obtains appropriate consent;
- Data Quality – confirms that information stored is relevant, complete, and accurate;
- Purpose Specification – informs the data subject of the intended use for which the organization is collecting the information;
- Use Limitation – limits disclosure of personal information its specified purpose; and
- Security Safeguards – provides reasonable security safeguards to data subjects when collecting, using, and storing personal information.[2]

Of course, the technology landscape has shifted dramatically since 1980, and these principles have become considerably more nuanced. The shift in sophistication to data privacy compliance is as dramatic as that of 8-bit gaming to virtual reality. Instead of binary choices of consent between button A or button B, regulators now seek to change corporate culture within organizations to protect the consumers they serve. In fact, the European Union requires data controllers to embed a culture of privacy within the company's DNA via privacy-by-design principles that mirror the Guideline's recommendations, as detailed below.

## II. The Birth of Privacy-By-Design

At the midpoint between the Guidelines' release and the current regulations, the concept of privacy-by-design began to emerge. In the 90's, Ann Cavoukian, Ontario's former Information and Privacy Commissioner, began advocating for privacy-by-design principles. She argued that privacy cannot be achieved by complying solely with regulatory frameworks, or a zero-sum approach to privacy; rather, organizations must adopt privacy as a mode of operation, or positive sum, through the use of Privacy-Enhancing Technologies.[3] To accomplish this "positive sum" approach, Ms. Cavoukian offered the following "Seven Foundational Principles" of privacy-by-design, which influenced much of privacy law since the Millennium.

- Proactive and Preventative – companies must anticipate privacy incidents before they happen and prevent them from occurring;
- Privacy by Default – users should receive a maximum degree of privacy without requiring the individual to request a system to provide privacy protections;
- Embedded Privacy – IT systems and business practices should embed privacy protections without post hoc implementations;
- Full Functionality – privacy and security should accommodate each other without unnecessary trade-offs, i.e. it is possible to have both without sacrificing one or the other;
- End-to-End Security – security must exist prior to collecting personal information, and run with the lifecycle of the data through deletion;
- Visibility and Transparency – companies must comply with their stated promises and objectives regarding data processing, regardless of the business practice or technology involved; and
- Respect for User Privacy – architects and operators must keep the data subject's privacy interests at the center of their operations.[4]

By applying the "Seven Foundational Principles" companies can gain a competitive advantage in the marketplace by empowering their customers with control over their personal information. These principles, as explained by Ms. Cavoukian, will provide greater privacy to consumers when applied to (1) IT systems, (2) accountable business practices, and (3) physical and network infrastructures for day-to-day activities.[5]

## III. The General Data Protection Regulation

With much fanfare, the European Union's General Data Protection Regulation[6] (GDPR) went into effect

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in May 2018. Much of the Regulation is an effort to codify the principles found in the Guidelines, as well as expound on its predecessor, the European Data Protection Directive (EDPD). The GDPR creates a series of novel requirements, discussed in theory for years, including special rules for high-risk processing,[7] control over personal information by data subjects,[8] the creation of a data protection officer,[9] and rules surrounding automated decision making.[10] Further, to bolster the accountability suggestions in the Guidelines, the European Commission enhanced the methodology by which companies adhere to purpose limitation, data minimization, and data integrity by incorporating privacy-by-design concepts into the Regulation.

Data protection by design and by default is required under Article 25 of the GDPR. Data controllers collecting and processing personal information of European data subjects are required to implement appropriate technical and organizational measures to protect the fundamental rights of data subjects.[11] The text of the Regulation, unfortunately, does not elaborate on the meaning of "appropriate" measures. However, the European Parliament provides factors for complying with Article 25. Data controllers must consider the state of the art of technology at their disposal; the cost of implementation; the nature, scope, context and purpose of the processing; and the likelihood and severity that the rights and freedoms of natural persons will be violated by the processing.[12] Such an analysis, if necessary, must occur at the design stage of new systems and at the time personal information is processed.[13]

Unfortunately for data controllers, the Regulation does not specify the technical steps they must take in order to comply with Article 25. Rather, the Regulation provides a non-exhaustive list of measures that could be taken, which include: (1) pseudonymization, (2) data minimization, (3) increasing the visibility of what data is processed, and (4) allowing data subjects greater control over their data.[14] Implementation of appropriate technical and organizational measures must ensure that collecting and processing personal data is necessary for its stated purpose.[15] This obligation applies to the amount of data collected, the extent of processing, the period of storage, and accessibility of the data. Should a data controller wish to use personal data outside its originally stated purpose, it must obtain the individual's consent.[16]

Beyond protecting the "rights and freedoms of natural persons" while processing personal data, data controllers must be able to demonstrate compliance with the Regulation based on their technical and organizational measures, by default.[17] "Default" in this context aligns with common usage as defined in computer science, which "refers to the pre-existing or preselected value of a configurable setting that is assigned to a software application, computer program, or device."[18] Without factory settings addressing privacy rights, the sheer amount and esoteric nature of options would overwhelm most data subjects. According to the GDPR, the burden of simplifying privacy to protect the rights and freedoms of individuals falls on the data controller.

Companies must keep detailed records of their processing operations, which, at a minimum, will be reduced to writing and include internal policies that meet the principles of data protection by design and by default.[19] Should a member state's Data Protection Authority (DPA) request documentation of compliance with Article 25, a data controller is required to provide this documentation.[20] Article 30 of the GDPR outlines the type of records that must be kept, which include, *inter alia*, the (1) purposes of the processing; (2) categories of data subjects and their personal data; (3) categories of recipients of personal data; (4) description of the adopted technical and organizational security measures; and (5) retention periods for deletion of personal data.

Companies can take several actionable steps to comply with Article 25 of the GDPR, regardless of the dearth of instruction under the Regulation. Practitioners should advise their clients to review processing systems and operating procedures for the following items:

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- Ensure that personal data is appropriately mapped, classified, labelled, stored and accessible in the event that a data subject request, either to request, amend, or delete personal data, is submitted;
- Design systems to automate deletion of personal data;
- Check that data collection forms are drafted to minimize the amount of personal data collected to comply with principles of data minimization;
- Pseudonymize personal data where possible; and
- Store personal data in a structured, machine-readable, and interoperable format to allow the company to satisfy the requirements of data portability.

Given the factors found in Article 30 - such as the current state of the art, costs, and the scope of processing - the above is merely a start toward compliance with Article 25. Each company's path to compliance will be specific to its industry and abilities. However, the European Data Protection Board (EDPB) provides clarity to those seeking compliance with Article 25 through the thematic principles of the GDPR.

### IV. Implementing Data Protection Principles

The EDPB, an independent body entrusted with consistent application of the GDPR, issued its recommendation for implementing Article 25 consistent with the Regulation's overarching principles in November 2019.[21] Accordingly, data protection by design and by default is not a self-contained requirement in the GDPR, but achieves compliance through a holistic approach to the Regulation whereby controllers incorporate the Regulation's principles into their privacy designs.[22] Controllers must address the following principles to comply with data protection by design and by default: (1) Transparency, (2) Lawfulness, (3) Fairness, (4) Purpose Limitation, (5) Data Minimization, (6) Accuracy, (7) Storage Limitation, and (8) Integrity and Confidentiality.[23] Many of these principles are embedded in Article 25; however, insight can be drawn from the examples provided by the EDPB, which we will decipher in turn. The following subsections help practitioners utilize the EDPB's advice in order to apply these principles to their clients' products, IT systems, and business practices.

#### *A. Transparency*

Controllers must take care to be as clear and open as possible with data subjects about the collection, use, and disclosure of personal data. According to the EDPB, it is the controller's responsibility to empower data subjects' understanding of the methods by which they can invoke their rights.[24] When constructing privacy policies, according to the example in the EDPB's guidelines, companies should refrain from providing lengthy scrolls of information that are difficult for the average reader to understand. The use of multi-layered notice provides clarity to the data subject. The use of drop-down menus and links to further explanations of company policies is ideal. It is also suggested that controllers make use of different channels and media, such as video clips to explain the most important aspects of their policies.[25]

Controllers must also increase the accessibility of their privacy notices to comply with by-design-and-by-default requirements.[26] To ensure the satisfaction of supervisory authorities, a company should make available their privacy policy on all internal webpages, so the information is always one click away. Of course, this information should also be designed in accordance with standards of universal design to make it accessible to all. Best practices to achieve meaningful conveyance of information will include just-in-time notice - where informational snippets or pop-ups grab the data subject's attention to inform him of how data will be processed and why it is necessary before any collection takes place.[27]

#### *B. Lawfulness*

Controllers must identify the legal basis for processing personal data and provide notice of that basis to data subjects.[28] The lawful basis for collecting data should extend through the entire lifecycle of

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information; i.e. each processing activity should have a legal basis and the controller must be able to identify that basis for each use. Moreover, in order for processing to be lawful it must also be necessary. If realistic alternatives for achieving the same purpose exist, then processing information is not lawful according to the EDPB. In instances where interests to the data are divided, the controller must carry out an objectively weighed balancing of interests. The controller should disclose to data subjects its assessment of balancing these interests. Additionally, data subjects must be provided an opportunity to withdraw consent as easily as they were provided the opportunity to give consent. If the means by which a data subject can withdraw consent do not exist, or are not easily attained, then consent is not valid. If the legal basis for processing information no longer exists, then processing that information must cease accordingly.[29]

An example given by the EDPB to assess the lawfulness of processing personal data can help further explain how a by-default-and-by-design assessment works in practice. A bank wants to retrieve tax data about its customers from public authorities to improve the management of loan applications.[30] Of course, the bank is on the up-and-up, so it first requests permission from its customers to contact the public authorities for this information. The bank believes this practice fulfills the GDPR's principle of lawfulness because the information is necessary for a contract. While the bank does need that information before issuing a loan to its customer, the method is not lawful despite the permission from the customer to contact public authorities, e.g. the tax administration of the member country. The method, according the EDPB, is what is important, not necessarily the need. There is a realistic alternative to the bank's proposed method since a loan may be granted without obtaining data directly from the tax administration. Because the customer is able to enter into a contract by providing the information from the tax administration herself, the bank must refrain from implementing its idea. The bank's processing options, by default, should not allow retrieval of data directly from any sources other than the data subject.[31]

### *C. Fairness*

Fairness requires data controllers to process personal information in a way that is not detrimental, discriminatory, unexpected, or misleading.[32] The principle of fairness supports other freedoms, just as the right to information, the right to intervene – including data portability – and the right to limit processing. When considering the measures and safeguards necessary to embed privacy into business practices and products, data controllers should incorporate elements of autonomy over personal data for their users,[33] provide data subjects the ability to communicate and exercise rights, ensure that expectations concerning the use of data are honored, and provide consumer choice to data subjects. This last element ensures that users can invoke their rights to data portability. Regardless of whether a service or good is personalized or proprietary - or both - the data controller is required to accommodate the transfer of personal data to another controller at the direction of the data subject.[34]

As we enter a world where providers are beginning to offer streaming services for video games from remote Internet servers, such as Google's Stadia, the EDPB's guidelines on fairness concerning data protection by design and by default are timely. For controllers offering varying standards of quality based on subscription level, the prioritization of service may be tied to the type of subscription the user purchased.[35] If a subscriber, for example, opts for a regular subscription versus a premium option then the controller may prioritize premium customers before the regular user. Fairness, however, dictates that all data subjects have equal rights and freedoms under the GDPR. Prioritized customers may not be given priority while invoking their rights in the same way they are given priority when asking for customer service.[36]

### *D. Purpose Limitation*

Data controllers must design their products in a manner that processes information compatible with the

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purposes for which they are collected.[37] That design must be limited to what is necessary to achieve the purposes disclosed to the data subject at the time of collection. If a controller finds it necessary to amend the purposes of its processing, it must comply with Article 6(4)[38] in an effort to obtain the appropriate consent from the data subject. The data controller must predetermine the purposes of the processing to comply with data protection by design. Such predetermined purpose must also be stated with specificity to make it explicitly clear why the data is being processed. The purpose should guide the design process and set the boundaries for processing data. And as previously stated, the specified purpose must be necessary for the processing.[39]

Companies should be particularly mindful of purpose limitation when collecting personal information from data subjects pursuant to fulfilling payment obligations, e.g. the data stored for purchase history: name, address, email address, and telephone number. For example, a company may license Customer Relationship Management (CRM) products to provide itself a 360-degree view of their data subjects for better customer service.[40] Before licensing a CRM, a company must document the purpose of its use. However, should the company begin to use its CRM to analyze customers' purchasing power for the purpose of a targeted advertising campaign, then the data controller exceeds the original purpose of the CRM and violates the purpose limitation principle. Of course, this does not necessarily mean the data controller is unable to use the CRM for its marketing purposes. The controller would need the provider of the product to map the different processing activities using personal data with the purposes relevant to the campaign. With a complete data map of the flow of information in hand, the data controller can begin to assess whether its activities are in line with a legitimate purpose. If necessary, the controller may need to notify data subjects of its new purpose for processing data before proceeding.[41]

### *E. Data Minimization*

The counterpart of the OECD's use limitation, the EDPB specifies that controllers should incorporate data minimization principles into their data protection by design and by default analyses. As such, "[o] nly personal data that is adequate, relevant, and limited to what is *necessary* for the purpose shall be processed."[42] The controller is therefore responsible to predetermine the features and parameters of their processing systems and whether they are permissible. If personal data becomes irrelevant and unnecessary to its original purpose, then it should be deleted or anonymized. Here, controllers should assess the state of the art in order to verify whether technology, processes, or procedures exist that could make the purpose of processing personal data obsolete. Techniques such as pseudonymization and anonymization of data may be appropriate when deleting information is unnecessary. In situations where the purpose does not require the final set of data, but the initial processing does, then the controller must anonymize personal data as soon as identification is unnecessary. Likewise, if a controller needs to identify a customer for future processing activities, the data should be pseudonymized to limit the risks to the data subject.[43]

The EDPB advises data controllers to assess the information necessary to serve their customers.[44] When collecting payment information for goods and services from data subjects, gaming developers should consider the method of delivery before providing webforms to complete a purchase. A standard contact form where all fields are required fields could result in obtaining too much information when they ask for a customer's date of birth and telephone number. Not all fields are necessary for the purposes of buying a product. Companies should tailor their web forms to the specific product being ordered. A customer's address is not necessary when he orders an electronic copy of a game. However, this is clearly not the case when shipping a physical edition of the product. Separate webforms should be created for the e-version of the game and the physical copy.[45]

### *F. Accuracy*

Given the slew of principles the EDPB requires data controllers to follow, the need for maintaining

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accurate and up-to-date data should be no surprise. Companies must follow a reasonableness standard to ensure data is correct, rectifying inaccuracies without delay.[46] Of course, this principle should be viewed through the lens of the "cost, nature, scope, and risk to the rights and freedoms of data subjects" standard found in Article 25 (e.g. where the cost of correcting information is high and risk of violating the rights of the data subject is low, it may not be necessary to keep accurate records). Multinational companies with customers in European member states should take extra care to correct information that may implicate the rights and freedoms of their data subjects. Games using geolocation technology, e.g. Pokemon Go, that retain inaccurate records of their users' location may increase the risks to a corresponding user's freedoms if those records are subpoenaed by law enforcement.

Additionally, according to the GDPR, automated decision-making software presents risks to the rights and freedoms of data subjects.[47] Companies using artificial intelligence (AI) to profile customers or predict their behavior should take considered care that the data used to achieve their results are accurate. Moreover, controllers must ensure that their use of AI is non-discriminatory. Assuming the purpose for training AI to predict results has a legal basis, data controllers need to ensure that their data is accurate and is representative of the population to avoid bias.[48]

### *G. Storage Limitation*

Companies must implement adequate controls to limit the amount of time personal information is maintained on their servers.[49] Accurate data mapping and inventories are crucial to determine exactly what personal data is maintained and why it is processed. According to the EDPB, the purpose for the processing will decide how long personal data is stored. Moreover, documented internal policies for deletion procedures, automated deletion, the criteria for length of storage, and the manner of enforcing retention policies must be in place to comply with the Regulation.[50]

The EDPB's example regarding storage limitation concerns personal data retained after a user cancels her membership to the controller's services. To make deletion more effective, companies should opt for automatic systems that delete data regularly after memberships are cancelled, instead of manual deletion by employees. Systems should be configured to follow a given procedure that conforms to the company's written policy on data retention. It is also important for the company to regularly review their retention policy and update it as needed.[51]

### *H. Integrity and Confidentiality*

The trinity of data security principles – confidentiality, integrity, and availability – must be observed to provide adequate protection to data subject's information,[52] and data protection by design and by default will guide companies in achieving these protections for their customers. Integrity and confidentiality, according to the EDPB, will prevent data breaches and incidents as well as facilitate proper data processing activities and allow individuals to exercise their rights under the GDPR.[53] Just as ongoing reviews of policies should occur with storage limitation, companies should continually review the appropriateness of their information security measures to identify vulnerabilities in their systems. Controllers should regularly conduct risk assessment and resiliency tests, initiate proper controls for accessing personal data, implement secure data transfer procedures (e.g. encrypted transmissions), store data in a secure manner and establish routine backups of information, and put in place a security incident response procedure and team for when an event occurs. [54]

An information security management system[55] could help manage policies and procedures for information security.[56] Practitioners should impress on their clients the need for adequate and robust security, despite the push back they will inevitably receive from management and developers regarding high costs and stifled innovation, respectively. It's an old adage, but a salient one. Security incidents are not an "if," but a

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"when." No company is immune to bad actors. An advanced security policy will limit liability and protect a controller's reputation whenever data is compromised by unauthorized access or cyber-attacks.

### V. Penalties And Fines

If a data controller violates the GDPR then it runs the risk of severe penalties. Infringements of Article 25 are subject to administrative fines up to 10,000,000 Euros or 2% of total worldwide turnover of the preceding year, whichever is higher.[57] However, if such violations are the result of non-compliance with a DPA's order or temporary limitation on processing data, then fines may double.[58] In effect, the GDPR is important due to the ruinous fines it may impose on companies. Facebook or Microsoft may absorb a 2-4% revenue hit in any given year, but a startup client will most likely find itself fatally stung by a tunnel scorpion if it's not adequately prepared.

### VI. The State of Privacy-By-Design in the United States

Multinational companies in gaming and other industries surely must keep abreast of the GDPR. Data owners with solely United States market share, however, may tempt themselves with ignoring privacy-by-design. While privacy-by-design is not explicitly referenced in any state or federal statute, there are aspects of the principles outlined above that implicate current law. Most obviously is the Health Insurance Portability and Accountability Act[59] (HIPAA) and the Gramm-Leach Bliley Act[60] (GLBA). Both require covered entities and institutions to follow reasonable security standards to protect Personal Health Information and customer information, respectively. Of course, the gaming industry and other entertainment sectors need not worry about these statutes. They are, however, the first dominoes to fall in a trend toward protecting consumers' personal information.

The federal government has adopted other statutes as well, in line with OECD principles, that have moved the goal post closer to a robust set of protections for individuals. The Fair and Accurate Credit Transaction Act of 2003[61] (FACTA) amended the Fair Credit Reporting Act to limit the amount of data that Credit Reporting Agencies are allowed to disclose, namely the truncation of credit and debit card numbers on receipts,[62] which is in line with data minimization. FACTA also provides consumers the right to a free annual credit report from each of the three national consumer credit agencies, promoting transparency and accuracy. Perhaps most importantly for our purposes, FACTA also establishes a Disposal Rule requiring entities using consumer reports for a business purpose to discard, abandon, sell, or transfer personal information in a reasonable manner to protect against unauthorized access to consumers data.[63] Clearly principles of data storage and integrity and confidentiality are adopted under FACTA as well. While federal statutes are adopting privacy-by-design principles in a sectoral and piecemeal fashion, the trend is clearly moving in a direction where other industries should take notice.

States are moving the needle toward enhanced privacy protections for individuals more quickly than the federal government. All 50 states currently have some form of privacy legislation on their books in the form of data breach statutes, most of which at least adopt the confidentiality and integrity principle by mandating reasonable security standards.[64] These states generally provide a safe harbor defense to companies that maintain consumer personal information whereby unauthorized access of encrypted data does not result in liability to the company.[65]

Generally considered the most restrictive data security law in the country, the Massachusetts data breach notification law establishes minimum safeguards companies must extend to consumers when they maintain their personal information.[66] It goes far beyond data breach notification by requiring companies to, *inter alia*, designate an Information Security Officer,[67] anticipate risks to personal information and take mitigating steps to prevent unauthorized access of information,[68] develop a comprehensive security program,[69] impose penalties for violations of the program's rules,[70] establish controls to prevent former

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employees from accessing personal information,[71] and review the security program at least annually and assess whether business changes could impact security.[72] Common threads between the GDPR and the Massachusetts law are obvious. While the Massachusetts law does not explicitly reference privacy-by-design, companies engaging with Massachusetts residents must think through the risks to personal information and implement appropriate security procedures prior to collecting information. Ongoing assessments of the security standard are necessary, and without consideration of the state of the art's effect on the current program, companies conceivably fail to adequately review their safeguards.

The California Consumer Privacy Act (CCPA), while not as demanding as Massachusetts in terms of security protections, provides its citizens with a private right of action against companies that do not adequately protect their personal information.[73] The California General Assembly punted the specific requirements for reasonable security procedures and practices to the Attorney General (who, in turn, has yet to develop regulations on what exactly a reasonable security practice means). Be that as it may, the CCPA's effect fully embraces the spirit of the GDPR's desire to empower data subjects. California citizens are allowed to make various requests for the information companies maintain,[74] giving consumers unprecedented transparency to the data companies maintain. The CCPA also provides California citizens with a mechanism to request that companies "Do Not Sell" personal information,[75] promoting fairness and purpose limitation, as well as a right to request a company delete the information they possess,[76] invoking data minimization. Like the Massachusetts law, privacy-by-design is not referenced by name. However, the principles underlying the concept are clearly influencing legislation.

This trend is not slowing down either. Within a year of the CCPA going into effect, Californians will likely see the California Privacy Rights Act (CPRA) on their ballots in November.[77] The CPRA proposes many key amendments to the CCPA, not the least of which include: (1) an expanded definition of "sensitive personal information" and the ability to limit the use of such information; (2) the creation of a new enforcement agency overseeing implementation of the Act; (3) restrictions on automated decision-making and profiling; (4) a consumer right to correct data; and (5) data retention obligations based on necessity. This select list of proposed amendments goes far beyond the current state of privacy legislation found elsewhere in the United States. Companies may need to inform consumers of the purpose of their collecting and processing practices, and consumers may decline that purpose. If the necessity rule under the CPRA will have any teeth, it's safe to assume the new enforcement agency will, at a minimum, invoke a similar rationale as the EDPB in providing guidelines on implementation. Even if the new agency does not mention privacy-by-design, their guidance could merely be a distinction without a difference.

Beyond the current or imminent state of privacy legislation in the United States, enforcement actions under state unfair competition laws and the Federal Trade Act are beginning to invoke privacy-by-design principles. The Uber data breach kerfuffle[78] was settled in September 2018. Among the host of restrictions and requirements in the Final Judgment and Permanent Injunction, section 16, entitled "Corporate Integrity Program," requires Uber to "develop, implement and maintain a process, incorporating *privacy-by-design* principles, to review proposed changes to Uber's applications, its products, and any other ways in which Uber uses, collects, or shares data collected from or about Riders and Drivers."[79] No definition of "privacy-by-design" is offered in the Judgment, however.

The Federal Trade Commission (FTC), fortunately, is more helpful than California regarding implementation of privacy-by-design principles. Since 2011, the FTC has settled unfair and deceptive business practice matters by requiring companies to adopt a comprehensive privacy program consistent with the Commission's privacy-by-design approach.[80] In 2012, the FTC began providing businesses with recommendations for the privacy standards they expect, and ostensibly will include in upcoming consent decrees. In their understanding of an appropriate privacy framework, companies should incorporate

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privacy-by-design principles that include adequate data security, reasonable collection limits, sound retention practices, and data accuracy.[81] While not formally adopted under statute, companies should be aware that privacy-by-design is expected by states and the FTC under unfair and deceptive business practice enforcement actions.

## VII. Conclusion: The Path to 114,000 Points

David Crane sold his Atari cartridges without paying any mind to his consumers' personal information. All he had to care about was the number of copies he sold and the cash pouring into his bank account. The gaming industry now has periphery concerns well beyond content creation. With higher and higher degrees of interactivity incorporated into product design, more and more responsibility for consumer data is assumed. Content creators must be mindful of the personal information they collect and maintain. While privacy-by-design is not explicitly required under U.S. law, its principles are scattered throughout legislation. Multinational companies with a European footprint should possess a documented privacy policy that complies with Article 25 of the GDPR. As a matter of best practices, it's advisable for purely U.S. companies to adopt the guidance provided by the EDPB in developing a comprehensive privacy and security program. Otherwise, companies may find themselves lost in the tunnels on their quest to achieve a perfect score amongst their potential customers. Empowering users to take control of their data provides a sign of good faith that companies can commodify. Practitioners should be able to explain that increased privacy and security does not necessarily stifle innovation and brings value-added components to their products. Privacy-by-design can guide a better path to 114,000 points.

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## Endnotes

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2. *Id*.
3. Ann Cavoukian, *Privacy-by-design*, revised January 2011, https://www.ipc.on.ca/wp-content/uploads/resources/7foundationalprinciples.pdf (accessed May 2020).
4. *Id*.
5. *Id*.
6. The GDPR protects the "personal data" of "data subjects" and their use by "data controllers," i.e. companies using personal data. Personal data refers to information that relates "to an identified or identifiable natural person. EU GDPR art. 4 (1).
7. Recital 75 of the GDPR provides several examples of "high-risk processing" that include discrimination; identity theft, fraud, or financial loss; damage to reputation; reversal of pseudonymization without consent; and deprivation of rights and freedoms.
8. *See* art. 15 (right to access by the data subject); art. 16 (right to rectification); art. 17 (right to be forgotten); art. 18 (right to restriction of processing); art. 20 (right to data portability); and art 21 (right to object).
9. Art. 37.
10. Art. 22.
11. EU GDPR art. 25 (1).

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13. *Id*.
14. Art. 25 (1) – (2).
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17. Recital 78.
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21. *See id* at 13.
22. *See* Norwegian Data Protection Authority. "Software Development with Data Protection by Design and by Default." 28 November 2017.
23. *Id* at 13-24.
24. *Id* at 14.
25. *Id* at 14-15.
26. *Id* at 14.
27. *Id*.
28. *Id* at 15.
29. *Id*.
30. *Id* at 15-16.
31. *Id*.
32. *Id* at 16.
33. *See* n. 9 for examples of data subject rights.
34. European Data Protection Board, *supra* n. 19 at 16.
35. *See id* at 17.
36. *Id*.
37. *Id* at 18.
38. Article 6(4) provides a factor test to establish the compatibility of processing data for a purpose that exceeds its original purpose to the extent the secondary processing is lawful.
39. European Data Protection Board, *supra* n. 19 at 18.
40. *See id*.
41. *Id*.
42. *Id* at 19. *See* EU GDPR article 5 (1)(b).
43. *Id*.
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46. *Id* at 21.
47. EU GDPR art. 22. *See also* WP29 Guidelines on Automated Individual Decision-Making and Profiling for the Purposes of Regulation 2016/679, Feb. 6, 2018, https://iapp.org/media/pdf/resource_center/WP251rev.01.pdf (accessed May 2020).
48. European Data Protection Board, *supra* n. 19 at 21.
49. *Id* at 22.
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52. ISO/IEC 27001.
53. European Data Protection Board, *supra* n. 19 at 23.
54. *Id* at 24.

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55. An information security management system is a risk management process designed to manage sensitive information. *See* ISO/IEC 27001.

56. European Data Protection Board, *supra* n. 19, at 23-24.

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70. § 17.03 (2)(d).

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74. *See* §§ 1798.100, 1798.110, and 1798.115.

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# The Promise and Perils of Commercial Partnering with a Personality

**By Jonathan Faber**

Commercial use of a person's name, image and likeness permeates advertising, co-branded products, merchandise, reality shows and social media. Bob Dylan has a licensed whiskey line,[1] and Willie Nelson, Bob Marley, Snoop Dog, and Kathy Ireland have branded CBD oils.[2] Mathew McConaughey goes ice fishing in Lincoln commercials,[3] and cycling legend Major Taylor was brought to life in Hennessy's *Wild Rabbit* campaign.[4] Social media influencers are compensated for something seemingly as innocuous as a social media post.

These are examples of licensed use of a personality, but some uses of a personality occur without permission. Companies may be one social media post away from potential liability, like when Katherine Heigl filed a $10 million claim after Duane Reade reposted on Twitter a picture of Heigl walking out of one of their stores.[5] Michael Jordan was awarded $8.9 million for a congratulatory advertisement by a Chicago-area grocery store.[6] The COVID-19 outbreak has spawned licensed and unlicensed facemasks from Jimi Hendrix to Marilyn Monroe, thanks to the fluidity of and lack of oversight on maker marketplaces.[7] Even the breakout figure of the pandemic has been memorialized via Dr. Fauci doughnuts.[8]

Whether a negotiated license or an unauthorized use, there is value in affiliating with notable personalities. What are the benefits? How does one go about doing so? Is there a difference between living and deceased personalities? And what's it worth? Great questions, but answers are elusive. The licensing industry, as well as the process of serving as an expert witness to value an unauthorized use, is secretive by design and usually bound by contractual confidentiality and protective orders. Nevertheless, illumination can be provided by considering the benefits of partnering with a personality, understanding best practices, and analyzing publicly-available sources of information concerning valuations.

## Commercial Partnering With A Personality

The business and process of partnering with a personality or valuing an unauthorized use, whether through advertising, endorsement, sponsored posts, merchandise, collectibles involves a multitude of variables. The experience and skill of the person handling the assessment is critical, as is that person's diligence in preparing, researching and studying the matter at hand. There is no *Kelley Blue Book* for licensing rates. Still, there are standard customs and practices in the industry, and deals get done all the time.

Aligning with a personality occurs so frequently for a simple reason: it works. Advertising and manufacturing is expensive. Promotional campaigns and consumer products benefit from differentiation. By tapping into the attributes and qualities a personality is (or was) known for, or by directly communicating with the audience of that personality, a product, service or advertising campaign can achieve greater traction and stand out in a competitive environment. This in turn creates a better return on the investment. Companies partner with notable personalities, living or deceased, to bring credibility or attention to a campaign, to make a product seem more relevant, or to reach a target demographic or that personality's audience:

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> Manufacturers seek recognizable personalities to be associated with their product, and advertisers want the magnetic power of a celebrity image to draw consumers' attention to their advertisements. The combination of these elements explains the emergence of celebrity licensing as a growth industry for the new millennium.[9]

That was stated almost twenty years ago, and has proven true.

From the personality side of the equation, engaging in commercial use can be beneficial both financially and strategically. Many personalities (or their advisors) have become aware of the benefit of seeking federal trademark registration on some aspect of the personality's name or persona. A trademark must be supported through actual use, so engaging in commercial use of a personality can help substantiate trademark applications, which serve as valuable holdings in the intellectual property portfolio of a personality.

To be clear, a personality need not have registered trademarks to engage in licensing, or to have a viable claim for unauthorized use. In general, licensing generates revenue, strengthens the intellectual property and profile of the personality or his or her estate, and ensures a degree of control to the personality or estate. And nothing counteracts unauthorized goods better than supply meeting demand through licensed goods.

Some common reasons for granting a license, from either the personality or licensee's perspective, therefore include:

1. generating revenue from royalties or license fees;
2. using third-party experience and distribution to bring licensed goods to market;
3. achieving rapid market entry;
4. expanding into new markets, regions, products or fields;
5. obtaining the right to use others' intellectual property via cross-licensing;
6. providing a touchpoint with fans of the personality;
7. counteracting unauthorized goods;
8. substantiating or expanding intellectual property recognition
9. differentiating an advertising campaign or consumer product from competitors;
10. aligning with the reputation, attributes, or audience of the personality.

The tradeoff is that licensing can cause a loss of direct control over a product, forfeiture of contact with customers, or create dependence on a licensee for exploitation. Nevertheless, these are navigable risks. When done well, licensing can also reinforce advertising and other initiatives of either the personality or the licensee partnering with the personality.

Illustrating that licensing and valuations are not exact sciences, one can quickly reference times when partnerships with personalities did not work out. A living personality can become embroiled in controversy that creates issues for the licensee or sponsor, such as those involving Lance Armstrong, Barry Bonds, Aaron Hernandez, Michael Vick, Brittany Spears, Kate Spade, and Madonna.[10] For these reasons, moral clauses often are a required element in agreements with a living personality. While these examples each involved distinct issues, the title of the *Business Week* article *Dead Men Don't Screw Up Ad Campaigns*[11] seems prescient.

Indeed, death is not the end for earnings from a person's name, image or likeness. Consider Forbes' annual *Top Earning Dead Celebrities* list.[12] In 2019, Michael Jackson held the top spot at a reported $60 million, and George Harrison bookended the lowest slot at a reported $9 million. Elvis, Arnold Palmer,

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Prince and John Lennon ranged from $12 million to $39 million. Often, the passing of a notable person leads to a surge in streams, downloads, or sales of goods, but then those personalities do not make the list again as may prove true of Nipsey Hustle or XXX Tentacion, both on the 2019 list. In contrast, certain personalities endure and continue to have commercial opportunity. In a *Huffington Post* article covering the 2017 Licensing Expo, I stated:

> …There is a mystique that surrounds [departed celebrities], from an era in which every waking moment of a person's life was not broadcast and live-streamed. They were larger than life characters and figures…[they are] emblematic of things they were famous for—Marilyn Monroe is not just glamorous, she IS glamor; Babe Ruth is not just a great baseball player, he is THE greatest baseball player ever…; Jimi Hendrix wasn't just a great guitarist—he revolutionized almost every aspect of what it meant to be a guitar hero and rock star; Vince Lombardi isn't just the greatest coach of all time, his name is on the NFL trophy that every team quests toward…They personify these ideals and attributes, they take people back to a simpler, idealized time….[13]

While it is seemingly impossible to add to a deceased icon's resume, the CNBC campaign entitled *Winning*, which was licensed by my company, Luminary Group on behalf of Vince Lombardi's family, led to a posthumous Emmy nomination for Coach Lombardi. The licensing industry is full of surprises.

### The Intellectual Property Rights of a Person

All of these instances implicate the rights pertaining to a personality's name, image, likeness or other identifying elements. While trademark has a role, the common denominator in commercial use of a personality is the Right of Publicity. A personality does not need trademarks to have a viable Right of Publicity.[14] Michael Jordan has registered trademarks, but Mathew McConaughey and Dr. Fauci do not. The right is not just for celebrities, and any business with a website, social media, advertising, or even just customers or employees, might intersect with the Right of Publicity.

The Right of Publicity is the *right to control the commercial use of one's identity*. Identity, in turn, can include "name, voice, signature, photograph, image, likeness, distinctive appearance, gestures or mannerisms."[15] Perhaps the best way to think of this criteria is whether a specific person is *unequivocally identifiable* from a given use. The right generally survives after death and ensures that a rights owner can decide not only the terms by which a commercial use occurs, but *whether* it will occur. This principle connects to a hot-button issue regarding taxation of publicity rights in estates like those of Michael Jackson and Prince. On one side of the continuum, Robin Williams' will imposed a 25-year moratorium on commercialization of his publicity rights; [16] on the other, the estate of a figure like Michael Jackson faces issues addressed in a February 1, 2017 *Bloomberg Businessweek* article which reported that the IRS says Jackson's Right of Publicity is worth $434 million, but the estate says "it was worth a mere $2,105."[17]

The Right of Publicity is a state-based doctrine[18] but has been affirmed by the Supreme Court of the United States.[19] South Dakota and Alabama are among the latest to enact Right of Publicity legislation, and in 2012, I was responsible for a critical amendment to Indiana's Right of Publicity statute.[20] The majority of Right of Publicity statutes include significant limitations and broad exemptions for First Amendment purposes.[21] Commentators seem to ignore these points when proclaiming that the Right of Publicity is a threat to the First Amendment or a too difficult to comprehend, but "[a]s much intellectual fun as it may be to assail right of publicity law as philosophically incongruous or incomprehensible, it is quite possible to analyze it in an organized, straightforward fashion that has practical value."[22]

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## A Primer for Licensing of People

While any negotiation for a licensed use of a personality may take twists and turns, there are standards characterizing many negotiations or valuations. Licensing a personality can incorporate various forms of intellectual property such as the Right of Publicity, trademark, and copyright in some circumstances. Generally speaking, a license is a contractual allowance for a third party to use the rights owner's interest in one's name, image likeness or other aspects of persona. A well-drafted license will define the elements of the personality to be used, in what media, for how long, for what goods, and the compensation arrangements. As with any contract, a license to use a personality should provide a clear start and end date, payment provisions, how royalties (if applicable) are calculated, and other negotiable contract points.

A license for merchandise typically involves a royalty, whereas advertising typically involves a flat fee. This is a fundamental distinction upon which most transactions divide, but has proven to be an area of considerable debate in an expert context. The definition of gross sales and net sales can be outcome determinative. That said, it is less important whether a contract uses the term gross or net than it is how the contract defines permissible deductions from gross royalties. Most definitions of net begin with gross less the permissible deductions. Most license agreements only allow a few carefully defined deductions or adjustments. If not carefully defined, the result could be a license yielding no royalties at all. This phenomenon seems to show up in litigation over unauthorized uses with some regularity, along with the familiar infringer's refrain of "1) we didn't mean any harm; 2) we didn't benefit from it; 3) we think we did you a favor; and 4) everyone else is doing it, why are we being singled out?"

In general, a royalty will apply for sales of product that a personality is attached to, such as the person's name on the product. This distinction contrasts with advertising uses, which typically involve a flat fee. In a recent national advertising campaign for Jeep which featured Babe Ruth, my client was not paid a royalty on sales of Jeep products. Similarly, when Major Taylor, who died in 1932,[23] was the subject of a national advertising campaign for Hennessy, the arrangements were not based on a royalty on sales of Hennessy's goods. If the use is one that is appropriately royalty-bearing, additional elements come into play such as the possibility of an advance against expected royalties during a defined period of time, as well as the potential of a guaranteed minimum royalty during the term of the license, renewal procedures, samples, and licensor's credit line.

Quality control should be explicitly outlined in a license to use a personality. While the Right of Publicity does not have the quality control requirements incumbent on a trademark owner when licensing a trademark to a third party, it is advisable for the rights owner to exercise careful review of mock ups, prototypes, and samples of the finished product. Unless by express agreement of the parties, the license should make clear that the licensor maintains ownership of all underlying intellectual property. A credit line designating the licensor should be included to the extent possible. Because the license is granting access to the licensor's intellectual property, it is logical that provisions like choice of law, jurisdiction, termination provisions or other boiler plate language be in the licensor's favor.

Those responsible for handling a personality's business interests must ensure that existing contractual obligations are understood and navigated when any new opportunity is being considered. These can involve obvious conflicts, such as endorsing a beverage company but appearing in public with a competitor's product, but also less obvious scenarios like complimentary goods and how certain brands may already be aligned. Similarly, if a particular keystone opportunity is being pursued, it would be a mistake to partner with a lesser brand or secondary product if doing so squelches the potential for the keystone program to be as significant, and optimized, as possible.

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Ultimately, the goal for licensing of a personality should be *optimization*, which is driven by understanding the objectives of the person, or rightsholder, then understanding the marketplace and how the pieces fit together, what opportunities exist for a rightsowner, and what a fair market value compensation for a given use looks like. Optimization can be achieved by strategically implementing a robust branding program with each element of the program complimenting the program overall, and with the focus, support and cooperation of the rights owner(s). This can lead not only to maximized revenue streams, but also to creation of entirely new outlets. In an optimized state, the public has the opportunity to engage with a brand through social media, destinations, entertainment, and merchandise. As optimization is reached, other elements pertaining to the personality, perhaps including album sales or streams, and music publishing interests, book sales, on-demand movies, other licensed goods, concerts, or social media outlets also benefit.

An optimized licensing program would include intentionally targeted product categories, with market-leading companies. If appropriate and viable, an optimized licensing program may include a museum exhibit, an official documentary, a major motion picture biopic, a Broadway show, an integrated social media strategy, and a strategically developed merchandise and branding program that compliments each of these endeavors. But finding licensing and co-branding partners is a delicate process. It often takes time, and trust. When a potential partner senses that a rights owner is hard to deal with, that potential partner may simply go a different direction. No licensee wants to spend the time, effort, and investment wrestling with an uncooperative rights owner.

Under the heading of best practices, a use of a personality that has exclusivity attached typically will require a premium. If the use is unauthorized, a valuation may appropriately consider whether the unauthorized use precludes pursuit of an authorized use in the same airspace, or if the unauthorized use somehow damages the opportunities for authorized uses.

Policing and enforcement are important components in managing personality rights and licensing programs. Discernment is critical in conducting policing actions, sweeps of maker marketplaces (like Amazon, eBay, Etsy, Zazzle, RedBubble, to name a few).[24] Coupled with the dramatic rise in unemployment claims, infringements may be on the rise, but not all infringements are created equal. For example, in early 2019 a Girl Scout troop member repackaged *Samoas* as *Mamoas*, with Jason Mamoa as *Aquaman* on the packaging. It is not clear how many boxes were altered and sold, but the Mamoa boxes appeared to be fairly well-executed if one puts aside the potential trademark, trade dress, copyright and right of publicity issues involved. I submit this would have been a candidate for resolving amicably. Perhaps the aforementioned Dr. Fauci donuts fall in this category.

For a personality or representative, now may be a good time to conduct sweeps and take down notices, frustrating as such efforts can be since sellers often relist the goods, and the forum companies seem to consider that 1) identifying unauthorized goods is entirely the rights owner's responsibility, and 2) shutting a reported infringement down should be the extent of theirs.

These points are addressed in a Department of Homeland Security report from January 2020 on counterfeit goods. Among other things, the report stated: "[w]hile counterfeit and pirated goods have been sold for years on street corners, alleys, and from the trunks of cars, these illicit goods are now marketed to consumers in their homes through increasingly mainstream e-commerce platforms and third-party online marketplaces that convey an air of legitimacy."[25] If a company is promoting, profiting from, and even producing infringing items, it makes sense for the facilitating forum to share in responsibility.

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**Valuing the Use of a Person**

What's it worth? It might be a potential license, a buy out or transfer of rights, or pending litigation. The inquiry alone ties to the enduring popularity of *Antiques Roadshow*, the usefulness of *Kelley Blue Book*, or the role of an expert witnesses in a litigation context. Lawyers have a vested interest in having a sense of a claim's value before launching litigation. A transactional attorney, business owner, or licensing executive may deftly handle this question on a daily basis, or may be over- or underestimating value. I have made a point of studying, teaching, and writing about the issues in this article. There are practical considerations in play, as well as limitations on the rights concerning individuals and exempted uses, exclusions that can exist or conflicts when a celebrity is endorsing competing brands, context, etc.).

Valuations typically are fact-specific. An expert typically will select a valuation approach to follow, and may consider income history of the personality or the potential licensee (or infringer), comparable transactions in the marketplace, and publicly available sources that speak to value in specific transactions. It is a good idea to understand the parties and examine the details closely. Who is the personality? What is (or was) he or she famous for? What is the sweet spot for commercial utilization? What are the vulnerabilities? What are the governing plans for expansion or licensing or branding? What was going on at the time of the unauthorized use, or will be transpiring when the licensed use hits the market? A proposed use may be good in a vacuum but it may touch on something that the personality is planning to launch as an equity owner, and the proposed use is a shadow of what the big plans are. Conversely, a personality may not have much of an income history, but if an unauthorized use taps into the singular area that he or she is (or was) known for, the casualty effect of the unauthorized use could be higher than for a personality who seemingly has no limits on outlets or potential uses.

A framework for considering the value of a particular person in an advertising context involves looking at: 1) the extent of famousness of the person; 2) the degree of endorsement conveyed by the use or association; 3) the visibility, reach, and range of the use; and 4) the relationship between the personality and the brand or message of the campaign.[26] Beyond the preceding criteria, valuing a use requires understanding 1) the compensation levels a personality can command; 2) the compensation appropriate for a given use; and 3) whether personal obligations are involved. In a negotiation, asking for some form of Most Favored Nations can be a useful strategy to provide assurances.

There are various ways one might go about seeking comparables. The best sources often are other agreements involving the personality in question or on the other side of the equation, agreements for use of other personalities from the licensee (or infringer). External reference points can be useful, such as published data that may exist which requires industrious searching, information that has become public through litigation and court filings, or databases that catalog such information. As an example of a source that can provide context in relation to sponsored posts and influencers, the following data and figures has been reported:

| **Influencer** | **Followers** | **Reported compensation per post** |
|---|---|---|
| 1 Eleonora Pons | 35,300,000 | $144,000 |
| 2 Huda Kattan | 37,800,000 | $91,300 |
| 3 Cameron Dallas | 21,200,000 | $86,600 |

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| | | |
|---|---|---|
| 4 Sommer Ray | 21,200,000 | $86,600 |
| 5 Zach King | 20,300,000 | $82,900 |
| 6 Felix Kjellberg | 17,300,000 | $70,800 |
| 7 Logan Paul | 16,000,000 | $65,400 |
| 8 Jake Paul | 12,100,000 | $49,600 |
| 9 Joanna Gaines | 11,000,000 | $45,000 |
| 10 Nash Grier | 10,000,000 | $41,100 |

Table source[27]

In contrast to so-called influencers, Michael Jordan has exhibited considerable staying power in a licensing context. In April 2020, ESPN released the Michael Jordan documentary *The Last Dance*, once again bringing Jordan into millions of living rooms. In 2009, when Michael Jordan was inducted into the Basketball Hall of Fame two Chicago-area grocery stores, Jewel and Dominick's, ran advertisements congratulating Jordan. The Dominick's advertisement featured Michael Jordan's name, the number 23, Chicago Bulls coloration, a silhouette reminiscent of Jordan's Jumpman logo, and the statement "You are a cut above" over a steak coupon."[28]

I am frequently asked about the jury award of $8.9 million in the Dominick's case.[29] Many were surprised that a congratulations led to such a substantial award; however, a congratulatory message in a paid advertisement for a grocery store is not the same as a person congratulating Jordan in person. The argument that the advertisements were nothing more than a benign congratulations might carry more weight if the advertisements had not included the grocery stores' names, logos, mottos, or coupons. In any event, the advertisements were professionally designed promotional campaigns in a prominent publication by businesses seeking to associate with Michael Jordan at a time when he was in the news for a career-defining accomplishment.

Jordan has a signature steakhouse restaurant and an online steak company based on his namesake, and the complaint specified that Jordan would not have agreed to such an advertising campaign, "especially not to sell steaks in direct conflict with his restaurants." The value of such association has been consistently demonstrated through Jordan's licensed uses and endorsements.[30] The starting fee for an authorized association with Jordan, based on testimony provided on August 12, 2015 is $10 million.[31] In fact, a recent report indicates that Jordan once turned down a deal estimated to be worth $100 million.[32]

While Michael Jordan holds many records, he no longer holds the record for the highest jury award for a Right of Publicity claim. In early 2020, I testified in a jury trial on behalf of the family of a business pioneer whose name and backstory became the centerpiece of a successful brand. The jury aligned with my valuation and awarded $9.6 million, which I am told is the highest amount ever awarded for a Right of Publicity claim, surpassing Michael Jordan's $8.9 million grocery store award. This outcome was accomplished by citation and explanation of industry practices, reliable sources, and the context that working in this specialized industry relies on, including many of the points touched on above. Anytime I can claim to have broken one of Michael Jordan's records, I will take it, even if the record will surely be broken again.

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## Seeing Around Corners

Technology propels the growth of celebrity licensing into scenarios like live concerts with Tupac or Ronnie James Dio holograms,[33] new performances by deceased actors in *Star Wars* and *Hunger Games*,[34] or the 2019 announcement that a "new" James Dean movie was in development.[35] Other forms of technology, like the evolving realm of social media to DeepFakes technology,[36] will continue to create opportunities as well as pitfalls in relation to commercial use of a personality.

The need for a meaningful Right of Publicity is evident, and if there is value in associating with a personality, that value deserves to be protected. Professor J. Thomas McCarthy says "Perceptive legal commentators do not shy away from defending the right to control commercial use of identity as a self-evident natural right of every person." Similarly, Professor Nimmer has stated:

[bq]It would seem to be a first principle of Anglo-American jurisprudence, an axiom of the most fundamental nature, that every person is entitled to the fruit of his labors unless there are important countervailing public policy considerations.[37]

In dealing with these issues on a daily basis, I have the opportunity to consult with rights owners, understand their unique priorities and concerns, and navigate the challenges involved in developing a business around licensing these rights and protecting a rights owner's legacy. I also see market forces at work and how these rights are exploited—sometimes with, sometimes without permission. Professor McCarthy, citing a separate law review article, notes that "…the real policy choice is not between rich celebrities and the needy public, but between celebrities and corporate advertisers who want to use the aura of celebrity to help sell products….[38]

As Vince Lombardi Jr. has stated: "Nothing anyone can do is going to enhance my father's reputation, but they certainly can detract from it."[39] His point is taken, but a posthumous Emmy nomination is a nice addition to anyone's resume.

*Jonathan Faber is Managing Partner and General Counsel of Luminary Group LLC and an attorney with McNeelyLaw, LLP. Visit http://www.LuminaryGroup.com and http://www.RightOfPublicity.com for more information.*

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# Art Law 201: Painting the Picture of Sales of Art During a Global Pandemic

**Emily Behzadi**

The impact of COVID-19 in the U.S. has had a deleterious effect on the economy, with record high levels of unemployment, loss of businesses, and the high cost of healthcare related to fighting the pandemic. The harsh economic consequences of COVID has permeated all industries in the entertainment business, most notably the art market. Indeed, COVID's widespread economic impact has even reached seemingly "loftier" economic players, such as art galleries and auction houses. The 2020 pandemic has occasioned unprecedented challenges to the art market. As an industry once dependent on in-person interactions, COVID has changed the landscape, requiring art galleries to shut their doors, art fairs to be cancelled, and auction houses to move to online bidding. In the first half of 2020, the art industry experienced the permanent closure of many galleries, mergers, and take overs by larger entities.[1] As a consequence of the restrictions on travel, many more people are also spending most of their time in at home. Some collectors used COVID and its resulting restrictions to update their collections and to improve the walls of their home.[2] While others were forced to sell their once-prized possessions. Ultimately, the art market has tried to adapt to this new unchartered territory. However, the art market has still been severely impacted by the economic fallout of the COVID-19 pandemic.

Last year, global sales of art and antiques were estimated to have reached $64.1 billion.[3] While in 2020, the art world continues to witness global sales, it is clear that the global art market will not reach that high turnover this year. Dr. Clare McAndrew,[4] founder of Art Economics, conducted an independent and objective study for Art Basel and UBS entitled *The Art Market*.[5] In this study, McAndrew conducted a global art market analysis and looked at changing patterns of global wealth and art collecting in different segments of the global art market, including the galleries, auction houses, art fairs, and online sales venues.[6] The report surveyed 795 galleries and 360 high-net worth art collectors around the globe. This is the first major survey of how the pandemic has impacted the art market and it yielded some interesting results.

### A. Galleries are the most impacted by the COVID-19 Crisis

Galleries[7] have been one of the hardest hit sectors in the art industry, with smaller galleries taking the brunt of the hits. According to McAndrew's report, in the first six months of 2020, galleries reported that the value of their sales fell by thirty-six percent on average (with a median decline of forty-three percent).[8] Smaller galleries, with turnover of less than $500,000, reported the largest declines in sales, with a drop of forty-seven percent of sales value, while galleries with turnover of less than $250,000 experienced a thirty-nine percent decline in sales.[9] Larger galleries with more resources, locations, and larger-named represented artists were able to offset some of these losses. Smaller galleries, representing emerging artists and with vastly fewer resources, are undoubtedly struggling to remain in business. Many smaller galleries have had to shut their doors indefinitely.[10] Of course, these dramatic drops in sales continue to further the power divide between larger and smaller galleries. Most galleries do not appear optimistic about the rest of 2020 and the beginning of 2021, with respect to sales of fine art and antiques. A majority of the galleries surveyed expected sales to continue to decrease and less than half of the galleries surveyed believed sales are expected to increase in 2021.[11]

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However, the individuals most impacted by the downward trend in sales are those behind the scenes of galleries and their blockbuster exhibitions. In response to the economic downturn caused by COVID-19, many galleries have had to furlough or permanently lay off staff.[12] McAndrew's report indicated that galleries with revenues between $250,000 and $500,000 reported a large downsizing of at least thirty-eight percent.[13] Even high-end galleries like Pace Gallery—that furloughed a quarter of its New York staff in early April and David Zwirner Gallery[14] —that reportedly laid off almost forty employees – have seen a dramatic drop in their workforce. [15]

Those significantly impacted by the economic crisis are contractors, freelance workers, and collaborators – personnel who are vital to in-person exhibitions. As a result of cancelled exhibitions and a move towards online sales, brick and mortar locations are, for the moment, obsolete. As a result, those who hang shows, conduct lighting, and prepare soirees for openings, etc. are without work. The Art Dealers Association of America (ADAA), a leading organization of art dealers and gallerists in the United States, released a similar report on their website, surveying the status of art galleries as a result of the pandemic.[16] The ADAA Report showed that as many as seventy-four percent of independent contractors regularly working before March 13th, 2020 are no longer employed.[17] Travel restrictions, quarantine and COVID concerns, the cancellation of exhibitions, and most notably, the significant drop in sales played a key role in these substantial furloughs and terminations.[18]

### B. Online Sales are Booming: But is it Sustainable?

Lockdowns and social distancing measures across the globe have essentially ceased the traditional in-person methods of acquiring art. For this reason, it is not surprising that overall online sales have risen during the pandemic. Before COVID, the existence of online art auctions allowed collectors to bid virtually on artworks.[19] Auction houses had similarly attempted to create an online presence, allowing some collectors to preview works online.[20] While the continued move toward online sales over the past years has signaled a new sector of the art market ready for capitalization, the pandemic and the requirement that sellers and buyers alike stay at home, has accelerated the art market's transition to this digital environment. According to *The Art Market*, the share of online gallery sales rose from a mere ten percent of total sales in 2019 to thirty-seven percent in only the first half of 2020.[21] Because many individuals still remain at home due to COVID-19, it is estimated that online sales will continue to raise in the last quarter of 2020 and likely far into 2021. Notwithstanding this emerging trend, collectors do not necessarily prefer the digital method of art acquisition. Understandably, only thirty percent of collectors prefer to use online viewing rooms or platforms to make art purchases.[22]

Even with the downward trend of overall sales in the primary and secondary markets,[23] restricted movement has not altogether diminished the interests of collectors to buy art. These restrictions have forced many collectors to stay home, allowing them to reexamine their collections. McAndrew's report revealed that, of the 360 high-net-worth collectors surveyed, ninety-two percent had already purchased at least one artwork in the first half of 2020.[24] A majority of those surveyed further indicated that they had already spent more than $100,000 on art this year, while sixteen percent said they had spent over $1 million.[25] However, many of those sales are for already sought-after artists, such as George Condo and Banksy.[26] Other works, such as those of indigenous artists, are seeing a sharp decrease in sales.[27]

### C. Art Fairs & Auction Houses Adapt to the "New Normal"

Pre-COVID-19, members of the art industry, including high-net worth buyers and sellers, readily traveled around the world to attend numerous art fairs. Art fairs have become a popular forum to exhibit art, and simultaneously, have become a significant market for galleries and dealers of artworks of all movements and genres.[28] From Frieze New York to Art Basel Hong Kong, art fairs play a large part of not only high-end art sales, but also of important networking opportunities in the art industry. Art galleries, in particular

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make use of art fairs as a means to effectuate sales and to establish key industry contacts with high-net-worth collectors. Sales at certain art fairs also serve as a benchmark of the strength of the art markets.[29] While many major international art fairs, such as Frieze New York and Art Basel in Switzerland, moved to an online-only digital format, sales deriving from these virtual events did not meet the volume of prior years. Consequently, the cancellation of art fairs had the consequence of radically reducing galleries' sales via this channel during the first half of 2020.[30] Ninety-one percent of the galleries surveyed predicted that art fair sales would not improve in the second half of 2020, and only one third believed that there would be an increase in 2021.[31]

Auction houses have fared better, but not by much. According to *The Art Market*, the number of lots sold at auction fell by twenty one percent from the previous year.[32] A more astonishing drop, is in auction turnover, which elicited a drop of forty-nine percent in the first quarter of 2020.[33] Some auction houses are taking a hybrid approach, mixing brick and mortar with online sales. Sotheby's, in particular, has seen success with this hybrid approach, seeing a $1.5 billion turnover thus far in 2020. On the other hand, Christie's saw only $1.03 billion.[34] The larger auction houses, such as Christie's, Phillips, and Sotheby's, have unsurprisingly garnered more online-only sales in 2020 than they did in all of 2019.[35] However, according to a report by Pi-eX, a London art market analytics firm, the top three public auction houses saw a seventy-nine percent year-over-year drop in revenue during the second quarter of 2020, going from $4.4 billion in 2019 during the second quarter to only $0.9 billion during the same period.[36] The problem still remains, that many potential bidders cannot view the works in person at auction houses prior to the sale. The viability of this new form of virtual live auctions is questionable in a post-COVID world. The theatrics and momentum of public auction sales cannot easily be captured in a virtual environment.

### D. Where do Attorneys Fit in?

These widespread economic effects of COVID-19 on the art market will certainly bring a number of legal issues to the forefront. As an industry heavily reliant on human interactions, the COVID-19 pandemic invariably is replete with issues in both the primary and secondary markets. Whatever price and market variations result from COVID, artworks unlike other investments, are excluded from federal and state securities and commodities laws.[37] The gallery industry itself is unregulated, and numerous issues arise from this lack of regulation.[38] Given the unique state the art industry finds itself in today, it is important for attorneys to advise their clients to exercise reasonable vigilance and to conduct careful investigation into the sources and chains of possession of the works they are acquiring.[39] This may prove exceedingly difficult due to this emerging digital environment. In that regard, the added challenges of the COVID-19 crisis now requires art law attorneys to adapt to the evolving disputes that have arisen in relation to the sale of artwork. Some of these issues include disputes over cancelled exhibitions, pricing, donations,[40] authenticity, intellectual property infringements, shipping and storaging, and bankruptcies.

As the art industry has evolved over time, merchants and buyers have also had to evolve. The outbreak of COVID-19 and its resulting economic uncertainties is no different. Key players in the art industry must now adjust to this new arena and reshape traditional practices in art-related transactions. The complexities involved in the sale and acquisition of art are already ubiquitous and attorneys must keep pace within this legal minefield.

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## Endnotes

1. For example, gallerist Gavin Brown, owner of Gavin Brown's Enterprise, joined Barbara Gladstone's Gallery after 26 years in business. Jason Farago, *Gavin Brown Closes His Gallery and Joins Forces With Barbara Gladstone,* The New York Times (July 20, 2020) https://www.nytimes.com/2020/07/20/arts/gavin-brown-barbara-gladstone-gallery.htmllast accessed Nov. 1, 2020).

2. See e.g., Maximiliano Duron, *When the Pandemic Forced the Art World Online, Some People Began Collecting—Or Returned to It*, Art News (Oct. 12, 2020), https://www.artnews.com/art-news/market/online-art-collecting-coronavirus-pandemic-1234573318/ (last accessed Nov. 1, 2020).

3. Scott Reyburn, *Pandemic Has Cut Modern and Contemporary Gallery Sales 36%, Report Says*, The New York Times (Sept. 9, 2020), https://www.nytimes.com/2020/09/09/arts/design/gallery-sales-art-market-virus.html (last accessed Nov. 1, 2020).

4. Dr. Clare McAndrew is a cultural economist who specializes in the arts, antiques and collectibles markets.

5. Dr. Clare McAndrew, The Impact of COVID-19 on the Gallery Sector, The Art Market, https://theartmarket.foleon.com/2020/artbasel/a-2020-mid-year-survey/ (last accessed Nov. 1, 2020) [hereinafter "The Art Market"].

6. *The Impact of COVID-19 on the Gallery Sector*, Art Basel, https://www.artbasel.com/about/initiatives/the-art-market (last accessed Nov. 1, 2020).

7. A "gallery" is a generic term for a place where artwork is exhibited. A gallery may be used commercially or non-commercially. Alexandra Darraby, Art, Artifact, Architecture & Museum Law § 2:13 (2017). For purposes of this article, the author references only commercial galleries.

8. The Art Market, *supra* note 5.

9. Benjamin Sutton, *Gallery Sales Dropped 36% as Art Market Reeled from Pandemic*, Artsy (Sept. 18, 2020), https://www.artsy.net/article/artsy-editorial-gallery-sales-dropped-36-art-market-reeled-pandemic (last accessed Nov. 1, 2020).

10. *See e.g.* Hakim Bishara, *NYC's Lesley Heller Gallery Will Close Permanently*, Hyperallergic (April 21, 2020), https://hyperallergic.com/557545/nyc-lesley-heller-gallery/ (last accessed Nov. 1, 2020) (Lesley Heller Gallery had been in business since 1994 and exhibited such influential artists as Sol LeWitt, Elisabeth Condon, and Deborah Brown, among others).

11. The Art Market, *supra* note 5.

12. *Id*.

13. *Id*.

14. *Pace Gallery, Others Continue Lay Offs Amidst Covid-19*, The Art Insider (July 27, 2020), https://www.art-insider.com/pace-gallery-others-continue-lay-offs-amidst-covid-19/1574 (last accessed Nov. 1, 2020).

15. Zachary Small, *Projecting 30 Percent Sales Drop, David Zwirner Lays Off Nearly 40 Employees,* Art News (July 3, 2020), https://www.artnews.com/art-news/news/david-zwirner-layoffs-coronavirus-1202693378/ (last accessed Nov. 1, 2020).

16. *U.S. Art Galleries Project 73% Loss in Second Quarter Revenue Due to COVID-19 Developments,* Art Dealers Association of America (May 19, 2020) https://www.artdealers.org/sites/default/files/COVID-19%20Impact%20Survey%20of%20U.S.%20Art%20Galleries%20-%20FINAL_1.pdf (last visited Nov. 1, 2020).

17. Elena Martinique, *COVID-19's Impact on US Galleries is Significant, Reports ADAA*, Wide Walls, (May 21, 2020) https://www.widewalls.ch/magazine/adaa-covid-19-report-us-art-galleries (last accessed Nov. 1, 2020).

18. Pace Gallery, *Others Continue Lay Offs Amidst Covid-19*, The Art Insider (July 27, 2020), https://www.art-insider.com/pace-gallery-others-continue-lay-offs-amidst-covid-19/1574 (last accessed Nov. 1, 2020).

19. Darraby, *supra* note 7 at 2:9.

20. *Id*.

21. The Art Market, *supra* note 5.

22. *The Impact of COVID-19 on the Gallery Sector: 7 Key Findings on Collecting*, UBS Contemporary Art, https://www.ubs.com/global/en/our-firm/art/2020/gallery-sector.html (last accessed Nov. 1, 2020).

23. Art is typically traded in primary and secondary markets. The primary market is one where the art is derived directly from the artist, producer, or publisher. On the other hand, the secondary market is where art is procured

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through a variety of sources, including, but not limited to estates, auctions, other dealers, foreclosures, bankruptcies, museums, and other collections. Darraby, *supra* note 7 at §2:3.

24. *Id*.

25. *Id*.

26. Barbie Latza Nadeau, *Online Art Sales See a Wild West Boom With Auction Houses Shut by COVID*, The Daily Beast, (Sept. 27, 2020) https://www.thedailybeast.com/sothebys-and-christies-online-art-sales-see-a-wild-west-boom-with-auction-houses-shut-by-covid-19 (last accessed Nov. 1, 2020).

27. Linda Morris, *After years of growth, Indigenous art sales have been hit hard by COVID-19*, The Sydney Herald, (Sept. 2, 2020), https://www.smh.com.au/culture/art-and-design/after-years-of-growth-indigenous-art-sales-have-been-hit-hard-by-covid-19-20200820-p55nma.html (last accessed Nov. 1, 2020).

28. Darraby, *supra* note 7 at §2:20

29. *Id*.

30. The Art Market, *supra* note 5.

31. *Id*.

32. *Artprice presents five Covid-proof artists*, Art Price.com, (Sept. 15, 2020) https://www.prnewswire.com/news-releases/artprice-presents-five-covid-proof-artists-301130532.html (last accessed Nov. 1, 2020).

33. *Id*.

34. *Id*.

35. Sutton, *supra* note 9.

36. Angelica Villa, Top Three Houses See 79 Percent Year-Over-Year Drop in Second Quarter of 2020: Report Art Market Monitor, (Aug. 5, 2020) https://www.artmarketmonitor.com/2020/08/05/top-three-houses-see-79-percent-year-over-year-drop-in-second-quarter-of-2020-report/ (Nov. 1, 2020).

37. Darraby *supra* note 7 at 2:8.

38. Darraby *supra* note 7 at 2:26 ("Art dealers [galleries] are not regulated as a class of sellers.")

39. *Id*.

40. The recent Coronavirus Aid, Relief, and Economic Security Act (CARES ACT) allows taxpayers to make cash donations to nonprofits (like museums) and to receive certain deductions.

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