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THE CASE FOR OMBUDS SHIELD LAWS: PROMOTING EARLY CONFLICT RESOLUTION BY PROVIDING CERTAINTY

by MARGARET T. CAMPBELL*

I. INTRODUCTION

While it has become increasingly clear that the most equitable and expeditious method of alternative dispute resolution is very often some form of mediation,¹ state statutes, rules and case law have been inconsistent in their creation of confidentiality protections for those participating in such sessions.² Although limited rules have been in place for some mandatory court mediation and legislative ombudsmen, there are few definitive rules or case law to protect those engaged in many forms of mediation, particularly the very early form of dispute resolution by private or organizational ombudsmen. Even though an ombuds can avoid the escalation of conflict by working confidentially with parties within a business organization or university to find options

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¹ See INTERNATIONAL OMBUDS ASSOCIATION STANDARDS OF PRACTICE (Int'l Ombudsman Ass'n 2009), [hereinafter IOA STANDARDS OF PRACTICE], *available at* <http://www.ombudsassociation.org/about-us/mission-vision-and-values/ioa-best-practices-standards-practice>; AMERICAN BAR ASSOCIATION, STANDARDS FOR THE ESTABLISHMENT AND OPERATION OF OMBUDS OFFICES (2004) [hereinafter ABA STANDARDS 2004], *available at* <http://meetings.abanet.org/webupload/commupload/AL322500/newsletterpubs/115.pdf> (last visited May 21, 2013).

² See generally Ryan Spanheimer, *Justification for Creating an Ombudsman Privilege in Today's Society*, 96 MARQ. L. REV. 659 (2012) (for discussion of inconsistent treatment of confidentiality protections).

or mediate conflicts,³ in most states ombudsmen are left in unchartered territory without a specific privilege or confidentiality protection⁴ which may discourage creation of these important offices within an organization. Unlike mediation which occurs after suit is filed, an ombuds assists in avoiding litigation and rarely operates in the courts where rules of evidence and case law are invoked.⁵ Removal of any uncertainty regarding confidentiality of the proceedings through enactment of ombuds shield laws would assist and encourage the establishment of offices for this important and early method of alternative dispute resolution.

II. HISTORY OF THE OMBUDS

The Swedish word “Ombudsman” (om budz man) meaning “representative,” originally was an independent representative of the people whose role was to investigate and resolve allegations of governmental violations.⁶ The term has been increasing in use in the United States since 1969 when the American Bar Association (ABA) first issued resolutions to “address independence, impartiality, and confidentiality as essential characteristics of ombudsmen who serve internal constituents, ombudsmen in the private sector, and ombudsmen who also serve as advocates for designated populations.”⁷ Several variations of the word are currently in use with the ABA using “ombudsman” in 2001⁸ but “ombuds” in 2004⁹, while the International Ombudsman Association uses the term “ombudsman”¹⁰ This article will

³ See IOA, STANDARDS OF PRACTICE, *supra* note 1.

⁴ For *Illusory Ethics: Legal Barriers to an Ombudsman's Compliance with Accepted Ethical Standards*, Scott C. Van Soye undertook extensive research into the status of ombuds legislation in all states, concluding “no American state or territory – including those where a general legislative ombuds exists – embraces the ombudsman privilege as envisioned by either the IOA or USOA. [t]hose jurisdictions with some statutory reference to an ombudsman's privilege use widely divergent approaches.” (footnotes omitted).

⁵ See IOA, STANDARDS OF PRACTICE, *supra* note 1.

⁶ See International Ombudsman Association, *What is an Organizational Ombudsman?*, (March 22, 2013 12:14 PM), <http://www.ombudsassociation.org/resources/what-ombuds>. (discussing history of the ombudsman role).

⁷ See ABA Sec. Admin. Law, Report on *Establishment of Ombudsman*, in 94 ABA Rep. 265 (1969) [hereinafter ABA, *Establishment of Ombudsman*].

⁸ See AMERICAN BAR ASSOCIATION, STANDARDS FOR THE ESTABLISHMENT AND OPERATION OF OMBUDS OFFICES (2001) [hereinafter ABA STANDARDS 2001].

⁹ See generally ABA STANDARDS 2004, *supra* note 1, (wherein it sets forth that “[t]he term ombuds in this report is intended to encompass all other forms of the word, such as ombudsperson, ombuds officer, and ombudsman, a Swedish word meaning agent or representative. The use of ombuds here is not intended to discourage others from using other terms.”).

¹⁰ See generally International Ombudsman Association, *Frequently Asked Questions (FAQs)* (March 22, 2013 12:30 PM), <http://www.ombudsassociation.org/about-us/frequently-asked->

use the term “ombuds” in keeping with the most recent use by the ABA. While there may be some hesitation surrounding the use of such an unusual word, the role served by an ombuds is so unique that use of a more common word, such as “mediator”, would likely cause misperception.¹¹ Ombuds is much more than just a representative because they also work to find solutions to problems as well as mediate disputes.¹² Unlike a typical representative, the ombuds retains an independent and impartial role in working with parties.¹³

The preamble to the American Bar Association’s 2001 *Standards for the Establishment and Operation of Ombudsman Offices* indicates that an ombuds:

“receive complaints and questions from individuals concerning people within an entity or the functioning of an entity. They work for the resolution of particular issues and, where appropriate, make recommendations for the improvement of the general administration of the entities they serve.”¹⁴

Public governmental ombuds continue to work with parties in many capacities and new roles in the private sector have evolved to include organizational ombuds in business, medical care and education.¹⁵ The ombuds who serves an organization is uniquely situated to resolve problems either before they reach the level of an actual dispute or before the commencement of litigation.¹⁶ This is done by being familiar with all aspects of an organization, being independent from the parties as well as the organization, remaining neutral and impartial, and working confidentially to informally address the concerns of the parties.¹⁷ Although an ombuds may act as a mediator, they often simply provide information to parties regarding available services or procedures or other tools to use in resolving the issue themselves.¹⁸ When there are not adequate procedures or services to address an issue, they can advise the organization of those unaddressed needs.¹⁹ Contact with an ombuds typically involves no formal procedure or records, and does not constitute notice to any party or result in formal investigation, but

questions-faqs (for variation of word “ombuds”).

¹¹ Howard Gadlin, *Ombudsman vs. Mediator*, Mediation.org (May 21, 2013), <http://www.mediate.com/articles/gadlindvd01.cfm>.

¹² See ABA, *Establishment of Ombudsman*, *supra* note 7.

¹³ See ABA STANDARDS 2001, *supra* note 8.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ See Rowe, Mary, *An Organizational Ombuds Office In a System for Dealing with Conflict, or “Conflict Management System”*, 14 HARV. NEGOT. L. REV. 279-288 (2009).

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*

remains confidential.²⁰ For these reasons, parties can freely seek the assistance of the ombuds without fear of harm to working relationships within the organization.²¹ This allows for early intervention of minor disputes or misunderstandings, which prevents many problems from reaching a more serious stage where it would adversely affect the operation of the organization.²² Employees or students are often reluctant to avail themselves of human resources personnel or similar offices of the organization.²³ However, they may be more likely to seek guidance from an independent and confidential ombuds who can redirect the parties to avoid the escalation of problems.²⁴

III. STANDARDS OF PRACTICE

The evolution of the ombuds from governmental to organizational arenas resulted in the establishment of standards for the operation of such programs by the American Bar Association (ABA), the International Ombudsman Association (IOA) and others.²⁵ The goals of such guidelines are to “provide advice and guidance on the structure and operation of ombuds offices so that ombuds may better fulfill their functions and so that individuals who avail themselves of their aid may do so with greater confidence in the integrity of the process.”²⁶ In the 2004 revisions to the Standards, the ABA established four different types of ombudsmen.²⁷ First, the Legislative Ombuds, who is part of the legislative branch, and who “receives complaints from the general public or internally, usually concerning the actions or policies of government entities, individuals or contractors with respect to holding agencies accountable to the public.”²⁸ These type of ombuds are most closely related to the original Swedish model of an ombuds.²⁹ Second, the public or private sector Executive Ombuds, who “receives complaints from the general public or internally and addresses actions and failures to act of the entity, its officials, employees, and contractors.”³⁰ The third type of ombuds is the Organizational Ombuds, who “facilitates fair and

²⁰ *Id.*

²¹ See IOA, STANDARDS OF PRACTICE, *supra* note 1.

²² *Id.*

²³ *Id.*

²⁴ See ABA, *Establishment of Ombudsman* *supra* note 7.

²⁵ See IOA STANDARDS OF PRACTICE, *supra* note 1; Van Soye, *Illusory Ethics*, *supra* note 4; and IOA, *What is an Organizational Ombudsman?*, *supra* note 6.

²⁶ *Id.*

²⁷ See ABA STANDARDS 2004, *supra* note 1 at §G, H, I and J.

²⁸ *Id.* at §G.

²⁹ *Id.* at §H.

³⁰ *Id.* at §H.

equitable resolutions of concerns that arise within the entity.”³¹ This includes the ombuds who works within a corporate or other structure, including those in the academic setting such as universities.³² Finally, the Advocate Ombuds is simply “an advocate [who] serves as an advocate on behalf of a population that is designated in the charter.”³³ Along with a movement toward the clarification of the various roles played by ombudsmen, the ABA also establishes the three “essential characteristics” of “Independence, Impartiality, and Confidentiality” for the operation of an ombuds.³⁴ These characteristics are very similar to the four “Cornerstone Principles” of “Independence, Neutrality and Impartiality, Confidentiality and Informality” established by the International Ombuds Association.³⁵ While there are different types of ombudsmen, the standards of practice of independence, impartiality and confidentiality set forth by the ABA should apply to any ombuds.³⁶ In addition to those three principles, the IOA adds informality and other standards.³⁷ As the lack of a clear confidentiality protection is of special concern for the organizational ombuds, this article focuses on that particular need, however the analysis is also applicable to the other types of ombudsmen.

A. Independence

In order to be “credible and effective” the ABA cites independence as an essential characteristic of an ombuds, meaning the ombuds is “free from interference in the legitimate performance of duties and independent from control, limitation, or a penalty imposed for retaliatory purposes by an official of the appointing entity or by a person who may be the subject of a complaint or inquiry.”³⁸ Independence in reality is a difficult goal to accomplish for the organizational ombuds.³⁹ Although the ombuds office may be established with the assertion that it is independent from the organization itself, this can only be accomplished if there is no chance for retaliation from management or others through employment, salary or other budgetary issues affecting

³¹ *Id.*

³² See IOA, STANDARDS OF PRACTICE, *supra* note 1.

³³ *Id.* at §I.

³⁴ *Id.* at §J.

³⁵ See IOA, STANDARDS OF PRACTICE, *supra* note 1 at §1.1-4.8.

³⁶ See ABA STANDARDS 2004, *supra* note 1 at C1-3.

³⁷ See IOA, STANDARDS OF PRACTICE, *supra* note 1 at §1.1-4.8.

³⁸ See ABA STANDARDS 2004, *supra* note 1 at C1; IOA, STANDARDS OF PRACTICE, *supra* note 1 at §1.1-1.5.

³⁹ See Michael Eisner, *Creation of an Ombuds Office Can Prevent Retaliation Claims*, Mediate.com (May 21, 2013), <http://www.mediate.com/articles/eisnerm1.cfm>.

the ombuds office.⁴⁰ When establishing an organizational ombuds, independence concerns typically dictate that they report only to the highest level in the organization; however, there is still the danger that the wishes of that administrator could influence the actions of the ombuds.⁴¹

Although the charter or policies which establish the ombuds office may assert that there may be no retaliation by the organization, without statutory protection the reality is that most ombuds will to some extent be vulnerable to the organization's power over financial and staff issues.⁴² As long as the independence of the ombuds is only established by the organization's own internal doctrines, it will never achieve the level of independence granted statutorily to a legislative ombuds.⁴³ Lack of specific statutory protection makes it more difficult for an ombuds to establish its independence from the organization as required by the ABA guidelines.⁴⁴

B. Impartiality

A second essential characteristic set forth by the ABA for an ombuds is that of impartiality, such that the ombuds "does not have administrative or other obligations or functions, [so that] the ombuds can act in an impartial manner."⁴⁵ Being cognizant of all roles played by the ombuds within an organization allows them to remain "free from initial bias and conflicts of interest."⁴⁶ The International Ombudsman Association recommends that the ombuds serve "no additional role within the organization which would compromise the Ombudsman's neutrality."⁴⁷

With this standard, the differences between the ABA Essential Characteristics and the IOA Standards of Practice become apparent.⁴⁸ While the ABA is attempting to set forth guidelines for the various types of ombudsmen, the IOA focuses on organizational ombudsmen.⁴⁹ As they are drafted with the particular needs for organizational ombuds

⁴⁰ See The International Ombudsman Association, *Questions for Organizations Considering the Implementation of an Ombudsman Office*, (May 21, 2013), <http://www.ombudsassociation.org/resources/questions-implementation>.

⁴¹ *Id.*

⁴² *Id.*

⁴³ See ABA STANDARDS 2004, *supra* note 1.

⁴⁴ *Id.*

⁴⁵ See ABA STANDARDS 2004, *supra* note 1 at C2.

⁴⁶ *Id.*

⁴⁷ See IOA, STANDARDS OF PRACTICE, *supra* note 1 at §2.4.

⁴⁸ See IOA, STANDARDS OF PRACTICE, *supra* note 1; ABA STANDARDS 2004, *supra* note 1.

⁴⁹ *Id.*

offices, the IOA Standards of Practice are better suited to ombuds working within an organization.⁵⁰

C. Confidentiality

Perhaps the component which is most critical to the successful ombuds is the essential characteristic of confidentiality.⁵¹ As the third ABA Essential Characteristic, Confidentiality is “a further factor that distinguishes ombuds from others who receive and consider complaints such as elected officials, human resource personnel, government officials, and ethics officers.”⁵² The IOA Standards of Practice go even further than the ABA standards in that they state that “[c]ommunications between the Ombudsman and others (made while the Ombudsman is serving in that capacity) are considered privileged. The privilege belongs to the Ombudsman and the Ombudsman Office, rather than to any party to an issue. Others cannot waive this privilege.”⁵³

Without this important protection, individuals may be hesitant to reveal their issues or concerns.⁵⁴ The ability to speak freely and without fear that their identity or complaints will be disclosed to the organization or other individuals often is the factor that encourages contact at a very early stage in a disagreement.⁵⁵ Often this allows the ombuds to suggest more effective means of addressing those concerns, which results in avoiding escalation to a more serious stage.⁵⁶ When disputes can be avoided or resolved early, the individuals involved, as well as the organization itself, benefit.⁵⁷ If individuals are not confident in the confidentiality of their discussions with the ombuds, they will hesitate until the conflict is at a stage where they have no option other than litigation.⁵⁸

Although the ABA Essential Characteristics provide an important foundation for the establishment of an Organizational Ombuds Office, even the ABA does not assert that they are enough.⁵⁹ Underscoring this, the ABA report states:

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² See ABA STANDARDS 2004, *supra* note 1 at C3.

⁵³ See IOA, STANDARDS OF PRACTICE, *supra* note 1 at §3.2.

⁵⁴ See Spanheimer, *supra* note 2.

⁵⁵ Scott C. Van Soye, *Illusory Ethics: Legal Barriers to an Ombudsman's Compliance with Accepted Ethical Standards*, 8 PEPP. DISP. RESOL. L.J. 117 (2008).

⁵⁶ *Id.*

⁵⁷ See Bloch, Brian; Miller, David; Rowe, Mary, *Systems for Dealing with Conflict and Learning from Conflict--Options for Complaint-Handling: An Illustrative Case*, 14 Harv. Negot. L. Rev. 239-247 (2009).

⁵⁸ See IOA, STANDARDS OF PRACTICE, *supra* note 1; ABA STANDARDS 2004, *supra* note 1.

⁵⁹ See IOA, STANDARDS OF PRACTICE, *supra* note 1; ABA STANDARDS 2004, *supra* note 1.

“Providing for confidentiality and protection from subpoena in a statute is particularly important because, where statutes have not provided confidentiality, state courts have not consistently recognized an ombuds privilege nor granted protective orders to preserve the confidentiality of communication made to ombuds.”⁶⁰

Despite the sound arguments in favor of an ombuds privilege, there has been little legislative support for the creation of such a privilege,⁶¹ which leaves the organizational ombuds at the mercy of the courts. The issue of ombuds confidentiality has been explored in several courts since the 1995 seminal case of *Garstang v. Superior Court*,⁶² where the California court found an ombuds privilege under the state’s constitutional right to privacy.⁶³ However, the *Garstang* ruling was limited, and would not apply to material which was “directly relevant” to the proceeding or where there was a “compelling public need” to disclose the information.⁶⁴ Since that time, various cases have explored the privilege of an ombuds with inconsistent rulings⁶⁵ resulting in an unfortunate muddling of the issue. Thus, while a detailed analysis of the various approaches and conflicting rules used in federal and state courts may be an interesting exercise, it would be of limited value as they are primarily evaluated on a case-by-case basis and hold little precedential value.⁶⁶ In addition to the *Garstang*⁶⁷ case, frequently cited cases which illustrate the schism in analysis include *Shabazz v. Scurr*,⁶⁸ where the court found a limited ombuds privilege and *Carman v. McDonnell Douglass Corp.*,⁶⁹ where the court refused to find such a privilege. In addition, there have been several cases which examined the privilege under various theories of state law.

⁶⁰ See ABA STANDARDS 2004, *supra* note 1 at C3.

⁶¹ See Van Soye, *supra* note 4.

⁶² *Garstang v. Superior Court*, 39 Cal. App. 4th 526 (1995).

⁶³ *Id.* at 532.

⁶⁴ *Id.*

⁶⁵ See Spanheimer, *supra* note 2 (“Despite the essential role confidentiality plays in the ombudsman process, courts over the years have taken diverging views on granting a privilege for communications with an ombudsman. (See, e.g., *Kientzy v. McDonnell Corp.*, 133 F.R.D. 570, 573 (E.D. Mo. 1991).3(recognizing privilege for communications with ombudsman in that instance because of the importance of confidentiality to the process); *Shabazz v. Scurr*, 662 F. Supp. 90, 90–91, 94(S.D. Iowa 1987)(granting a privilege for ombudsman communications and stating that there are other means for obtaining the evidence). But see *Carman v. McDonnell Douglas Corp.*, 114 F.3d 790, 794–95 (8th Cir. 1997)(declining to recognize a privilege for communications with an ombudsman without establishment of more facts regarding the benefit of the ombudsman program.”).

⁶⁶ See Van Soye, *supra* note 4 at 14-16.

⁶⁷ *Garstang v. Superior Court*, 39 Cal. App. 4th 526 (1995).

⁶⁸ *Shabazz v. Scurr*, 662 F. Supp. 90 (S.D. Iowa 1997).

⁶⁹ *Carman v. McDonnell Douglass Corp.*, 114 F. 3d 790 (8th Cir. 1997).

Adding to the confusion is the fact that many cases, such as *Garstang*, have been analyzed based upon fact patterns where the ombuds was acting as a mediator.⁷⁰ While a mediator privilege is important⁷¹, an ombuds frequently works with individual parties and never actually assists in mediating the dispute with other parties.⁷² This being the case, reliance upon a mediator's privilege will only assist the ombuds in the limited situations where they are acting as a mediator as opposed to acting in the classic ombuds role.⁷³

Whether established under the ABA or IOA standards, an organization must put significant planning and resources into adopting procedures and policies to assure compliance with ethical guidelines.⁷⁴ Prior to undertaking such a process, many organizations will first question whether they are exposing themselves to liability in addition to questions regarding the security of the information revealed to the ombuds.⁷⁵ Absent clear statutes or case law, many such organizations may simply decide that it is not worth the risk of establishing such an office.⁷⁶ The ABA recommends that:

“Short of explicit statutory authority, ombuds offices should adopt written policies that provide the fullest confidentiality within the law, and the entities that establish ombuds offices should expressly provide the ombuds with the fullest confidentiality specified in the standards. These policies should be publicly available, broadly disseminated, and widely publicized.”⁷⁷

While adopting concise confidentiality policies should be an essential step in the formation of any ombuds office⁷⁸, such in-house policies are a poor substitute for the certainty which a specific statutory protection would provide. Entities looking to establish an ombuds office could be encouraged to do so by the clear assurance of confidentiality afforded by ombuds shield laws.

IV. THE UNIVERSITY OMBUDS

The use of a university ombuds in the United States can be traced to the prevalent student unrest during the late 1960's and early 1970's, with the first university ombuds office being established in 1966 by

⁷⁰ See ABA STANDARDS 2004, *supra* note 1 at C3.

⁷¹ See Susan Oberman, *Confidentiality in Mediation: An Application of the Right to Privacy*, 27 OHIO ST.J. ON DISP. RESOL. 3 (2012).

⁷² See IOA, STANDARDS OF PRACTICE, *supra* note 1; ABA STANDARDS 2004, *supra* note 1.

⁷³ See ABA STANDARDS 2004, *supra* note 1 at C3.

⁷⁴ See IOA, STANDARDS OF PRACTICE, *supra* note 1; ABA STANDARDS 2004, *supra* note 1.

⁷⁵ *Infra* notes 87-91.

⁷⁶ See *infra* Conclusion.

⁷⁷ See ABA STANDARDS 2004, *supra* note 1 at C2.

⁷⁸ See IOA, STANDARDS OF PRACTICE, *supra* note 1; ABA STANDARDS 2004, *supra* note 1

Eastern Montana College, followed in 1967 by Michigan State University and then many others.⁷⁹ More recently, universities have seen a surge of court cases by students dealing with such relatively trivial subjects as course grades, including a student who brought suit to change his failing grade based on various constitutional arguments.⁸⁰ In another case, a student filed a fifteen count complaint in federal court requesting that court change his grade from a C to an A- after course grades were curved, resulting in a lower final grade for the course.⁸¹ This litigiousness is not limited to students, as evidenced by the case where a professor litigated for several years to overturn the university's decision to allow a retake of an exam several students failed.⁸² In addition to the cases involving grades, other petty affronts have become the subject of litigation. An excellent example of this is the case of university professors who brought suit for violation of their First Amendment rights after the university removed a photo display of the history faculty posed as their favorite historical figures, which had been the subject of limited objections.⁸³

Universities typically encourage free thought and the expression of a wide variety of ideas, while at the same time striving to be more sensitive than society at large to offenses to the beliefs of individuals and, particularly, minority views.⁸⁴ This makes universities uniquely situated to become the subject of complaints regarding those same open minded pursuits.⁸⁵ As a result, many universities have established ombuds offices in an attempt to avoid unnecessary conflict and litigation.⁸⁶

However, the lack of clear statutory guidelines has resulted in universities facing litigation in order to affirm the practices of their ombuds, or as a result of practices which do not conform to the

⁷⁹ *The UCOA Ombuds Handbook: A Practical Guide to Establishing and Operating an Ombuds Office on a College or University Campus*, University and College Ombuds Association, 1995.

⁸⁰ *Head v. Board of Trustees of California State University*, Not Reported in Cal.Rptr.3d, 2007 WL 118882, Nonpublished/Noncitable (Cal. Rules of Court, Rules 8.1105 and 8.1110, 8.1115), Cal.App. 6 Dist., January 18, 2007 (NO. H029129).

⁸¹ Jonathan Saltzman, *Student Takes His C to Court: Judge Dismisses Suit against UMASS*, BOSTON GLOBE, Oct. 4, 2007, http://www.boston.com/news/education/higher/articles/2007/10/04/student_takes_his_c_to_federal_court.

⁸² *Yohn v. University of Michigan Regents*, 490 Mich. 878, 803 N.W.2d 698, Mich., September 30, 2011 (NO. 142894).

⁸³ *Burnham v. Ianni*, 119 F.3d 668, 120 (8th Cir. 1997).

⁸⁴ See Gajda, Amy. *The Trials of Academe: The New Era of Campus Litigation*. (Harvard University Press 2009).

⁸⁵ *Id.*

⁸⁶ *Id.*

recommended guidelines.⁸⁷ First Amendment claims were made against the University of Southern Mississippi Ombuds as a result of a report written by the ombuds at the request of University President.⁸⁸ While most university ombuds never conduct investigations or issue reports, this case is of concern in that it perpetrates confusion regarding the role of an ombuds by suggesting such actions are customary.⁸⁹

In a more recent case, the United States Court of Appeals for the Seventh Circuit granted summary judgment in favor of Southern Illinois University in a suit alleging hostile work environment and retaliation, and in doing so favorably recounted the efforts of the University Ombuds to resolve the matter,⁹⁰ demonstrating the crucial role an ombuds can have even if unable to resolve the matter and avoid litigation.⁹¹

Since there is no state statute establishing an ombuds privilege or granting immunity for the actions of ombuds universities,⁹² there may be a concern that creating such protections would require litigation.⁹³ Although arguments for those protections may be made under constitutional arguments and related statutes and cases,⁹⁴ the lack of a statute causes uncertainty which most likely impedes the further expansion of ombuds work in the academic setting.

V. CONCLUSION: THE NEED FOR SHIELD LAWS

Despite the fact that the benefits of providing early, independent, neutral and confidential alternative dispute avoidance and resolution may be clear to an organization,⁹⁵ the lack of clarity regarding the confidentiality privilege (and fear of being called to testify in any subsequent litigation) may quash enthusiasm for an ombuds office. In addition to removing confidentiality concerns as an impediment to creating an ombuds office, a state statute would provide required guidelines which would safeguard the integrity of the operation of such offices. In doing so, it would also assist in educating individuals and

⁸⁷ See ABA STANDARDS 2004, *supra* note 1 at C3; *Garstang v. Superior Court*, 39 Cal. App. 4th 526 (1995); *Carman v. McDonnell Douglas Corp.*, 114 F. 3d 790 (8th Cir. 1997).

⁸⁸ *Depree v. Saunders*, 30 S.Ct. 3450 (Mem), 177 L.Ed.2d 353, 78 USLW 3566, U.S., June 16, 2010 (NO. 09-1126, R46-019).

⁸⁹ See Tom A. Kosakowski, *A Legal Perspective*, 3 J. INT'L OMBUDSMAN ASSN. 80, 81 (2010).

⁹⁰ *Milligan v. Board of Trustees of Southern Illinois University*, 686 F.3d 378, 115 Fair Empl.Prac.Cas. (BNA) 750, 282 Ed. Law Rep. 795, C.A.7 (Ill.), July 10, 2012 (NO. 10-3862)

⁹¹ See IOA, *Questions*, *supra* note 40.

⁹² See Van Soye, *supra* note 61.

⁹³ See ABA STANDARDS 2004, *supra* note 1 at C3.

⁹⁴ See Van Soye, *supra* note 61; Spanheimer, *supra* note 2; Oberman, *supra* note 71.

⁹⁵ See IOA, STANDARDS OF PRACTICE, *supra* note 1; ABA STANDARDS 2004, *supra* note 1.

organizations in the beneficial role which an ombuds can play in avoiding costly disputes.

While many entities have established ombuds offices without the certainty of shield laws, there is no way to ascertain how many have abandoned efforts to do so over liability concerns related to the lack of such protection. When asked to provide an opinion as to the potential liability posed by the actions of an ombuds, legal counsel have little upon which to rely in giving their clients assurance of even a limited privilege or immunity. Such uncertainty and the reluctance to expose their entities to liability may be viewed as insurmountable obstacles to those seeking to launch the formation of an office offering the services of an ombuds.

Although the enactment of statutes is not a perfect solution, and litigation is often inevitable, the existence of clear statutory protections would provide a sound foundation upon which an entity could rely in building an ombuds office. The ability to raise such a shield when faced with legal challenges may be a significant factor from the perspective of those proposing ombuds services for their organization. The enactment of shield laws would facilitate movement away from an outmoded reliance upon the legal system to decide disagreements and would encourage entities to offer valuable dispute avoidance and resolution resources through ombuds offices.

PURCHASERS AND SELLERS OF LUXURY REPLICA
MERCHANDISE: TRADEMARK INFRINGEMENT
(POST-SALE CONFUSION) OR PERMISSIBLE
ACTIVITY IN COMMERCE?

by WILLIAM E. GREENSPAN*

I. INTRODUCTION

The fictional Mary Collins approaches her Business Law Professor, Tom White, to explain why she flunked the first test in Business Law. Mary explains she could not afford to buy the textbook which costs \$250 at the campus bookstore. While listening to Mary, Professor White notices Mary is wearing a Tiffany necklace, carrying a Coach handbag, and sporting a Rolex watch. Professor White asks Mary how she could afford those items while she could not afford to buy the textbook. Mary replies that those items are replicas. She bought the Tiffany necklace at a kiosk at the mall, the Coach handbag on an Internet site that sells replicas of luxury merchandise, and the Rolex watch at a flea market. In each case the seller made it clear these items were replicas of the genuine trademarked item. She bought the knock-off Tiffany necklace for \$20, which would cost \$1,500 if it were the genuine trademarked item, the counterfeit \$1,200 Coach handbag for \$30, and the look-a-like \$2,000 Rolex Watch for \$35.

The conversation switches to a discussion of trademarks. Mary makes it clear that she knew she was not purchasing genuine trademarked merchandise. She asks Professor White if she (Mary) can be held liable for trademark infringement. Further, she asks if the

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sellers are committing trademark infringement even though they clearly notify each buyer these are not the genuine articles. This paper will answer those questions.

More specifically, this paper will: (1) review the relevant federal trademark statutory law and legislative history relating to Mary's questions; (2) discuss cases ruling on the sale of luxury replica merchandise; and (3) make recommendations for those engaged in the purchase or sale of replica merchandise.

II. RELEVANT STATUTORY TRADEMARK LAW AND LEGISLATIVE HISTORY

The 1946 Trademark Act (also known by its popular name as the Lanham Act), as amended to date,¹ is the most important source of federal statutory law regulating trademarks and unfair competition. Two stated purposes of trademark legislation are (1) "to protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get," and (2) "where the owner of a trademark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats."²

Section 32 of the Lanham Act makes it clear that not every use of another's trademark constitutes infringement. There is only a violation of the Lanham Act if the use of the plaintiff's trademark is likely to cause confusion.³ As originally written in 1946, Section 32 of the Lanham Act gave a trademark holder a cause of action for trademark infringement for any use that causes a likelihood of confusion among "purchasers as to the source of origin of such goods or services."⁴ In 1962 Congress amended Section 32 of the Lanham Act by striking the language that limited its scope to confusion of "purchasers as to the

¹ 15 U.S.C. §§ 1025-1127 (2013).

² S.Rep. No. 1333, 79th Cong., 2d Sess. 3 (1946), *reprinted in* 1946 U.S. Code Cong. Serv. 1274; *Qualitex Co. v. Jacobson Products Co., Inc.*, 514 U.S. 159, 164 (1995) (explaining that the trademark law "encourages the production of quality products, and simultaneously discourages those who hope to sell inferior products by capitalizing on a consumer's inability quickly to evaluate the quality of an item offered for sale"). State laws for infringement of trademark give limited protection under such theories as infringement of common law trademark, and unfair competition. *See, e.g.*, *W.W.W. Pharmaceutical Co., Inc. v. Gillette*, 984 F.2d 567 (2d Cir. 1993) (involving claims under state unfair competition laws between W.W.W. Pharmaceutical's trademark "Sportstick" for lip balm, against Gillette's trademark "Right Guard Sport Stick" for deodorant).

³ 15 U.S.C. § 1114(1)(a) (2013).

⁴ 15 U.S.C. § 1114(1)(a) (1946).

source of origin of such goods or services.”⁵ The effect of this deletion was to recognize that an action for trademark infringement may be brought not only by a direct purchaser, but also by other members of the public, including potential purchasers who experience post-sale confusion as to the source of such goods.⁶

Section 32 in its current version provides in part:

Any person who shall without consent of the registrant ... use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or deceive ... shall be liable in a civil action by the registrant [for damages and/or an injunction].⁷

A. Likelihood of Confusion

“Likelihood of confusion” is the focal point of trademark infringement whether it is to protect the direct purchaser, the consuming public, or the goodwill of the trademark owner. Each circuit court has developed its own factors to determine whether there is “likelihood of confusion.” The factors adopted by the circuits are very similar to the eight variables developed by the Second Circuit Court of Appeals in *Polaroid Corp. v. Polarad Elecs. Corp.*⁸ The *Polaroid* factors for “likely of confusion” include: (1) the strength of the plaintiff’s mark, (2) the degree of the similarity between the two marks, (3) the proximity [in competition] of the two products, (4) the likelihood that the prior owner will bridge the

⁵ Pub.L. No. 87-772, 76 Stat. 769, 773 (1962).

⁶ *Payless Shoesource, Inc. v. Reebok, Ltd.*, 998 F.2d 985, 989 (Fed. Cir. 1993) (explaining that whether Payless brand shoes infringed Reebok’s trademarks and trade dress, the court should consider extent of post-sale confusion, particularly where the marks were remarkably similar. Such confusion may occur “when a consumer observes someone wearing a pair of Payless accused shoes and believes that the shoes are Reebok’s. As a consequence, the consumer may attribute any perceived inferior quality of Payless shoes to Reebok, thus damaging Reebok’s reputation and image.”).

⁷ 15 U.S.C. § 1114(1)(a) (2013). Also note that Section 1125(a) protects the owner of a mark from certain types of unfair competition even if the mark is not registered, provided there is likelihood of confusion. In addition, Section 1125(c) protects the owner of a famous mark against trademark dilution, and Section 1125(d) prohibits cybersquatting. *See, e.g.*, *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658 (5th Cir. 2000) (noting that even though a trademark owner of a famous mark may obtain an injunction against a person who causes dilution of the famous mark, even if there is no likely of confusion, *Polo* magazine for *Polo* players did not dilute *Ralph Lauren’s Polo* mark because *Polo* magazine conspicuously noted it had no affiliation with *Ralph Lauren*); *City of Carlsbad v. Shah*, 850 F.Supp.2d 1087 (S.D. Cal. 2012) (noting *Shah* engaged in cybersquatting by registering 400 domain names with no intent to use them, but instead acted in bad faith to profit from the resale of the domain names to the trademark owners).

⁸ 287 F.2d 492, 495 (2d Cir. 1961), *cert. denied*, 368 U.S. 820 (1961).

gap [planning to offer a product similar to the defendant], (5) actual confusion, (6) the defendant's good faith in adopting its own mark, (7) the quality of the defendant's product, and (8) the sophistication of the buyers.⁹ No single factor disposes of the case. A court may give each factor the appropriate weight according to the facts of the case in question.¹⁰ The ultimate question is whether relevant consumers (who may be careless or gullible) are likely to believe that the products or services offered by the defendant are affiliated in some way with the products or services of the plaintiff.¹¹ Although there is authority questioning the effectiveness and sensibility of the "likelihood of confusion" test for trademark infringement, it has stood the test of time.¹²

B. Remedies

The Lanham Act provides that if there is trademark infringement, a trademark owner may recover (1) defendant's profits, (2) any damages

⁹ 287 F.2d at 496. *See also*, *Two Men and a Truck/International, Inc. v. Thomas*, No. 8:12CV340, 2012 WL 5429838 (D.Neb. Nov. 7, 2012) (comparing likelihood of confusion factors between two local moving service businesses: "Two Men and a Truck" and "Two Men and Two Trucks"); *Lorillard Tobacco Co. v. Zoom Enterprises, Inc.*, 809 F.Supp.2d 692, 697 (E.D. Mich. 2011) (using likelihood of confusion factors on counterfeit Newport cigarettes); *Gucci America, Inc. v. Guess?, Inc.*, 831 F.Supp.2d 723 (S.D.N.Y. 2011) (examining likelihood of confusion factors on use of Gucci's G-shaped design to decide whether numerous ordinary prudent purchasers were likely to be misled or confused as to the source of the product in question because of the entrance in the marketplace of defendant's mark).

¹⁰ *Autozone, Inc. v. Strick*, No. 03 C 8152, 2010 WL 883850 (N.D. Ill. Mar. 8, 2010) (Not reported in F.Supp.2d); *see, eg.*, *Hall v. Bed Bath & Beyond, Inc.*, 705 F.3d 1357, 1366 (Fed. Cir. 2013) (creating knockoff replicas of the Tote Towel and using the name "Workout Towel" is likely to cause confusion); *Chanel, Inc. v. Dudum*, No. C-12-01966 JCS, 2012 WL 5833562 (N.D.Cal. Oct. 29, 2012) (selling over the Internet counterfeit handbags, wallets, earrings, bracelets, and necklaces using Chanel trademark would cause likelihood of confusion); *Ford Motor Co. v. O.E. Wheel Distributors, LLC*, 868 F.Supp.2d 1350, 1361 (M.D. Fla. 2012) (holding use of Ford's Mustang Running Horse design on caps attached to wheels caused likelihood of confusion); *Vraiment Hospitality, LLC v. Binkowski*, No. 8:11-CV-1240-T-33TGW, 2012 WL 1493737 (M.D. Fla. Mar. 19, 2012) (holding no likelihood of confusion when defendant replicated restaurants in Tampa using plaintiff's name on the Internet, as well as plaintiff's recipes, and décor).

¹¹ *Ohio State University v. Thomas*, 738 F.Supp.2d 743, 749 (S.D. Ohio 2010) (deciding even though defendant had good faith intentions, there was likelihood of confusion when he published a website www.buckeye.com and two electronic magazines using the Buckeye trademark).

¹² Robert G. Bone, *Taking the Confusion Out of "Likelihood of Confusion": Toward a More Sensible Approach to Trademark Infringement*, 106 Nw. U. L. REV. 1307, 1310 (2012) (arguing the "likelihood of confusion" test is in a state of disarray because "there is no good reason to prevent consumer confusion when it causes very little harm and involves no blameworthy conduct").

sustained by the plaintiff, and (3) the costs of the action.¹³ A court may enter a judgment for three times the amount of damages where there is proof the defendant intentionally used a counterfeit mark.¹⁴ In a case involving the use of a counterfeit mark, instead of seeking damages for lost profits, the plaintiff may elect to recover an award of statutory damages not less than \$1,000 or more than \$200,000 per counterfeit mark as the court considers just.¹⁵ If a court finds the use of a counterfeit mark was willful, the court may grant damages of not more than \$2,000,000.¹⁶ In addition, there are criminal sanctions for trafficking in counterfeit goods or services resulting in fines and/or imprisonment.¹⁷

C. Buyer Liability for Trademark Infringement

Returning to the introduction to this paper, Mary Collins asks Professor White whether she (Mary) can be held liable for trademark infringement. Mary is concerned about whether she can be liable for damages, fines, or even possible criminal sanctions. The answer is clearly that Mary has no liability for knowingly purchasing replica merchandise. The Lanham Act speaks of “use in commerce ... in connection with the sale, [or] offering for sale.”¹⁸ There is no mention of purchaser liability. While it is illegal under the Lanham Act to manufacture and sell counterfeit trademarked goods, it is not illegal to purchase them. While there may be different rules in other countries, Mary has no liability for trademark infringement in the United States.

However, Mary might consider the ethical implications of buying counterfeit merchandise. There is authority to indicate that counterfeit purchases cost U.S. companies \$250 billion annually, that 750,000 U.S. jobs have been lost to counterfeiters, that many of these purchases fund organized crime operations and terrorism, and that many of these items are produced by child labor.¹⁹ In addition, what are Mary’s motives for buying such merchandise? Does she buy the goods because they are a good bargain? Are such purchases necessary to maintain or raise Mary’s

¹³ 15 U.S.C. § 1117(a) (2013). Other remedies include injunctive relief, 15 U.S.C. § 1116(a), seizure of goods, 15 U.S.C. § 116(d)(1)(A), and destruction of infringing articles, 15 U.S.C. § 1118.

¹⁴ 15 U.S.C. § 1117(b) (2013).

¹⁵ 15 U.S.C. § 1117(c) (2013).

¹⁶ 15 U.S.C. § 1117(d) (2013).

¹⁷ 18 U.S.C. § 2320 (2013); *U.S. v. Chong Lam*, 677 F.3d 190 (4th Cir. 2012) (trafficking in counterfeit handbags and wallets under the Burberry trademark).

¹⁸ 15 U.S.C. 1114(1) (2013).

¹⁹ Erin Fitzgerald, *The Fashion Police: Criminalizing the Knowing Purchase of Trademark Counterfeit Fashion Items*, 47 NEW ENG. L. REV. 127, 128-29 (2012).

social status?²⁰ Whatever Mary's motives may be, she has no legal liability for trademark infringement.

III. CASES RULING ON THE SALE OF LUXURY REPLICA MERCHANDISE

Mary's second question, asks if the sellers are committing trademark infringement even though they clearly notify each buyer these are not the genuine articles. The answer is the sellers will be liable for trademark infringement if there is "likelihood of confusion." The following three cases illustrate situations where there was no likelihood of confusion between the seller and the direct purchaser, but there was likelihood of confusion by other members of the public, including potential purchasers who experience post-sale confusion as to the source of such luxury goods.²¹

A. *The Levi Jeans Case*

One of the first major cases that specifically mentioned the term "post-sale confusion" after the 1962 Amendment of the Lanham Act was *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*²² Levi Strauss, the world famous clothing manufacturer, has been making and selling its famous denim jeans since 1850. One of the identifying marks on the jeans is a distinct back pocket stitching consisting of two intersecting arcs which roughly bisect both pockets of the jeans. Levi Strauss has been using this particular pattern on its jeans since 1873 and has run numerous advertisements featuring the back pocket stitching pattern.²³

In 1979 Lois Sportswear started importing into the United States luxury jeans under its own trademark, but using a back pocket stitching pattern substantially similar to that of Levi Strauss. The patterns were virtually identical when viewed at a distance.²⁴ The question arose whether Lois Sportswear's use of the stitching pattern violated Levi Strauss's trademark rights.²⁵ After the case weaved its way through the United States Customs Bureau, the Court of International Trade, and the district court, the Court of Appeals for the Second Circuit now had to decide whether the district court correctly granted summary judgment in favor Levi Strauss.²⁶ The district court explained that Lois

²⁰ Keith Wilcox, *Why Do Consumers Buy Counterfeit Luxury Brands?*, 46 J. MKT. RES. 247, 255 (2009).

²¹ See *supra* note 6 and accompanying text.

²² 799 F.2d 867 (2d Cir. 1986).

²³ *Id.* at 869.

²⁴ *Id.*

²⁵ *Id.* at 870.

²⁶ *Id.* at 869-70.

Sportswear's labeling and trade dress prevented confusion at the point of sale with the direct purchaser, but there was likelihood of confusion in a post-sale context among potential purchasers who might assume there was a connection between the plaintiff and defendant because of the similar stitching patterns.²⁷

The Second Circuit Court of Appeals reviewed the eight *Polaroid* factors to determine whether the district court correctly decided there was likelihood of confusion in a post-sale context between the two marks. The first factor, the strength of the mark, weighed heavily in favor of Levi Strauss. Since Levi Strauss had been using the stitching pattern since 1873, virtually all jeans consumers associated the pattern with Levi Strauss.²⁸ The second *Polaroid* factor, the degree of similarity of the marks, also weighed in favor of Levi Strauss. The two stitching patterns were essentially identical.²⁹ The third factor, the proximity of the products, weighed in favor of Levi Strauss, mainly because both products were jeans.³⁰ The fourth *Polaroid* factor, bridging the gap, favored Levi Strauss since it might reasonably decide to bridge the gap by expanding its market from casual jeans to luxury designer jeans using the same stitching pattern. This would increase consumer confusion in a post-sale context.³¹

The fifth factor, actual confusion, did not help either party. While there was no evidence to indicate that any consumer was actually confused as to the source of the jeans, a plaintiff does not have to show actual confusion. A plaintiff only has to prove likelihood of confusion.³² The sixth factor, the junior user's good faith in adopting the mark, favored Lois Sportswear since the evidence indicated that it happened on the stitching pattern "serendipitously."³³ The seventh factor, the quality of the respective goods, also favored Lois Sportswear since Levi Strauss admitted that Lois Sportswear's jeans were not of inferior quality. However, the court noted that since Lois Sportswear produced a quality copy, it suggests that Lois Sportswear may profit from Levi Strauss's goodwill.³⁴ The eighth and final factor, the sophistication of relevant buyers, favored Levi Strauss since it is the sophisticated consumer who would assume that the stitching pattern on Lois Sportswear's jeans would indicate it has some type of association with

²⁷ *Id.* at 870.

²⁸ *Id.* at 873.

²⁹ *Id.*

³⁰ *Id.* at 874.

³¹ *Id.*

³² *Id.* at 875.

³³ *Id.*

³⁴ *Id.*

Levi Strauss.³⁵ Thus, five out of eight factors favored Levi Strauss. Each factor was evaluated in the context of how it bore on the ultimate question of likelihood of confusion as to the source of the product.³⁶

In summary, the Second Circuit Court of Appeals confirmed the district court was correct in concluding there was likelihood of confusion in a post-sale context, and that an injunction should stand against Lois Sportswear, preventing it from using a stitching pattern that will likely cause confusion as to the source of the goods.³⁷ After *Lois Sportswear*, other circuit courts relied on its rationale to justify likelihood of confusion in a post-sale context.³⁸

B. The Rolex Watch Case

In *Rolex Watch U.S.A., Inc. v. Canner*,³⁹ Canner and other defendants were selling counterfeit Rolex watches for \$25 each at a flea market. After defendants sold counterfeit Rolex watches and pouches to Rolex investigators, Rolex sued defendants for trademark infringement. When determining whether there was trademark infringement in commerce, the district court considered seven factors (similar, but not identical, to the *Polaroid* factors).⁴⁰

The first factor, the type of trademark, was clearly in favor of Rolex since the Rolex trademark was well known and very strong, thus entitled to a high level of protection.⁴¹ The second factor, the similarity of design, also favored Rolex because the defendants sold watches with trademarks identical to the Rolex trademarks. Placing the genuine and counterfeit watches side-by-side, it was nearly impossible to tell the difference between them. The court commented that it would “confound reason and thwart common sense” to find anything other than likelihood of confusion.⁴² The third factor, the similarity of the products, clearly favored Rolex. The counterfeit and the genuine were more than similar; they were the same. There was evidence that some owners of the counterfeit watches brought the watches to authorized Rolex jewelers or service centers to be repaired, believing the watches were genuine.⁴³

³⁵ *Id.*

³⁶ *Id.* at 872.

³⁷ *Id.* at 876-77.

³⁸ *See, e.g., Ferrari S.P.A. v. Roberts*, 944 F.2d 1235, 1243-44 (6th Cir. 1991) (holding that replicas of the exterior shape of Ferrari’s automobiles caused a likelihood of confusion; although there was no confusion at the point of sale, the public is likely to be confused by the similarity of the exterior design of Ferrari automobiles and the replicas).

³⁹ 645 F.Supp. 484 (S.D.Fla. 1986).

⁴⁰ *Id.* at 486-88.

⁴¹ *Id.* at 488.

⁴² *Id.* at 490.

⁴³ *Id.*

The fourth factor, the defendants' intent, favored Rolex. Even though the direct-purchasing recipients knew the watches were counterfeit, the defendants intended to derive benefit from Rolex's reputation.⁴⁴

The fifth factor, actual confusion, generated the most discussion. The defendants focused on the initial sale of the watches at the flea market, arguing there could be no actual confusion with respect to the direct purchasers. The direct purchasers knew they could not buy a genuine Rolex watch for \$25. The court responded, explaining that such an argument ignores the interest in protecting not only the consumer at large as the products move through the market place in commerce, but also the goodwill of the trademark owner. The court viewed the defendants' argument as "statutory myopia."⁴⁵

Concerning the sixth and seventh factors - the identity of retail outlets and purchasers, and the similarity of advertising used - the defendants argued there was no duplication of any retail outlets or advertising media because the defendants do not sell at retail outlets or advertise their products. The court looked beyond the initial sale to the impact of the public at large as well as the effect on Rolex's trademark. Since Rolex spent in excess of \$15,000,000 in advertising over the last six years, the court felt the defendants should not be permitted to have a "free ride" on Rolex's reputation for excellence, and benefit from Rolex's advertisements.⁴⁶

Consequently, the court granted Rolex's motion for summary judgment on the issue of trademark infringement. There clearly was likelihood of confusion between Rolex's registered mark and the defendants' counterfeit mark where the sale of the watches took place in commerce.⁴⁷ This case underscored the purpose of the Lanham Act: to protect the direct purchaser, the trademark owner's goodwill, and members of the public who may experience post-sale confusion.⁴⁸

C. The Coach Apparel, Luggage, and Fashion Accessories Case

A very recent 2013 case, *Coach, Inc. v. Richie's Playhouse Inc.*,⁴⁹ illustrates the continuing willingness of courts to recognize post-sale confusion in trademark infringement cases. Coach manufactures apparel, luggage and fashion accessories worldwide under the Coach trademark. Coach discovered that Richie's Playhouse, d/b/a Luxury Replicas, Inc., was selling replica merchandise substantially similar to

⁴⁴ *Id.* at 491.

⁴⁵ *Id.* at 488-95.

⁴⁶ *Id.* at 495-96.

⁴⁷ *Id.* at 487.

⁴⁸ *See supra* note 2 and accompanying text.

⁴⁹ No. 11-cv-12638, 2013 WL 594243 (E.D.Mich. February 15, 2013).

the federally registered marks of Coach. Richard Kelley, the sole shareholder of Luxury Replicas, admitted he was selling Coach knock-off merchandise.⁵⁰

Kelley defended by arguing there could be no likelihood of confusion because he was selling clearly-labeled, replicas of Coach-trademarked merchandise. No buyer could possibly be confused at the point of sale. The name “Luxury Replicas” clearly conveyed a message to consumers that the goods sold were not authentic. He conspicuously and unequivocally informed buyers the goods were his, not those of Coach.⁵¹

The court found this argument unpersuasive. After reviewing eight factors for likelihood of confusion, the court noted five of the factors favored Coach: (1) the strength of Coach’s mark, (2) the relatedness of the goods, (3) the similarity of the marks, (4) the defendant’s intent in selecting the mark, and (5) the likelihood of product expansion.⁵² The court also determined that the knockoffs had been injected in the stream of commerce.⁵³

The court then proceeded to explain a number of ways knockoffs can harm the public and the original manufacturer, even if there is no point-sale-confusion: (1) the public, as well as future buyers may be deceived, especially if one needs expertise to distinguish the genuine goods from the knockoffs, (2) the widespread existence of knockoffs may decrease the value of the original by making the item commonplace, (3) consumers may be harmed if the original manufacturer cuts costs and quality of the product to compete with the knockoffs, (4) the trademark owner’s reputation for quality goods may be compromised if people mistake a counterfeit for the genuine article, and (5) the public may hesitate to buy an article for fear that it is a knockoff.⁵⁴

In summary, *Coach* and earlier cases recognize that, in addition to point-of-sale confusion, post-sale confusion is actionable in trademark infringement cases since Congress intended to protect the reputation and goodwill of the manufacturer as well as to protect purchasers. Point-of-sale confusion only focuses on the direct purchaser, while post-sale confusion focuses on the public and the reputation of the trademark owner.⁵⁵

⁵⁰ *Id.* at *1-2.

⁵¹ *Id.* at *3-4.

⁵² *Id.* at *4.

⁵³ *Id.*

⁵⁴ *Id.* at *5.

⁵⁵ See, *Multi Time Mach., Inc. v. Amazon.com*, No. CV 11-09076 DDP, 2013 WL 638888 (C.D.Cal. Feb. 20, 2013) (noting the *sina qua non* of trademark infringement is consumer confusion).

IV. RECOMMENDATIONS

Although the “likely of confusion” test is the essence of trademark infringement, should the test be applied differently in the case of luxury goods? One commentator suggests that when purchasing luxury goods, a “sophisticated” consumer is less likely to be confused than an ordinary, reasonably prudent consumer, or one who may be ignorant, unthinking, or credulous.⁵⁶ As demonstrated in this paper, courts have addressed this problem on a case-by-case basis using “likelihood of confusion” factors. More recently, another commentator claims the post-sale confusion doctrine is no longer necessary in a sophisticated marketplace where there are other remedies (civil and criminal) available to curb the trade of counterfeit goods in commerce.⁵⁷ On the other hand, an opposing opinion comes from a commentator who advocates greater liability for infringers, arguing that “the popularity of replica goods is largely dependent on the absence of liability for manufacturers of low-cost goods, together with the public’s quest for a luxury image without the luxury price.”⁵⁸

After considering the opinions of these commentators and after reviewing relevant statutory and case law, what recommendations can we make to Mary Collins who now has the answer to her two questions?

We might suggest that although her conduct in buying replica goods is perfectly legal in the United States, she might consider the ethical implications of her conduct. Does her conduct promote unethical behavior? Does Mary have a duty to help protect the rights of trademark owners? An interesting question we might ask Mary is: While you are willing to purchase a counterfeit handbag, watch, and necklace (presumably because they are cheap and because the purchase enhances your image among your friends), would you also be willing to buy (or encourage your friends to buy) counterfeit pharmaceuticals or health products, or stolen products?

⁵⁶ Thomas R. Lee, Glenn L. Christensen, Eric D. DeRosia, *Trademarks, Consumer Psychology, and the Sophisticated Consumer*, 57 EMORY L.J. 575, 580 (2008) (defining a sophisticated consumer as one who is “deemed to be less likely to be confused as to the source or sponsorship of the trademarked products”).

⁵⁷ Connie Davis Powell, *We All Know It’s a Knock-Off! Re-Evaluating the Need for the Post-Sale Confusion Doctrine in Trademark Law*, 14 NCJLT 1, 4 (2012) (giving an opinion that “purchasers of high-end goods are less likely to be confused in the post-sale context because of their keen awareness of their preferred brands and their knowledge of the existence and prevalence of counterfeit luxury goods in the marketplace”).

⁵⁸ Jenny T. Slocum & Jess M. Collen, *The Evolving Threat and Enforcement of Replica Goods*, 33 W. NEW ENG. L.REV. 789, 790 (2011) (proposing that the “prevalence of replica goods and the never-ending demand for them has created an unprecedented enforcement challenge for trademark owners”).

What recommendations can we make to the manufacturers of genuine trademarked goods? First, take every opportunity to police your trademark. Sue counterfeiters for violations of the Lanham Act. Second, use broadcasting media (radio, television, Internet) to publicize every successful effort you made at shutting down illegal sellers. Educate the public on the ethical implications of selling counterfeit merchandise in commerce.

What about the counterfeiters? First, do not buy or sell counterfeit trademark goods. Second, in the alternative, manufacture and sell counterfeit goods that do not cause likelihood of confusion. You can make similar products using your own, original trademark with similar (but not confusingly similar) trade dress (packaging). A counterfeiter can get a legal opinion, but ultimately, if there is a lawsuit, a court will determine whether there is a likelihood of confusion. The replica product should be clearly distinguishable from the genuine trademarked merchandise. It would be permissible to use such language as “compare to [the original trademarked product]” therefore lessening the possibility of likelihood of confusion.

V. CONCLUSION

The “likelihood of confusion” test with court-developed factors strikes a reasonable balance to protect not only direct purchasers, but also the public and the trademark owner’s goodwill. Courts are free to give the appropriate weight to each factor on a case-by-case basis to determine whether there is point-of-sale and post-sale confusion. Focusing on post-sale confusion, a court must not only apply the law, but should also consider the ethical issues. Although the cases discussed in this paper do not involve stolen goods, selling a replica item lies somewhere between selling stolen goods and selling the genuine trademarked item. Courts should carefully consider whether an appreciable number of ordinary prudent purchasers will likely be confused by the similarity of the replica and the genuine trademarked item.⁵⁹ Currently, the risk of infringement lies solely with the seller, while the buyer only has to wrestle with one’s conscience when buying replica items.

⁵⁹ *J.T. Colby & Co., Inc. v. Apple Inc.*, No. 11 Civ. 4060(DLC), 2013 WL 1903883 (S.D.N.Y. May 8, 2013) (examining likelihood of confusion between J.T. Colby & Company’s ibooks, against Apple’s e-reader software).

THE CURIOUS, COMPLICATED AND CONNECTED COPYRIGHT CASES OF ALBERTO KORDA AND ROWLAND SCHERMAN

by MICHAEL E. JONES*

I. IN THE BEGINNING

The Cuban born photographer Alberto Korda, born Alberto Diaz Gutierrez, was a well-known commercial artist prior to the 1958 Cuban revolution led by Fidel Castro. The United States born photographer Rowland Scherman was a young college student before he heard the siren call of President Kennedy's 1960 inaugural address. Both artists' lives were dramatically changed by these events. This article explores how in their zest to pictorially capture the people and movements of the time they lost control over moral protections and copyrights of their works, and how these rights are being restored.

Before Fidel Castro, his brother Raul, Camilo Cienfuegos and Ernesto "Che" Guevara collectively took over control and command of this Caribbean island in a bloody coup, Korda served as the fashion photographer for the *Havana Weekly*.¹ In 1959, soon after the armed revolution successfully forced President Fulgenico Batista into political exile, Korda repudiated his bourgeois ways.² His decision meant abandoning what he referred to as a "frivolous" period in his life and deciding to become a documentary photojournalist.³

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¹ Jon Thurber, *Alberto Korda: Took Famous "Che" Picture*, L.A. TIMES, May 26, 2001 available at <http://articles.latimes.com/2001/may/26/local/me-2842>.

² CHRISTOPHER LOVINY & JAIME SARUSKY, CUBA BY KORDA (2006).

³ *Id.*

The new government of Cuba established a newspaper, the *Revolucion*, to chronicle the events and activities of the regime.⁴ Korda began working there immediately as a freelance photographer.⁵ He joined Fidel Castro stateside during his visit to Washington, D.C.⁶ One of Korda's first photographs for the newspaper was a striking image of Castro standing by the Lincoln Monument.⁷ The two of them became personal friends.⁸ For nearly a decade Korda served as his personal photographer.⁹ Among his signature portraits is a picture of Ernest Hemingway beside the Cuban leader on a golf course.¹⁰

Rowland Scherman's first attempt at photography was that of his brother Tom holding a small plastic Nautilus ship.¹¹ Scherman approved of the image so much he abandoned a fledging music career.¹² He had two hit songs performing under the stage name Billy Donahue.¹³ He transferred his passion to the dark room labs at *LIFE* magazine, where he was working for the summer as an intern, and then at Oberlin College.¹⁴

In the summer of 1959, he worked in New York City as a studio assistant for a fashion photographer.¹⁵ Not long thereafter, he was so moved by John F. Kennedy's "ask what you can do for your country" speech he dropped out of college and traveled to Washington, D.C.¹⁶ There he volunteered his services to the Peace Corps as its official photographer.¹⁷ In its infancy the Peace Corps was nothing more than an idea, some chairs and tables, and Sargent Shriver.¹⁸ The agency had little use for a photographer – it needed volunteer teachers, nurses and physicians – until Her Royal Highness – Beatrix – Princess of the Netherlands arrived in Washington, D.C. and wanted her picture taken

⁴ *Id.*

⁵ Brandi Leigh, *Alberto Korda: The Photographer behind the Face of Ernesto Che Guevara*, THE ART HISTORY ARCHIVE, available at <http://www.arthistoryarchive.com/arthistory/photography/Alberto-Korda.html>.

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.* and, Jamie Doward, *Row Rages Over Iconic Image of Che Guevara*, THE OBSERVER, Mar. 6, 2010, at <http://www.guardian.co.uk/world/2010/mar/07/row-iconic-image-che-guevara>.

¹¹ Personal Interview with Rowland Scherman (Mar. 9, 2013).

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

with one of the handsomest guys on the planet, Sargent Shriver.¹⁹ Rowland Scherman took the picture and became the first photographer for one of the cornerstone agencies of the new administration of President Kennedy.²⁰

In early March of 1960 Korda was on assignment for the *Revolución*.²¹ He was covering a memorial service for 136 people who were killed after a French ship exploded in Havana Harbor.²² Fidel Castro was the principal speaker for the service.²³ Unannounced, Che Guevara suddenly appeared near the front stage.²⁴ According to an interview Korda gave, something about Che's expression caught his eye.²⁵ Using a Leica camera, ironically the same camera brand that Scherman used when working for the Peace Corps, he caught Che's likeness in two frames.²⁶ Korda followed his general practice of developing his own negatives and then presenting the finished images to the editorial director for the newspaper.²⁷ Neither Che image was selected for publication.²⁸

The editor of the *Revolución* kept one of the Che images on file.²⁹ Korda held on to the negatives for his own personal use.³⁰ On April 16, 1961 the Cuban newspaper for the first time published Korda's image of Che as part of an announcement that "Dr. Ernesto 'Che' Guevara" was giving a speech at a conference in Havana.³¹ The ill-fated Bay of Pigs invasion occurred at the same time causing the postponement of the conference until April 28, 1961.³² Korda's photo of Che was republished on that date.³³

By 1963 Che began to have serious political, social and economic disagreements with Fidel Castro and his administration notwithstanding Che's own position as Minister for Industries and President of the Central Bank.³⁴ Two years later, Che left Cuba for the

¹⁹ *Id.*

²⁰ *Id.*

²¹ *See supra* note 5.

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ Interview by Maria Carrin, DEMOCRACY NOW!, with Alberto Korda, May 29, 2001, available for listening at: http://www.democracynow.org/2001/5/29/an_interview_with_the_late_great.

²⁶ *Id.*

²⁷ *See supra* note 5.

²⁸ *Id.*

²⁹ *See supra* note 25.

³⁰ *Id.*

³¹ *See supra* note 5.

³² *Id.*

³³ *Id.*

³⁴ FRANK E. SMITHA, *BATISTA, CASTRO AND CHE GUEVARA* available at

Congo and later Bolivia.³⁵ At the age of 39, in 1967, Che Guevara was captured by CIA-trained Bolivian forces and executed.³⁶

Meanwhile, Korda's historic photograph of Che with his long, dark hair flowing freely beneath his star affixed beret with his eyes pensively transfixed into the distance became "the most famous photograph in the world."³⁷ The author of *The Fall of Che Guevara* refers to it as "one of the greatest images of all time."³⁸

After Scherman's photographic career with the Peace Corps ended, he, too, became a freelance image-maker on assignment first for the United States Information Agency (USIA) and then *LIFE* magazine.³⁹ In 1963, covering the March on Washington civil rights movement for USIA he was there photographing the gathering crowd of Americans imploring the country to change and seeking to give everyone an equal chance.⁴⁰ One of the images Scherman took was of a 12 year-old black girl, Edith Lee-Payne, who on her birthday attended the March with her mother.⁴¹ Leaning on a fence holding a sign for "jobs and freedom" near the Lincoln Memorial, Rowland captured her sense of despair and hope in a beautiful black and white photograph. The negative was passed onto the USIA. It

<http://www.fsmitha.com/h2/ch24x.html>. This may be a minority view; however. Che's farewell letter to Fidel Castro: "I am also proud of having followed you without hesitation, of having identified with your way of thinking and of seeing and appraising dangers and principles" is frequently cited as an indication Che left Cuba for the Congo on good terms, as reported in a television interview with Fidel Castro by Gianni Mina, Italian journalist, June 1987, and later published in book form as: GIANNI MINA, AN ENCOUNTER WITH FIDEL (1996).

³⁵ See *supra* note 5.

³⁶ WILLIAM STODDEN, *Chronology of The Economic Ministry of Comrade Guevara after the Revolution in Cuba*, at <http://www.marxists.org/archive/guevara/biography/economy.htm>. See also: PACO IGNACIO TAIBO, II, ALSO KNOWN AS CHE (Martin Roberts trans., St. Martin's Griffin 2d ed. 1997).

³⁷ Michael Casey, *The Brand That Sprang from a Frozen Revolutionary Moment*, THE AUSTRALIAN, Jan. 01, 2009, available at <http://www.theaustralian.com.au/arts/the-brand-that-sprang-from-a-frozen-revolutionary-moment/story-e6fgr8n6-111118447574>. It is nearly impossible to verify whether Korda's image of Che is the most famous image in the world. This statement is frequently repeated as fact. A documentary source confirming it could not be found. There is little dispute the image speaks to many people and has come to mean many different things both inside and outside Cuba. Issues of redistribution of wealth, property ownership, freedom to protest, culture, and labor practices are all caught between the then and now socialist and capitalist practices represented by the idolization of Che. For those who have an interest in the cultural aspects of this artistic image see: Ariana Hernandez-Reguant, *Copyrighting Che: Art and Authorship under Cuban Late Socialism*, PUBLIC CULTURE, Vol. 16, No. 1, Issue 42, Winter 2004.

³⁸ HENRY BUTTERFIELD RYAN, *THE FALL OF CHE GUEVARA: A STORY OF SOLDIERS, SPIES AND DIPLOMATS* (1998).

³⁹ See *supra* note 11.

⁴⁰ *Id.*

⁴¹ *Id.*

went on to become the unofficial symbol of the March on Washington, and has been reproduced countless times without mentioning the name of the photographer.⁴²

Scherman's tear sheets from his work for the Peace Corps and freelance jobs at USIA made it easy for him to land further assignments from the *Washington Post*, *Time*, *Newsweek* and especially *LIFE*.⁴³ One year or so into his presidency, Lyndon Baines Johnson wanted a better official portrait file photo of himself.⁴⁴ Relying upon fellow Texan Lloyd Wright to fix that problem, Scherman was hired because of a connection he had with Wright from their Peace Corps days.⁴⁵ At the White House, Wright stood on a table and held his hand high as he told the 6'5" President to look up at his hand, "please."⁴⁶ During the second or two Johnson followed the request, Scherman got the shot that was to become the official photograph of his 1964 presidential campaign.⁴⁷ Furthermore, it was developed into the largest photographic print ever made when it was used at the Democratic Convention.⁴⁸ Later it became the background image for a cover of *LIFE* magazine and dozens of other news magazines.⁴⁹

II. WHO CAN CLAIM COPYRIGHT OVER A PHOTOGRAPH?

A. Korda

For Korda, under Cuban law the author of a photograph is deemed "the person who created (the) work."⁵⁰ The general rule unless there is some contradictory evidence is "the person whose name or pseudonym the work has been publicly made known shall be the author."⁵¹ Cuba has a further condition for claiming ownership, which is not all that different from prior US law, whereby "a copyright of a photograph work is only recognized so long as it follows established government regulations."⁵²

Those who have taken advantage of the generosity of photographers willing to have their works shared have not always followed national

⁴² *Id.*

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.* The date for the *LIFE* magazine cover photograph of LBJ was Sept. 4, 1964.

⁵⁰ COPYRIGHT LAW, Gaceta Oficial de la Republica de Cuba, No. 49, art. 11, 30 de diciembre de 1977 (Cuba) translated in Copyright Laws & Treaties of the World (U.N. Educ., Scientific & Cultural Org. et al. eds. (2000).

⁵¹ *Id.*

⁵² *Id.*

copyright law. In 1967, the wealthy publisher Giangiacomo Feltrinelli visited Cuba looking specifically for a portrait of Che Guevara.⁵³ The wealthy Feltrinelli had gained notoriety for publishing the first western version of the book *Dr. Zhivago*, which he had smuggled out of Russia.⁵⁴ He had been told to find Korda and ask to see his photograph of Che, and he did so in Havana.⁵⁵ Korda gave him two copies of the image that had been used by the *Revolución*.⁵⁶ Feltrinelli offered to pay, but Korda turned him down because, as Korda later explained, he was a friend of the revolution.⁵⁷

Before arriving in Cuba the Italian publisher was in Bolivia.⁵⁸ While there, he acquired the rights to publish Che's *Bolivian Diary*.⁵⁹ Korda's photo of Che was to become the cover image for the soon to be published book.⁶⁰

Upon returning to Italy Feltrinelli elected to design a poster using Korda's image, without any approval from Korda, to raise awareness of Che's precarious situation in Bolivia.⁶¹ Feltrinelli merely enlarged and briefly stylized the original gifted photo before placing it on the poster.⁶² The initial poster run of 1000 prints was wildly popular.⁶³ Feltrinelli added his name to the poster as the author and copyright holder!⁶⁴

Meanwhile, around the same time – late summer of 1967 – a French magazine, *Paris Match*, featured Korda's image of Che under the official name of the photograph, *Guerrillero Heroico* or *Heroic Guerrilla*.⁶⁵ The magazine failed to acknowledge or attribute the photograph to Korda, although it did call it “the official photograph of Che Guevara.”⁶⁶

Before the end of the year Che Guevara was dead.⁶⁷ During the summer of 1968 students were rioting around the world including the streets of Paris and college campus of Berkeley. It was at this time the

⁵³ MICHAEL CASEY, CHE'S AFTERLIFE: THE LEGACY OF AN IMAGE 114 (2009)

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ TRISHA ZIFF, *Introduction / Korda's Che Moves Out Into The World, FROM REVOLUTION AND COMMERCE: THE LEGACY OF KORDA'S PORTRAIT OF CHE GUEVARA*, Jan. 2005 at http://www.cmp.ucr.edu/exhibitions/che/essay_002.htm.

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ *Id.*

Che image began to develop into a global, idealistic, ideological symbol for revolutionary movements everywhere.

Feltrinelli kept on making posters with Che's face and placing his name on the posters as the copyright holder.⁶⁸ In addition to selling over a million prints, he used the same photograph on the cover of the book, *Bolivian Diary*.⁶⁹

In 1967, an Irish artist by the name of Jim Fitzpatrick began producing a string of red-on-black Che posters using the same Korda photograph.⁷⁰ It is not clear how Fitzpatrick came upon the photo he used. The best guess is Fitzpatrick acquired it indirectly from the French philosopher Jean-Paul Sartre who was at the funeral service when Korda took Che's picture.⁷¹ At that time Sartre had also visited with Korda and perhaps Korda generously gave him a copy.⁷²

Fitzpatrick did not know who photographed Che.⁷³ He created the poster because he personally admired the revolutionary change espoused by the rebel.⁷⁴ Fitzpatrick's poster of Che with his long hair extending beyond his soldier's beret became the iconic lasting image the world has come to recognize as "the" face of Che Guevara, revolutionary." The poster was distributed copyright free throughout Europe.⁷⁵ Fitzpatrick made two small changes to the photo: he raised Che's eyes and added his own initial, a reversed "F", onto his shoulder.⁷⁶

In 1960, Korda was working for two government entities: personal cameraman for Fidel Castro and freelance photographer for the *Revolución*.⁷⁷ The intriguing legal issue is whether when Korda took the photo of Che was it part of a "work made for hire" or was it "work specifically ordered or commissioned for use by the newspaper" or even for Fidel Castro? The original memorial photo assignment was at the request of the newspaper, not Fidel Castro, even though the principal photojournalism subject was supposed to be Fidel. Now the question is: Between the newspaper and Korda who owns the copyright? The Cuban law of "work for hire" or "commissioned" work is not clear at the time Korda took the photo. There was not a written agreement reserving or

⁶⁸ See *supra* note 5.

⁶⁹ *Id.*

⁷⁰ See *supra* note 61.

⁷¹ *Id.*

⁷² *Id.*

⁷³ *Id.*

⁷⁴ *Id.*

⁷⁵ See *supra* note 53 at 120.

⁷⁶ *Id.*

⁷⁷ See *supra* note 3 at Preface.

assigning the copyright to one party or the other, which certainly was the norm in the industry.⁷⁸

Under current Cuban law, the copyright can be recognized in the author even though the work was created when the photographer was working for the government.⁷⁹ Any works of art created in the course of employment by any state organization, institution, entity or undertaking or social or people's organization are subject to regulations regarding the exercise of these rights, issued by the Council of Ministers.⁸⁰

What would happen were the same issue involving Korda to occur under U.S. federal copyright law? Title 17, states that in the case of "a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless, the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised by the copyright." Regarding Korda, one recent law review article relying primarily on the U.S. Supreme Court's evaluation of the eleven work-for-hire factors in *Community for Creative Non-Violence v. Reid* (490 U.S. 730, 750-51 (1989)), theorized Korda retained copyright ownership because the newspaper he was free lancing for did not directly order the photo of Che nor control the subject matter, theme, composition or any aspect of the final work.⁸¹ Even were this true, Korda's copyright interest would have expired in 1971 or ten years from the initial publication in the *Revolucion* under the then existing Cuban law.⁸²

At the time of the photo's creation Fidel Castro had begun nationalizing previously privately owned enterprises.⁸³ The expectation was that everyone in Cuba was working collectively for the benefit of the revolution.⁸⁴ Cuba went so far as to actually define and classify job positions, and it was illegal to work outside the centrally planned listings of job categories.⁸⁵ In a sense Korda could not legally work as a private photographer in Cuba; therefore, it is hard to image how he could have been granted the copyright in the Che image.

⁷⁸ *Id.*

⁷⁹ Sarah Levy, *Comment and Casenote: A Copyright Revolution: Protecting the Famous Photograph of Che Guevara*, 13 *LAW & BUS. REV. AM.* 687, 692 (2007).

⁸⁰ *Id.* Cuban Law, Law No. 49, art. 19.

⁸¹ *Id.* at 1433.

⁸² Personal Interview with Susel Garcia Caste Clanos, Director of ADAVIS, an artists' right society located in Havana, Cuba, about the history of Cuba and the rights of artists (Jan. 4, 2013).

⁸³ WAYNE S. SMITH, *PORTRAIT OF CUBA* 91 (1991).

⁸⁴ *See supra* note 82.

⁸⁵ *Id.*

In 1967, Fidel Castro repudiated all intellectual property laws as capitalist tools contrary to the tenets of true socialism.⁸⁶ Cuban artists were prevented from being allowed to recognize and assert rights in their works until years later when Fidel Castro recognized there are benefits to intellectual property.⁸⁷ A handful of simultaneous events occurred that prompted a change in legal recognition for artists.⁸⁸ The international success of the revival of the Buena Vista Social Club music band in the late 1990s and the “branding” of Che Guevara’s image.⁸⁹ Korda’s photo was soon to be found on pop art posters, T-shirts, coffee mugs and baseball caps. The mythical image of Che espousing sacrifice and armed revolt for the cause of communism and socialism and against imperialistic western ideology and capitalism had now morphed into a trendy global marketing symbol for this small little island off the coast of Florida. Castro began to embrace the very intellectual property system years earlier he had assailed, and began to allow the recognition and exercise of copyrights previously barred.

B. Scherman

For Rowland Scherman there are similar issues to Korda involving who owns the copyright to his early iconic images of Edith Lee-Payne and LBJ, while working on assignment as a free lance photographer for the US government agency, USIA, and later the private magazine *LIFE*. In 1884, the U.S. Supreme Court for the first time upheld Congress’s grant of Copyright protection to photographs.⁹⁰ Under most circumstances, the photographer is considered the author and owner of the copyright.⁹¹ The right to control reproduction and derivative rights of the original photograph are the hallmarks of copyright ownership.⁹² The law at the time of Scherman’s early photos was when a photograph was a commissioned work, e.g. special order for a magazine or a government agency, the photographer could still retain the copyright even though the party requesting the photograph owned the physical embodiment.⁹³ In other circumstances both parties may share jointly the copyright interest.⁹⁴ Of course, the rules regarding work for hire when a photograph

⁸⁶ See *supra* note 53 at 108.

⁸⁷ *Id.* at 309.

⁸⁸ *Id.* at 308.

⁸⁹ *Id.* and for the rise of the Buena Vista Social Club see Interview by Charlie Rose with Wim Wenders and Ry Cooder, (September 17, 1999), available at <http://www.pbs.org/buenavista/>.

⁹⁰ *Burrow-Giles Lithographic Co. v. Saroni*, 111 U.S. 53 (1884).

⁹¹ TAD CRAWFORD, *LEGAL GUIDE FOR THE VISUAL ARTIST* 128 (5th ed. 2010).

⁹² *Id.* at 7.

⁹³ *Id.* at 128.

⁹⁴ *Id.*

is taken by an employee in the course of his or her employment enterprise or as a commissioned work may lead to a finding that the employer or commissioning party is viewed as the author, and, therefore, copyright owner.⁹⁵

The facts matter, and in the case of Scherman, his position is that he handed over his early works including his negatives when he was “working” on behalf of USIA with the understanding he was to receive recognition as the creator and copyright holder.⁹⁶ To this day the successor agency to USIA, the National Archives located in Washington, D.C., is slowly acknowledging Rowland Scherman as the photographer of record on a case-by-case basis.⁹⁷ However, the National Archives continues to license Scherman’s images from the 1963 March on Washington without royalty payments to him. Most recently, the Edith Lee-Payne image is seen on the cover of an online commemorative “book” available for purchase published by a civil rights group on the occasion of the 50th anniversary of the 1963 March on Washington.⁹⁸ Once more, there is no acknowledgment of Scherman as the photographer. In a side note, Edith Lee-Payne and Rowland Scherman have met and were recently photographed together. She had always wondered who took that famous picture of her.

As for *LIFE* magazine images, Scherman received one-time payments and acknowledgments in the magazine as the photographer for his commissioned assignments.⁹⁹ These deals were based on a handshake, never a written contract per se.¹⁰⁰ The negatives from this era were returned to him years after the magazine folded.¹⁰¹ He is the acknowledged author and copyright holder despite the fact *LIFE* licensed many of his images without further compensation. This may have been a situation where this photo newsmagazine at one time viewed itself as joint copyright holders with Scherman. Of course, Scherman never filed for federal copyright recognition with the U.S. Copyright Office for any of his photographs from this era. The law has changed and is now more favorable for freelance artists. The rules today are unless the parties enter into an express, written agreement transferring the copyright, the freelance photographer working on assignment retains all rights in the image.¹⁰²

⁹⁵ *Id.*

⁹⁶ Personal Interview with Rowland Scherman (Mar. 9, 2013).

⁹⁷ Personal Interview with Bob Korn (Mar. 18, 2013).

⁹⁸ See 50TH ANNIVERSARY MARCH ON WASHINGTON, <http://50thanniversarymarchonwashington.com/store/>.

⁹⁹ See *Supra* note 96.

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² See *supra* note 91 at 137-39.

Also, the duration of the copyrights for photographs created in the 1960s and before January 1, 1978 – as were nearly all the photographs in question – was 28 years after publication so the original copyrights assuming they existed have expired.¹⁰³ Scherman never sought a copyright renewal available under U.S. copyright law.

III. WHO OWNS THE MORAL RIGHTS?

A. Korda

On February 20, 1997 Cuba officially joined the International Union for the Protection of Literary and Artistic Works or better known as the “Berne Convention” or heretofore the “Convention.”¹⁰⁴ Her accession now meant Cuban authors would have intellectual property protection independent to the rights granted by Cuba. The traditional requirements of a visible copyright notice, to wit, author’s name, copyright symbol and date, were eliminated.¹⁰⁵ Over the years Korda signed and dated some of his photographs.¹⁰⁶

The Convention provided a minimum copyright protection term of the life of the author plus fifty years, except photographs were given a term of duration for 25 years from date of first use.¹⁰⁷ Individual countries are free to provide longer terms.

Cuban authors were now granted national treatment, meaning the signatory countries to the Convention automatically issue the same copyright protection as is extended to its own citizens.¹⁰⁸ The right to proclaim or even disclaim authorship and the opportunity to protect the reputation of how and where the photograph might be published by objecting to distortions was now extended to Cuban artists throughout the world. These rights are the moral rights of attribution, integrity, disclosure, and right to resale royalties.¹⁰⁹ They are independent of the economic monopoly rights generally associated with copyrights especially in the U.S. Cuban artists were now officially permitted to create works of art, claim authorship, assert their moral rights and copyrights, and even license and collect royalties.

¹⁰³ *Id.* at 6-7.

¹⁰⁴ Berne Notification No. 17, Berne Convention for the Protection of Literary and Artistic Works Accession by the Republic of Cuba, *available at* <http://www.wipo.int/treaties/en/notifications/berne/treaty-berne-17>.

¹⁰⁵ MARY LAFRANCE, *COPYRIGHT LAW IN A NUTSHELL* 96 (1st ed. 2008).

¹⁰⁶ E-mail from Dante Korda, to author (Feb. 14, 2013) (on file with author).

¹⁰⁷ *See supra* note 79 at 26.

¹⁰⁸ ROBIN JACOB, DANIEL ALEXANDER & LINDSAY LANE, *A GUIDEBOOK TO INTELLECTUAL PROPERTY* 212-20 (5th ed. 2004).

¹⁰⁹ DAN HUNTER, *OXFORD INTRODUCTIONS TO U.S. LAW: Intellectual PROPERTY* 54 (2012).

Forty years after Korda photographed Che he utilized a foreign court to exercise these newly created rights. The London based Cuba Solidarity Campaign with Korda's blessing sued two companies involved in making an advertisement for Smirnoff Vodka that integrated the Che image into its marketing scheme.¹¹⁰ It has been reported that the London High Court affirmed Korda's copyright interest in the photograph.¹¹¹ This may be an overly generous assessment because the parties reached an out of court accord, and the court merely ratified the \$75,000 settlement amount.

A few months after the case was resolved, in 2001 Korda died while visiting Paris, thereby extinguishing any moral rights he might have had in the Che photograph.¹¹² Commentators have applauded Korda's successful assertion of the prejudicial use of the image – Korda claimed the Smirnoff's image use was a “slur on his (Che) name and memory” because Che did not drink alcohol.¹¹³ Unfortunately, moral rights do not apply to photographs made for newspaper reporting.¹¹⁴ It also does not apply in those circumstances when the photograph is made in the course of employment, which may or may not have been Korda's relationship to the *Revolución*.¹¹⁵ Smirnoff's financial settlement may have had less to do with the application of any legal principals, and more to do with protecting its global business reputation.

B. Scherman

In 1989, the U.S. joined the primary governing international treaty on intellectual property when it became a signatory to the Berne Convention.¹¹⁶ As with Cuba, the formalities requirement was amended so there was no need for registration, notice or deposit.¹¹⁷ There still are statutory advantages especially with regards to elements of proof and damages to file a copyright application with the Copyright Office at the Library of Congress and to continue to sign and date works of art covered under the 1976 Copyright Act, as amended.

¹¹⁰ See *supra* note 53 at 313.

¹¹¹ *Id.*

¹¹² *Id.*

¹¹³ David Sapsted, *Che Guevara 'sullied' by Vodka Advert, Claims Photographer* EDMONTON J. (Alberto), Aug. 8, 2000 available at <http://www.telegraph.co.uk/news/worldnews/europe/1351869/Che-Guevara-sullied-by-vodka-advert-claims-photographer.html>.

¹¹⁴ See *supra* note 108.

¹¹⁵ *Id.*

¹¹⁶ Berne Convention Implementation Act of 1988, 17 U.S.C. 101 note, United States Code Congressional and Administrative News, 100th Congress--Second Session, Volume 2, West Publishing Co., St. Paul, Minn., 102 Stat. 2853-2861.

¹¹⁷ *Supra* note 91 at 6-7.

Two years after the U.S. acceded to the Convention, a number of additional protections were added in amendments, including a new category of rights – moral rights. This new law named the Visual Artists' Rights Act (VARA) extended moral right protection to photographers who create works for exhibition purposes.¹¹⁸ For photographers the law only covers pictures that are a single edition or signed, numbered limited edition of 200 copies or fewer.¹¹⁹ Moral rights are controlled by the author of the work, cannot be assigned, and expire at the time of the death of the photographer.¹²⁰ In the U.S. there are two sole grants under this law: right of integrity and the right of attribution.¹²¹ While the first right prevents intentional distortion or mutilation of a protected work, the attribution right means the creator of the photograph has the exclusive right to claim authorship of the work. The creation or use of any photograph beyond what is set forth here means VARA's moral rights protections do not apply.

For works of art covered by VARA created prior to the effective date of the Act, June 1, 1991, in which the artist holds legal title, the moral rights shall last as long as the copyright in the work.¹²² Under the older term of copyright duration rules moral rights could last beyond the life of the artist, e.g. the life of the photographer plus 70 years or even 95 years after first publication.¹²³

For photographs Scherman created fifty years ago while on assignment for the USIA, the issue may not turn on whether he or now the National Archives has title to the work. The fact that they were created essentially for propaganda purposes on behalf of the U.S. Government, and not exhibition nor in limited editions numbering 200, may make the moral rights recognition moot for the March on Washington photos. Regarding the *LIFE* magazine images of LBJ, Robert Kennedy, Arthur Ashe and so forth given the acknowledgment that Scherman has title to the photographs, a stronger case can be made that whatever moral rights might exist are with him. Even assuming he and *LIFE* had joint authorship or title because one of the authors – *LIFE*, the magazine – is now “deceased” VARA states the term of the moral rights runs alongside the copyright life of the surviving artist for pre-June 1, 1991 photographs.¹²⁴ Unfortunately for Scherman, some of the *LIFE* images at the time they were taken and published do not fit

¹¹⁸ 17 U.S.C. section 106a and *see supra* note 93 at 68.

¹¹⁹ *See supra* note 105 at 191.

¹²⁰ *Id.* at 197-98.

¹²¹ *Id.* at 193.

¹²² *Id.* at 197-98.

¹²³ *See supra* note 91 at 6-7.

¹²⁴ *See supra* note 105 at 197-98.

the definition of photographs covered under the statute. However, there were quite a few images taken in the 1960s and even 1970s that were never published by *LIFE*, *Time*, *Paris March* or the *Washington Post* that still remain in the hands of Scherman.¹²⁵ There is nothing in the law to prevent him from placing them on exhibit and printing signed, numbered limited editions of 200 copies or fewer and then utilize VARA's moral rights protections.

IV. COPYRIGHT RESURRECTION

A. *Korda*

Five children from three separate relationships survived Korda's death.¹²⁶ The children have disputed copyright ownership.¹²⁷

According to Cuban inheritance laws any heir who leaves Cuba and establishes residence in another country may lose all rights to copyright ownership.¹²⁸ The Cuban Constitution expressly states the right to inherit personal property, including intellectual property, is lost once a child leaves the homeland.¹²⁹ When a property interest is inherited and a beneficiary abandons Cuba the Council of Ministers may declare the artworks and copyright as patrimony of the Republic of Cuba.¹³⁰ According to the lawyers at the leading artists' rights group in Cuba, ADAVIS, patrimonial art is visual fine art that best embodies the spirit and history of the island of Cuba created by her leading masters.¹³¹ The works of Cuban artists like Amelia Pelaez, Rene Portocarrero and Wilfredo Law qualify as patrimonial art and, therefore, in general cannot be sold or transferred outside of Cuba without government authorization.¹³² Korda's photographs are a high enough quality and significance to be deemed patrimonial art.

In the case of Korda's children only his oldest daughter, Diana Diaz, and his son, Dante Korda, were living in Cuba at the time of his death so they were the only two who qualified to inherit his negatives, physical photographs already printed, and the copyrights thereto.¹³³ Korda's will named Diana as the "sole and universal heir" to his physical possessions

¹²⁵ See *supra* note 96.

¹²⁶ See *supra* note 106.

¹²⁷ *Id.* and see *supra* note 53 at 318.

¹²⁸ DEBRA EVENSON, REVOLUTION IN BALANCE: LAW AND SOCIETY IN CONTEMPORARY CUBA 22 (1994).

¹²⁹ *Id.*

¹³⁰ *Id.*

¹³¹ See *supra* note 82.

¹³² *Id.*

¹³³ See *supra* note 106.

and rights.¹³⁴ Other family members and even a non-family member, an alleged mistress, have fiercely disputed the will's validity.¹³⁵

Dante challenged the Cuban's government recognition of Diana as the sole heir and granting her copyright interests in his photographs including the original Che image.¹³⁶ Dante was particularly upset because Diana and the Cuban government embarked on a global marketing blitz to geographically license the Che image and sue those who have exploited the image without permission or license.¹³⁷ For instance, in 2003 they successfully sued a Paris human rights organization, Reporters Without Borders (Reporters Sans Frontières), in France to stop them from displaying the Che photo on posters.¹³⁸ This free press group was attempting to draw attention to Cuba's imprisonment of scores of dissident journalists accused of spying.¹³⁹ The poster superimposed the portrait of Che over a baton-waiving policeman with the words "Welcome to Cuba, the world's largest jail for journalists."¹⁴⁰ This is a lawsuit that would have failed had Cuba not resurrected its own copyright laws and joined the Berne Convention. On the merchandising side, they sell Che themed garments in the U.S. through the licensee Fashion Victim and on its website, "The CheStore.com."¹⁴¹ All of these events led Dante to leave the island of Cuba and make his home in south Florida.¹⁴² He brought with him his own personal collection of photographs taken by his dad, and some negatives, and is selling the photographs on eBay.¹⁴³ Dante's physical move solidified Diane's legal interests in Korda's personal and intellectual property under Cuban law.

B. Scherman

Rowland Scherman's copyright predicament in some ways is worse than Korda's was a dozen or so years ago. This is so because the Cuban government magically resurrected a copyright in Che that may not have even existed with Korda. She then firmly planted it in Korda's hands, encouraged him to bring litigation to assert his rights, and then upon his

¹³⁴ See *supra* note 53 at 314-319. In addition, Dante Korda supplied Michael E. Jones a copy of what is purported to be Alberto Korda's last will designating Diana Diaz as lawful heir.

¹³⁵ *Id.*

¹³⁶ *Id.* and see *supra* note 106.

¹³⁷ *Id.*

¹³⁸ See *supra* note 53 at 320.

¹³⁹ *Id.*

¹⁴⁰ *Id.*

¹⁴¹ *Id.* at 323-324.

¹⁴² See *supra* note 106.

¹⁴³ *Id.*

death transferred these rights to the child, Diana, most loyal to the Cuban regime and now the only child remaining a resident of Cuba. Scherman has had no such luck especially regarding the National Archives, which at best seems poised to recognize him on a photo by photo basis as the photographer of record for the March on Washington images, but has no desire or will to grant him licensing rights.

Rowland Scherman is fortunate that two business groups came to his rescue: Bob Korn Imaging, Inc. and the Artworks Group, Inc. These Cape Cod based entities joined with Scherman to form the Rowland Scherman Project.¹⁴⁴ The purpose of this LLC is multifaceted, and includes identifying those images found in the National Archive that should be attributed to Scherman; sharing the range and historical significance of his vast photojournalistic works with the public through school visits and museum/gallery exhibitions; and seeking to copyright and license his key portfolio images.¹⁴⁵ The latter activity is occurring by the publication of a book, *Timeless: Photographs of Rowland Scherman*, showcasing 70 of his most historically captivating scenes from Woodstock, presidential campaign of Robert Kennedy, March on Washington, Newport Folk Festival and scores of portraits of personalities like Jackie Robinson, Barb Walters, the Beatles, Martin Luther King, Woody Allen, Judy Collins and Andy Warhol.¹⁴⁶ The images within the book and the book itself are copyrighted with the Library of Congress along with notice of a reservation of rights passage. The copyrighting of these black and white images not already in the public domain or owned by the National Archives also may lead to the creation of moral rights for his lifetime under VARA for those photographs Scherman elects to sign and number in editions of 200 or fewer for exhibition purposes.

V. SUMMARY

Cuba elected to do what many other countries have done when it restored the expired copyright in the iconic image of fabled revolutionary Ernesto “Che” Guevara captured on film by the legendary photographer Alberto Korda. When Cuba joined the Berne Convention works of art like the Che photograph were granted national treatment globally. After Korda’s death, his oldest daughter, Diana Diaz, inherited all rights to his works including existent printed photographs, negatives, contact sheets and copyrights. In an apparent contradiction of socialist ways, working in conjunction with the Cuban government together they

¹⁴⁴ See *supra* note 96, see also <http://www.rowlandscherman.com>.

¹⁴⁵ *Id.*

¹⁴⁶ TIMELESS: PHOTOGRAPHY OF ROWLAND SCHERMAN (Michael E. Jones and Christine Jones eds. 2013).

have begun to effectively license the most reproduced photo in the world into a merchandising brand.

The famed photojournalist Rowland Scherman has had less success in convincing his government, to wit, the National Archives, in granting him recognition as author-creator of many of the most familiar photographs published from the 1963 March on Washington. Other than his photos from the Peace Corps days and for USIA for the most part he now has physical possession and title to his most important portrait photographs. Through a book, *Timeless: Photography of Rowland Scherman*, he has been able to resurrect his copyrights and to the extent the works are for exhibition purposes and signed, limited editions of 200 or fewer gain moral rights recognition under VARA.

HEALTH PRIVACY: IMPROVED REGULATORY PROTECTION IN 2013

by CARTER MANNY*

I. INTRODUCTION

Federal health privacy law in the United States arises largely out of regulations adopted by the Department of Health and Human Services pursuant to the Health Insurance Portability and Accountability Act of 1996 or "HIPAA".¹ The original HIPAA privacy regulations first took effect in April, 2003.² As part of economic stimulus legislation known as the American Recovery & Reinvestment Act of 2009 or "ARRA,"³ Congress enacted the Health Information Technology for Economic and Clinical Health Act or "HITECH Act,"⁴ which supplemented the original HIPAA regulations by strengthening privacy protection for health information. Interim regulations implementing the HITECH Act's changes regarding notifications of data breaches⁵ and enforcement⁶ were

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¹ Privacy of Individually Identifiable Health Information, 45 C.F.R. §§ 164.102 – 164.534 (2007), [hereinafter *HIPAA Privacy Rules*]. The rules were adopted pursuant to the Health Insurance Portability and Accountability Act of 1996, Public Law 104-191, 110 Stat. 1936 (1996) [hereinafter *HIPAA*].

² Standards for Privacy of Individually Identifiable Health Information, 67 Fed. Reg. 53182 (Aug. 14, 2002)(codified at 45 C.F.R. pts. 160 & 164).

³ American Recovery & Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009).

⁴ American Recovery & Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115, §§ 13001 - 13424 (2009). Sections 13001 – 13424 are known as the Health Information Technology for Economic and Clinical Health Act [hereinafter *HITECH Act*].

⁵ Breach Notification for Unsecured Protected Health Information, 74 Fed. Reg. 42740 (Aug. 24, 2009)(interim final rule), codified at 45 C.F.R. pts. 160 & 164, [hereinafter *2009*

adopted in 2009. Final rules, identified in this article as the “2013 HIPAA Rules,” implemented the provisions in the HITECH Act by amending the original HIPAA privacy regulations.⁷ The 2013 HIPAA rules also implemented restrictions on use of genetic information contained in the Genetic Information Nondiscrimination Act or “GINA,”⁸ which was passed in 2008.

The 2013 HIPAA Rules are significant in several respects. They: (1) expand the scope of individuals and institutions who have a direct obligation to comply with federal health privacy law, (2) modify the standards for data breach notification, (3) refine limitations for sale and use of health information, (4) improve patient rights of access and (5) clarify how civil monetary penalties will be determined. The regulations also clarify limits on the use of genetic information. This article summarizes changes made by the 2013 HIPAA Rules. It also includes a brief discussion of breach notification rules for health information adopted by the Federal Trade Commission.⁹ Recent enforcement activities and the results of a report on medical identity theft¹⁰ are also discussed.

II. PRIVACY PROVISIONS IN THE 2013 HIPAA RULES

A. Expansion of Entities Subject to Health Privacy Law

The original HIPAA Privacy Rules which took effect in 2003 applied directly only to "covered entities" including health care providers (e.g., hospitals, doctors, pharmacies and sellers of medical equipment,) health plans and health care clearinghouses.¹¹ The original HIPAA Privacy

Interim Breach Notification Rule].

⁶ HIPAA Administrative Simplification: Enforcement, 74 Fed. Reg. 56,123 (Oct. 30, 2009)(interim final rule)[hereinafter 2009 Interim Enforcement Rule].

⁷ Modifications to the HIPAA Privacy, Security, Enforcement and Breach Notification Rules, 78 Fed.Reg. 5,566 (Jan. 25, 2013)(to be codified at 45 C.F.R. pts. 160 & 164)[hereinafter *2013 HIPAA Rules*].

⁸ Genetic Information Nondiscrimination Act of 2008, Pub. L. 110-233, 122 Stat. 881 [hereinafter *GINA*].

⁹ FTC Health Breach Notification Rule, 74 Fed. Reg. 42,962 (Aug. 25, 2009)(codified at 16 C.F.R. pt. 318).

¹⁰ Ponemon Institute, *Third Annual Survey on Medical Identity Theft*, available at http://www.ponemon.org/load/upload/file/Third_Annual_Survey_on_Medical_Identity_Theft_FINAL.pdf (visited Mar. 15, 2013)[hereinafter *2012 Ponemon Report*].

¹¹ Covered entities include health plans as well as health care providers. The latter include physicians, dentists, nurses, psychotherapists, homeopaths, acupuncturists, hospitals, clinics, pharmacies and sellers of medical equipment. Covered entities also include businesses known as health care clearinghouses which translate health information into a standardized electronic format for electronic transactions. Covered entities do not include pharmaceutical companies, life insurers, law enforcement agencies or providers of

Rules did not directly apply to other entities, called "business associates," that provide services to "covered entities," but required them to comply with privacy assurances made in contracts with the covered entities which they served.¹² Thus, the original regulatory scheme relied on covered entities to impose privacy safeguards on their business associate service providers by requiring them to make contractual commitments. In 2009, the HITECH Act changed the regulatory system by making business associates directly subject to the statutory and regulatory provisions of federal health privacy law, including their civil and criminal penalties.¹³ Moreover, the 2013 HIPAA Rules widened health privacy law's reach by expanding the definition of "business associate" to include anyone who is a subcontractor of a business associate if the subcontractor creates, maintains or transmits health information.¹⁴ Also included within the expanded definition of "business associate" is any provider of data transmission services to a covered entity with respect to health information, if it requires access on a routine basis to the health information.¹⁵ For example, the latter would include the operator of a data network connecting doctors' offices, diagnostic laboratories and hospitals. There are also some important exclusions from the definition of a "business associate." A health care provider who receives a disclosure from a covered entity concerning the treatment of a patient is not a "business associate," nor is a government agency when determining eligibility for a government health plan providing public benefits.¹⁶ In addition, a business which transmits health information and acts only as a conduit because it does not have access "on a routine basis" to the information (e.g., an Internet service provider, some telecommunications providers, the U.S. Postal Service, a courier service, etc.) is not a "business associate."¹⁷

B. Notification of Breaches

1. Definition of "Breach:"

The HITECH Act created the first federal data breach notification provision; it supplements, rather than pre-empts, state data breach

rescue services. *HIPAA Privacy Rules*, 45 C.F.R. § 160.103 (2012).

¹² See 45 C.F.R. § 164.502(e)(1)(i) (2003).

¹³ *HITECH Act* §§ 13401, 13404.

¹⁴ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5688 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.103).

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ See *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5571 (Jan. 25, 2013)(in which HHS interprets the definition of "business associate" in 45 C.F.R. § 160.103).

notification laws.¹⁸ The HITECH Act broadly defines breach as the "unauthorized acquisition, use or disclosure of protected health information which compromises the security or privacy of such information."¹⁹ The issue of whether a breach compromises security or privacy was determined under the 2009 Interim Breach Notification Rule by application of a "risk of harm" standard requiring notice when there is a "significant risk of financial, reputational or other harm."²⁰ Under the 2013 HIPAA Rules, however, more activities are likely to be found to be within the definition of "breach" because the Rules establish a presumption that a breach will require notification unless the covered entity or business associate "demonstrates that there is a low probability that the protected health information has been compromised based on a risk assessment."²¹ The risk assessment must include several determinations. There must be consideration of the nature and extent of the health information, including the types of identifiers (names or patient numbers, for example) and the likelihood that de-identified information could be linked to specific individuals through re-identification.²² The assessment must also consider the identity of the person or entity who had access to the information, whether the information was actually acquired or viewed, and the extent to which the risk has been mitigated.²³ Thus, under the new standard, a covered entity or business associate has the burden of proving through performance of a detailed risk assessment that even a fairly limited disclosure of information does not pose a "significant risk" before it can avoid the duty to provide notification.

The HITECH Act requires notification of a breach only when the health information is "unsecured,"²⁴ which is defined as the absence of security technology or methodology specified in "guidance" issued annually by HHS.²⁵ On its website, HHS has published "guidance" on securing health information either through certain types of encryption of

¹⁸ *HITECH Act* § 13421. As of Aug. 20, 2012, 46 states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands had data breach notification statutes. The only states lacking such laws were Alabama, Kentucky, New Mexico and South Dakota. See National Conference of State Legislatures, State Security Breach Notification Laws, available at <http://www.ncsl.org/issues-research/telecom/security-breach-notification-laws.aspx> (visited Mar. 26, 2013).

¹⁹ See *HITECH Act* § 13400(1)(A).

²⁰ *2009 Interim Breach Notification Rule*, 74 Fed. Reg. 42740, (Aug. 24, 2009)(codified at 45 C.F.R. § 164.402).

²¹ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5695 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 402).

²² *Id.*

²³ *Id.*

²⁴ *HITECH Act* § 13402(a).

²⁵ See *id.* § 13402(h).

electronic data or destruction of the media, including paper, on which the data are stored.²⁶ In other words, unsecured information includes either unencrypted electronic data, or paper records which have not been adequately shredded or otherwise destroyed.

When making a disclosure or requesting information, a covered entity or business associate must make “reasonable efforts” to limit information to the “minimum necessary” to accomplish the intended purpose of the disclosure or request.²⁷ The “minimum necessary” standard does not apply to disclosures or requests by a health provider for treatment, to disclosures to the patient or disclosures pursuant to patient authorizations.²⁸ Accordingly, unless information is disclosed for the purpose of treating a patient, the organization should be careful to minimize the data being released.

Some disclosures of health information are excluded from the definition of a breach requiring notification. One exception covers a disclosure to an unauthorized person when the covered entity or business associate has a “good faith belief” that the person would not reasonably be able to retain the information.²⁹ The exception could apply to a situation in which a hospital visitor walks past a computer screen displaying a patient’s records. However, if a nurse sees a visitor stop and look at the screen for a few moments, the exception might not apply. Consequently, health care providers should be careful about how and where patient information is displayed. When possible, computer screens should be positioned so that they cannot be seen by

²⁶ “Unsecured protected health information” in the definitional section of the breach notification regulations, 45 C.F.R. § 164.402, is defined by reference to “guidance” issued by HHS. Such “guidance” outlines what constitutes protected health information as being either (1) encrypted electronic information with decryption tools stored separate from the data, or (2) data on paper, film or other hard copy media that have been shredded or destroyed in such a way that the information cannot be reconstructed or retrieved. Redaction is specifically excluded as an acceptable means of data destruction. De-identification of data (sometimes inaccurately referred to as “anonymization,”) is not mentioned as a method of “securing” health information. Standards for encryption of “data at rest” are contained in NIST Special Publication 800-111, Guide to Storage Encryption Technologies for End User Devices. Standards for encryption of “data in motion” are contained in NIST Special Publications 800-52, Guidelines for the Selection and Use of Transport Layer Security (TLS) Implementations, 800-77 Guide to IPsec VPNs; or 800-113, Guide to SSL VPNs, or others which are Federal Information Processing Standards (FIPS) 140-2 validated. See *Guidance to Render Unsecured Protected Health Information Unusable, Unreadable, or Indecipherable to Unauthorized Individuals*, available at <http://www.hhs.gov/ocr/privacy/hipaa/administrative/breachnotificationrule/brguidance.html> (visited Mar. 26, 2013).

²⁷ 45 C.F.R. § 164.502(b)(1) (2012).

²⁸ See *id.* § 164.502(b)(2) (2012).

²⁹ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5695 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.402).

unauthorized people and should automatically switch to a screen saver within seconds after a computer is left unattended. There are other exceptions for unintentional access by, or an inadvertent disclosure to, a worker within a covered entity like a hospital, provided there is no further access, disclosure or use of the information.³⁰ For example, if a nurse accidentally saw the records of a patient not under the nurse's care, there would not be a breach as long as the nurse did not look at those records again or disclose the information to anyone else.

2. Timing of the Notice of the Breach:

After a breach has occurred, it is important that patients be notified promptly. For a covered entity, notification must be given "without unreasonable delay," and in no case more than 60 days after the breach is discovered.³¹ The date of discovery of the breach is the day on which the breach is first known by the covered entity, or the day on which the breach would have been known by exercising reasonable diligence.³² For a business associate, notice must be given to the covered entity within the same 60-day time limit as applies to a notice by a covered entity.³³ The reasonable diligence provision makes clear that organizations have a duty to detect breaches.

3. Method of Notification:

The method of the notice is also important. For a covered entity, notice must be given to individuals by first-class mail, or by e-mail "if the individual agrees to electronic notice."³⁴ If there is insufficient or out-of-date contact information, substitute notice must be given. The method of substitute notice depends upon the number of people whose contact information is inadequate. If there are ten or more individuals with insufficient or out-of-date contact information, a notice of the breach must either be posted on the entity's web site or be placed with major print or broadcast media. The notice must include a toll-free number where an individual can learn whether his or her information is possibly included in the breach.³⁵

³⁰ *Id.*

³¹ *HITECH Act* § 13402(d)(1); *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,768 (Aug. 24, 2009)(codified at 45 C.F.R. § 164.404(b)).

³² *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,768 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.404(a)(2)). The regulation is silent on how an individual can agree to electronic notice. *Id.*

³³ *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,769 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.410).

³⁴ *HITECH Act* § 13402(e)(1)(A); *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,768 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.404(d)(1)(i)).

³⁵ *HITECH Act* § 13402(e)(1)(B); *2009 HIPAA Interim Breach Notification Rule*, 74 Fed.

In addition to actual notice to individuals, and substitute notice to those with inadequate contact information, there must be an additional notice to HHS in all cases and to media outlets depending upon the number of individuals whose information has been improperly disclosed. If the information of 500 or more residents of any State is believed to have been involved in the breach, notice must be given to "prominent media outlets" serving the State³⁶ and to HHS.³⁷ Notices to media outlets and HHS must be given within the same 60-day rule as applies to notices to individuals.³⁸ If the information of fewer than 500 individuals is involved in a breach, the entity must note the event in a log which must be submitted annually to HHS.³⁹ Although HHS will eventually be notified of all breaches, it is unlikely that the general public will ever become aware of breaches involving information of fewer than 500 people, because the media will never be informed. Public awareness of improper protection of health information is a potentially powerful force to encourage the health care sector to comply with privacy law. The 500-victim cut-off for notification of the media allows offending organizations to escape public scrutiny in instances where hundreds of people's health records have been compromised. The cut-off should be substantially lower, perhaps 50 or even 100, so that the public can promptly learn which organizations involved with health care are not adequately safeguarding information of a significant number of patients.

4. Contents of the Notice of the Breach:

For a covered entity, the notice to an individual must be quite detailed including a brief description of the facts surrounding the breach, the date of the breach and the date of the breach's discovery. It must contain a description of the type of information involved in the breach (e.g. name, address, Social Security Number, date of birth, etc.). In addition, the notice must inform the individual of protective actions he or she should take, and must include what corrective action is being taken to prevent further breaches. Finally, the notice must contain procedures for contacting the entity (via toll-free telephone number, e-mail, Web site or postal address) to ask questions or obtain additional

Reg. 42,740, 42,768 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.404(d)(2)).

³⁶ *HITECH Act* § 13402(e)(2); *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,768 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.406).

³⁷ *HITECH Act* § 13402(e)(3); *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,769 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.408(b)).

³⁸ *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,768 (Aug. 24, 2009) (codified at 45 C.F.R. §§ 164.406(b), 164.408(b)).

³⁹ *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,769 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.408(c)).

information.⁴⁰ For a business associate, the notice is sent to the covered entity.⁴¹ The business associate's notice shall include the names of the victims of the breach (to the extent possible,) and any other available information that the covered entity is required to provide to the victims.⁴²

5. FTC Health Breach Notification Rule for Providers of Storage for Health Information:

Under the HITECH Act, a “vendor of personal health records,” defined as a business that stores health information⁴³ (including online “cloud” businesses,) must notify each individual whose information has been breached and must also notify the Federal Trade Commission, which in turn must notify HHS.⁴⁴ Failure to comply with breach notification requirements will be treated as an unfair or deceptive practice violation of Section 5 of the Federal Trade Commission Act.⁴⁵ In addition, third party businesses providing services to the companies which store health information are also required to comply with breach notification provisions.⁴⁶ The FTC issued its own health breach notification regulations in 2009.⁴⁷ The FTC regulations explicitly state that they do not apply to covered entities and business associates as defined in HIPAA.⁴⁸

The most significant difference between the FTC Health Breach Notification Rule and the 2013 HIPAA Rules is the definition of “breach.” Under FTC Rule, breach is defined as an acquisition of the health information without the authorization of the person to whom it pertains. Acquisition is presumed to be unauthorized unless the entity storing the information “has reliable evidence showing that there has not been, or could not reasonable have been, unauthorized acquisition of such information.”⁴⁹ Although the FTC definition has a similar

⁴⁰ *HITECH Act* § 13402(f); *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,768 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.404(c)).

⁴¹ *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,769 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.410(a)(1)).

⁴² *2009 HIPAA Interim Breach Notification Rule*, 74 Fed. Reg. 42,740, 42,769 (Aug. 24, 2009) (codified at 45 C.F.R. § 164.410(c)).

⁴³ *See HITECH Act* § 13400(18).

⁴⁴ *See id.* § 13407.

⁴⁵ *See id.* § 13407(e).

⁴⁶ *See id.* § 13407(b).

⁴⁷ *FTC Health Breach Notification Rule*, 74 Fed. Reg. 42,962 (Aug. 25, 2009)(codified at 16 C.F.R. pt. 318).

⁴⁸ *FTC Health Breach Notification Rule*, 74 Fed. Reg. 42,962, 42,980 (Aug. 25, 2009)(codified at 16 C.F.R. § 318.1(a)).

⁴⁹ *FTC Health Breach Notification Rule*, 74 Fed. Reg. 42,962, 42,980 (Aug. 25, 2009)(codified at 16 C.F.R. § 318.2(a)).

presumption that an acquisition will be a “breach,” it is much less refined than the HHS breach definition and lacks a risk assessment. In order to promote consistency, the FTC should revise the definition to make it identical to the one in the 2013 HIPAA Rules. In most other respects, the FTC Rule and the 2013 HIPAA Rules are similar with respect to breach notification. The similarities include the method of notification,⁵⁰ timing⁵¹ and content.⁵²

C. Limited Control by Patients on the Use and Disclosure of Health Information

The HITECH Act allows patients limited ability to control the use and disclosure of their information for certain purposes. Control is exercised through express consent, known as an authorization. Generally, the sale of information and the use of information for marketing or research require a patient authorization. Limited types of information may be used for fundraising, unless the patient objects. There are special rules for immunization records, information of decedents and for disclosures to health plans when a patient pays for health services entirely out of the patient’s own funds. Each of these situations is explained below.

1. Sale of Information:

The HITECH Act prohibits the sale of electronic health records unless authorized by the patient.⁵³ When obtaining the authorization, the covered entity must inform the patient of any remuneration it is receiving.⁵⁴ Thus, the patient will be informed of the covered entity’s possible financial motive before giving permission for the sale. Many types of disclosures of health information are excluded from the definition of “sale.” These exclusions include a disclosure for public health purposes, a disclosure for research, a disclosure for treatment, a disclosure for payment for health services, a disclosure for a business reorganization (e.g., mergers and acquisitions of covered entities,) a disclosure made to a business associate, a disclosure made to the patient, a disclosure required by law, and a disclosure permitted by the

⁵⁰ FTC Health Breach Notification Rule, 74 Fed. Reg. 42,962, 42,981 (Aug. 25, 2009)(codified at 16 C.F.R. §§ 318.5(a) - (c)).

⁵¹ FTC Health Breach Notification Rule, 74 Fed. Reg. 42,962, 42,981 (Aug. 25, 2009)(codified at 16 C.F.R. §§ 318.3(c), 318.4(a)).

⁵² FTC Health Breach Notification Rule, 74 Fed. Reg. 42,962, 42,981 (Aug. 25, 2009)(codified at 16 C.F.R. § 318.6).

⁵³ See *HITECH Act* § 13405(d)(1).

⁵⁴ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5699 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.508(4)).

regulations when the only remuneration received is a reasonable, cost-based fee to cover the cost of providing the information.⁵⁵

2. Use of Information for Marketing:

Generally, a covered entity cannot use or disclose health information for marketing purposes unless the patient provides authorization.⁵⁶ If the covered entity is receiving “financial remuneration”⁵⁷ from a third party, the authorization “must state that such remuneration is involved.”⁵⁸ As noted above in the provision regarding a sale of information, the patient will therefore be aware of the covered entity’s financial motive before giving permission. There are exceptions to the authorization requirement. No authorization is required when a covered entity communicates face-to-face with an individual or provides a promotional gift of nominal value.⁵⁹ A communication with a patient about a drug currently being prescribed for the patient, including a refill reminder, is excluded from the definition of “marketing,” but only if any payment received by the covered entity in exchange for making the communication is “reasonably related” to the covered entity’s cost of making the communication.⁶⁰ Similarly, a communication with a patient about treatment or the covered entity’s operations is excluded from the definition of marketing, except when the covered entity is receiving financial remuneration for making the communication.⁶¹

3. Use of Information for Fundraising:

The 2013 HIPAA Rules allow use of demographic information (e.g. name, address, age, gender) and limited additional information (e.g. name of treating physician, outcome information, insurance status) for fundraising by a covered entity.⁶² Although fundraising does not require patient authorization, the patient must be informed of his or her right to

⁵⁵ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5697 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.502(a)(5)(ii)(B)(2)).

⁵⁶ See 45 C.F.R. § 164.508(a)(3)(i) (2012).

⁵⁷ “Financial remuneration” is defined as “direct or indirect payment from or on behalf of a third party whose product or service is being described. Direct or indirect payment does not include any payment for treatment of an individual.” *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5695 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.501).

⁵⁸ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5699 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.508(a)(3)(ii)).

⁵⁹ 45 C.F.R. § 164.508(a)(3)(ii) (2012).

⁶⁰ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5696 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.501).

⁶¹ *Id.*

⁶² *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5700 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.514(f)(1)).

elect not to receive fundraising communications.⁶³ Such notice must appear in the covered entity's general notice of privacy practices and in each fundraising communication sent to the patient.⁶⁴ In addition, the covered entity is prohibited from conditioning treatment or payment on the patient's choice with respect to receipt of fundraising communications.⁶⁵ The restrictions attempt to strike a balance between a non-profit organization's need to raise money (possibly from grateful patients,) and a patient's interest in being free from potential coercion from a provider of a vital service: health care. If a patient objects to a fundraising solicitation, he or she is able to avoid future solicitations by electing not to receive any further fundraising communications. The regulations do not specify any particular method for making the election, but state that the method must not cause the individual to incur any undue burden or more than nominal cost.⁶⁶ Because the right to elect not to receive further solicitations must be included in each fundraising communication, and because the method for making the election must not be burdensome or costly, it seems that regulation strikes a reasonable balance between the entity's financial need and the patient's interest in being free from potential coercion.

4. Use of Information for Research:

Use or disclosure of health information for research is permitted when authorized by the patient. The 2013 HIPAA Rules clarify the use of "compound authorization" in which the patient permits the use of information for multiple research studies.⁶⁷ However, if treatment is conditioned on the provision of an authorization for one of several research studies covered in the compound authorization, the authorization form must "clearly differentiate" between the conditioned and unconditional components.⁶⁸ In addition, the form must provide the patient with an opportunity to opt-in to the research activities described in the conditional authorization.⁶⁹ These provisions both simplify the authorization process and provide the patient with an opportunity to make separate decisions when some treatment is conditioned on providing a research authorization.

⁶³ *Id.*

⁶⁴ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5700 (Jan. 25, 2013)(to be codified at 45 C.F.R. §§ 164.514(f)(2)(i), 164.514(f)(2)(ii).

⁶⁵ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5700 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.514(f)(2)(iii).

⁶⁶ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5700 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.514(f)(2)(ii).

⁶⁷ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5699 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.508(b)(3)(i).

⁶⁸ *Id.*

⁶⁹ *Id.*

5. Immunization Records:

HIPAA regulations allow use and disclosure of health information for specified public health purposes without patient authorization.⁷⁰ The 2013 HIPAA Rules make it easier for a school to obtain proof of student immunization when the school is required by law to have proof of immunization prior to admitting the student. A covered entity may disclose a student's proof of immunization to a school when an adult student, or the parent of a minor student, has agreed to the disclosure and the agreement is documented.⁷¹ A formal HIPAA authorization is not required.

6. Information of Decedents:

The 2013 HIPAA Rules make it easier for family and friends to obtain access to health information of someone who has died. In addition to the decedent's relatives,⁷² disclosure may be made by a covered entity to "a close personal friend" or any other person identified by the decedent who was involved in the decedent's care or payment for health care.⁷³ The information disclosed is limited to information which is relevant to the relative or friend's involvement, unless the disclosure is inconsistent with any prior expressed preference expressed by the decedent which is known by the covered entity.⁷⁴ These provisions are based on an assumption that if the decedent had not wanted family and friends involved with his care to know his health situation, he would have requested confidentiality, and that those family members and friends have a legitimate interest in knowing the information. The 2013 HIPAA Rules state that privacy protection for a decedent's health information ends fifty years after death, but the rules are silent with respect to what may be done with the information once the protection has ended.⁷⁵

⁷⁰ See 45 C.F.R. § 164.512(b) (2012).

⁷¹ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5700 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.512(b)(1)(vi)).

⁷² "Family member" is broadly defined to include dependents, relatives by marriage or adoption, and relatives by consanguinity (e.g. half-siblings who share only one parent). Relatives who are first, second, third or fourth-degree relatives are included (e.g. great-great grandparents, great-grandchildren and children of first cousins.) 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5688 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.103).

⁷³ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5699 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.510(b)(5)).

⁷⁴ *Id.*

⁷⁵ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5688 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.103).

7. Health Services Paid For by the Patient:

The 2013 HIPAA Rules allow a patient to prevent a covered entity from disclosing health service information to a health plan, if the patient or someone else has paid the entire cost of the service.⁷⁶ This provision may be useful to patients who want to maintain maximum confidentiality for treatment of stigmatizing conditions, including those involving mental health and reproduction, the disclosure of which could cause extreme embarrassment.

D. Improved Patient Rights of Access to Information

The 2013 HIPAA Rules expand patient rights of access to information by requiring the covered entity to provide an electronic copy of information that already is in electronic form.⁷⁷ The information must be produced in either the electronic format requested or in an electronic format that is readable.⁷⁸ The patient also has the right to have information transferred to someone else, regardless of whether the information is in electronic form, as long as the request is made in writing and is signed.⁷⁹ A reasonable fee may be charged by the covered entity for providing copies of the information, including labor, supplies, and postage.⁸⁰

E. Enforcement

The HITECH Act's civil monetary penalties range from a low of \$100 per violation (with an annual cap of \$25,000 per year) for a violation without the violator's knowledge, to a high of \$50,000 per violation (with an annual cap of \$1.5 million) for a violation involving willful neglect.⁸¹ Amounts collected by the Department of Health and Human Services can be used to fund enforcement activities and can be distributed to victims of data breaches.⁸² A state attorney general is authorized to enforce the HITECH Act on behalf of residents of his or her state through a civil action seeking an injunction or damages.⁸³

⁷⁶ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5701 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.522(a)(1)(vi)).

⁷⁷ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5702 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.524(c)(2)(ii)).

⁷⁸ *Id.*

⁷⁹ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5702 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.524(c)(3)(ii)).

⁸⁰ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5702 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.524(c)(4)).

⁸¹ *See HITECH Act* § 13410.

⁸² *See id.* § 13410(c).

⁸³ *See id.* § 13410(e).

The 2013 HIPAA Rules set forth mitigating or aggravating factors which may be used in determining the amount of a civil money penalty.⁸⁴ These include the number of people affected, and whether resulting harm was physical, financial, or reputational, or hindered a person's ability to obtain health care.⁸⁵ A covered entity's history of prior compliance⁸⁶ and its financial condition may also be considered.⁸⁷ The 2013 HIPAA Rules also make clear that a covered entity is liable for a violation committed by its business associate who is an agent.⁸⁸ Likewise, a business associate is liable for a violation of a subcontractor who is an agent.⁸⁹ The 2013 HIPAA Rules define agency by reference to the "federal common law of agency"⁹⁰ in order to provide a single national legal standard rather than relying on state common law agency principles which can vary among states.⁹¹ For example, if a cardiology clinic hired a business associate to provide wireless data transmission services between monitors worn by patients at home and the clinic's computer system, pursuant to a contract stating that the latter must make health information available based on instructions provided by the clinic, there would be an agency relationship because the clinic has the right to give interim instructions to the wireless transmission service provider during the course of the relationship.⁹² On the other hand, if a solo-practitioner dental practice hired a business associate to de-identify (sometimes referred to as "anonymize") electronic patient records, the

⁸⁴ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5691 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.408).

⁸⁵ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5691 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.408(b)).

⁸⁶ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5691 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.408(c)).

⁸⁷ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5691 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.408(d)).

⁸⁸ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5691 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.402(c)(1)).

⁸⁹ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5691 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.402(c)(2)).

⁹⁰ 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5691 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.402(c)). The federal common law of agency includes multiple factors, the most important of which is the hiring party's right to control the manner and means by which work is accomplished. See, e.g, *Nationwide Mut. Ins. Co. v. Darden*, 503 U.S. 318 (1992); *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989), *Kelley v. Southern Pacific Co.*, 453 U.S. 322 (1974); *Ward v. Atlantic Coast Line R. Co.*, 362 U.S. 396 (1960) and *Baker v. Texas & Pacific R. Co.* 359 U.S. 227 (1959).

⁹¹ The HHS explanation accompanying the 2013 HIPAA Rules states that adoption of the Federal common law to determine the definitions and application of the terms "principal," "agent" and "scope of agency" achieves nationwide uniformity in the implementation of the HIPAA Rules. See 2013 HIPAA Rules, 78 Fed. Reg. 5566, 5581 (Jan. 25, 2013).

⁹² *Id.*

business associate would not be an agent, because the solo practitioner dentist and her office staff would not likely have the expertise to provide interim instructions regarding this sort of highly specialized activity in the field of information technology.⁹³

III. RESTRICTIONS ON THE USE OF GENETIC INFORMATION

The 2013 HIPAA Rules also implement provisions of the Genetic Information Nondiscrimination Act.⁹⁴ Genetic information is broadly defined as including not only information derived from a genetic test performed on the patient, but information about a disease or disorder experienced by a family member, as well as information obtained from a genetic test of a family member.⁹⁵ Also included is genetic information from a fetus carried by a pregnant patient or member of her family, and information from an embryo “legally held by” the patient or family member using “assisted reproductive technology.”⁹⁶

Genetic information may not be used by most health plans for “underwriting purposes,” meaning: (1) determination of eligibility, (2) computation of premiums, (3) application of an exclusion for a pre-existing condition and (4) other activities “related to the creation, renewal or replacement of a contract of health insurance or health benefits.”⁹⁷ It is permissible to use genetic information for a determination of medical appropriateness when a patient is seeking a benefit under a health plan.⁹⁸ The prohibition on the use of genetic information for underwriting purposes does not apply to most long-term care plans.⁹⁹

IV. RECENT ENFORCEMENT ACTIVITIES

Patients and others have been active in reporting suspected violations. Between April, 2003, when the original HIPAA privacy rules went into effect, and the end of February, 2013, the Department of

⁹³ *Id.*

⁹⁴ Genetic Information Nondiscrimination Act of 2008, Pub. L. 110-233, 122 Stat. 881[hereinafter *GINA*].

⁹⁵ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5688 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.103).

⁹⁶ *Id.*

⁹⁷ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5696 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.502(a)(5)(A)).

⁹⁸ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5696 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.502(a)(5)(B)).

⁹⁹ *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5696 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 164.502(a)(5)). However, the prohibition does apply to a “nursing home fixed-indemnity policy.” *2013 HIPAA Rules*, 78 Fed. Reg. 5566, 5688 (Jan. 25, 2013)(to be codified at 45 C.F.R. § 160.103).

Health and Human Services had received over 78,000 complaints.¹⁰⁰ Twenty four percent of those complaints resulted in corrective action, eleven percent of the complaints resulted in a finding of no violation, and fifty-five percent were judged not to be eligible for enforcement.¹⁰¹ The compliance issues most investigated, in order of frequency, were: (1) impermissible uses or disclosures of information, (2) lack of safeguards for information, (3) lack of patient access to information, (4) uses or disclosures of more than the minimum necessary protected health information and (5) lack of administrative safeguards for information. The most common types of covered entities which were required to take corrective action, in order of frequency, were: (1) private practices, (2) hospitals, (3) outpatient facilities, (4) health plans and (5) pharmacies.

Many of the publicized cases of health privacy violations involve theft of portable devices containing unencrypted information. Violations pursued by HHS include: (1) theft of a laptop containing data of 3500 patients of Massachusetts Eye and Ear Infirmary which was settled for \$1.5 million,¹⁰² (2) theft of a hard drive owned by the Alaska Department of Health & Social Services which was settled for \$1.7 million,¹⁰³ (3) theft of 57 unencrypted hard drives owned by Blue Cross/Blue Shield of Tennessee containing information of just over 1 million patients settled for \$1.5 million,¹⁰⁴ and (4) theft of an unencrypted laptop owned by Hospice of Northern Idaho containing information of 441 patients which was settled for \$50,000.¹⁰⁵ State Attorneys General have authority to pursue HIPAA violation and have also settled cases involving theft of portable devices. One example is the theft of a laptop owned by Accretive Healthcare, a business associate, containing information of 23,000 patients which was settled by the Attorney General of Minnesota for \$2.5 million and Accretive Healthcare's agreement to cease doing business in the state for two years.¹⁰⁶

¹⁰⁰ Dept. of Health & Human Services, *Health Information Privacy Enforcement Highlights (As of February 28, 2013)*, available at <http://www.hhs.gov/ocr/privacy/hipaa/enforcement/highlights/index.html> (visited Mar. 25, 2013).

¹⁰¹ Presumably, the balance of the complaints involved investigations which had not been completed.

¹⁰² *Massachusetts Provider Settles HIPAA Case for \$1.5 Million*, available at <http://www.hhs.gov/news/press/2012pres/09/20120917a.html> (visited Mar. 25, 2013).

¹⁰³ *Alaska Settles HIPAA Security Case for \$1,700,000*, available at <http://www.hhs.gov/news/press/2012pres/06/20120626a.html> (visited Mar. 25, 2013).

¹⁰⁴ *HHS OCR Announces First Settlement Of A Self-Reported HIPAA Violation*, Mondaq Business Briefing, Mar. 22, 2012, available at LexisNexis Academic.

¹⁰⁵ The case was the first settlement involving a breach of information of fewer than 500 patients. See *HHS Announces First HIPAA Breach Settlement Involving Less Than 500 Patients*, available at <http://www.hhs.gov/news/press/2013pres/01/20130102a.html> (visited Mar. 25, 2013).

¹⁰⁶ *Minnesota Fines Company \$2.5 Million for HIPAA Violations*, *Lawyers Weekly USA*,

There have also been enforcement actions involving improper disposal of patient information. Pharmacy chains CVS and Rite Aid were found to have put patient records, including labeled but empty pharmaceutical bottles, into general trash generated by stores. Both companies settled with HHS. CVS settled for \$2.25 million,¹⁰⁷ and Rite Aid settled for \$1 million.¹⁰⁸ Improper disposal cases have also been brought at the state level. For example, the Massachusetts Attorney General pursued South Shore Hospital in Weymouth when a business associate, who was hired to erase data, lost two boxes of computer backup tapes containing records of 800,000 patients. The tapes were never found, but were thought to have ended up in a landfill. South Shore Hospital settled for \$775,000.¹⁰⁹ In another case, an off-duty newspaper photographer spotted paper medical records at a municipal dump in Georgetown, Massachusetts, when disposing of his own trash. The publicity surrounding the discovery led to an investigation by the Massachusetts Attorney General's Office, which resulted in a \$140,000 settlement by a medical billing practice and the four medical practices whose records of 67,000 patients were improperly discarded.¹¹⁰

Other examples of recent violations include loss of paper records of 192 patients on a Boston subway train by an employee of Massachusetts General Hospital resulting in a \$1 million settlement with HHS,¹¹¹ a data breach caused by Eastern European hackers who compromised records of 780,000 Medicaid patients by breaking into an improperly secured computer server owned by the Utah Dept. of Technology Services,¹¹² and multiple violations by Phoenix Cardiac Surgery, including the posting of patient appointments on a publicly accessible

Sept. 6, 2012, available at LexisNexis Academic.

¹⁰⁷ *CVS Pays \$2.25 Million and Toughens Practices to Settle HIPAA Privacy Case*, available at <http://www.hhs.gov/news/press/2009pres/02/20090218a.html> (visited Mar. 24, 2013).

¹⁰⁸ *Rite Aid Agrees to Pay \$1 Million to Settle HIPAA Privacy Case*, available at <http://www.hhs.gov/ocr/privacy/hipaa/enforcement/examples/riteaidresagr.html> (visited Mar. 25, 2013).

¹⁰⁹ *Massachusetts Hospital Agrees To Pay \$775,000 For Security Breach*, Mondaq Business Briefing, Jun. 10, 2012, available at LexisNexis Academic.

¹¹⁰ *Former Owners of Medical Billing Practice, Pathology Groups Agree to Pay \$140,000 to Settle Claims that Patients' Health Information was Disposed of at Georgetown Dump*, Target News Service, Jan. 7, 2013, available at LexisNexis Academic (visited Mar. 22, 2013).

¹¹¹ *Massachusetts General Hospital Settles Potential HIPAA Violations*, available at <http://www.hhs.gov/news/press/2011pres/02/20110224b.html> (visited Mar. 25, 2013).

¹¹² *Patient Data Security Demands Strong Compliance, Proactive Policies: Report*, available at <http://www.eweek.com/print/c/a/Health-Care-IT/Patient-Data-Security-Demands-Strong-Compliance-Proactive-Policies-Report-384627/> (visited Mar. 28, 2013).

website, resulting in a \$100,000 settlement with HHS.¹¹³ To date, the largest civil money penalty arising out of an HHS settlement, \$4.3 million, was imposed on Cignet Health Plan of Prince Georges County Maryland, for its refusal to allow 41 patients access to their health records and for the health plan's failure to cooperate with HHS's investigation.¹¹⁴

V. RECENT INFORMATION ON MEDICAL IDENTITY THEFT

One of the risks of inadequate privacy for health information is that an unscrupulous person will use the information as part of a fraudulent scheme to obtain health services or for improper payment. Such activities are generally referred to as medical identity theft. A 2012 report by the Ponemon Institute¹¹⁵ found that medical identity theft has been increasing both in financial terms and in the number of people victimized.¹¹⁶ Public awareness has also increased.¹¹⁷ Surprisingly, data breaches were found to be responsible for only a small portion of medical identity theft, less than 15% over a three-year period.¹¹⁸ The largest single source of medical identity theft in 2012 (35%) was fraudulent use by a relative of a victim's medical identification credentials taken by the relative without the victim's knowledge.¹¹⁹ The next two most likely causes of medical identity theft were fraudulent billing by a health care provider (22%,) and misappropriation by a malicious employee of health care provider (7%).¹²⁰ Data breaches ranked as the fourth leading cause of medical identity theft in 2012, tied with theft of a paper statement sent by mail (both at 6%,) and just ahead of loss of the victim's wallet or purse (5% of thefts.)¹²¹ The most interesting finding in the report is that

¹¹³ *HHS Settles Case With Phoenix Cardiac Surgery For Lack of HIPAA Safeguards*, Business Wire, Apr. 17, 2012, available at LexisNexis Academic.

¹¹⁴ The total settled for \$4.3 million included \$1.3 for denial of access and \$3 million for failure to cooperate with HHS. *HHS Imposes a \$4.3 Million Civil Money Penalty for Violations of the HIPAA Privacy Rule*, available at <http://www.hhs.gov/news/press/2011pres/o2/20110224b.html> (visited Mar. 25, 2013).

¹¹⁵ *2012 Ponemon Report*, *supra* note 10.

¹¹⁶ The mean cost per victim increased from \$20,160 in 2010 to \$22,346 in 2012. The median cost per victim increased from \$5,000 in 2010 to \$6,250 in 2012. The number of victims increased from 1.42 million people in 2010 to 1.85 million people in 2012. *2012 Ponemon Report*, *supra* note 10, at 1.

¹¹⁷ Between 2011 and 2012, public knowledge of the definition of medical identity theft increased from 77% of respondents to 90% of respondents. *2012 Ponemon Report*, *supra* note 10, at 2.

¹¹⁸ Data breaches were responsible for 11% of medical identity theft in 2010, 14% in 2011 and only 6% in 2012. *2012 Ponemon Report*, *supra* note 10, at 7.

¹¹⁹ *2012 Ponemon Report*, *supra* note 10, at 9.

¹²⁰ *Id.*

¹²¹ *Id.*

almost one third of the victims of medical identity theft admitted that they had shared their medical identification credentials with a family member so that the recipient could obtain health care services.¹²² However, the report points out that its methodology did not measure the extent to which the sharing of credentials led to medical identity theft.¹²³ Although victims reported serious financial consequences, they also reported other significant types of harm, including loss of trust in a health care provider, and mistreatment or misdiagnosis resulting from the inclusion of an imposter's health information in the victim's health records.¹²⁴

Even though medical identity theft is only one of many possible types of harm caused by inappropriate use and disclosure of health information, the 2012 Ponemon Report shows that there should be greater effort to educate patients about the need to protect their own health information. While federal law imposes legal duties on people and organizations in the health care sector to protect patient information, it does not protect society from some of the adverse consequences of bad decisions that patients, and their relatives, make for themselves. Because many of the bad decisions are the result of an inability to afford health care, medical identity theft will probably decrease when a larger percentage of the population becomes covered by health insurance as the provisions of the Affordable Care Act¹²⁵ are fully implemented.

VI. CONCLUSION

The 2013 HIPAA Rules improve privacy protection for health information in several ways. More entities with health information are directly responsible for compliance with federal health privacy law. The legal standard for data breaches is clarified. Patients are given more control over their health information and have improved rights of access.

¹²² Victims reported several reasons why they shared their medical identity credentials. The leading reason was that the relative lacked insurance (92%), followed by the relative's inability to pay for health care (89%), followed by the relative was confronted with an emergency (67%). *2012 Ponemon Report, supra* note 10, at 8.

¹²³ *2012 Ponemon Report, supra* note 10, at 8.

¹²⁴ Financial consequences in 2012 included out-of-pocket payments to restore insurance coverage (47% of victims,) diminished credit score (21% of victims,) lost time in attempting to correct inaccurate information in a credit report (21% of victims,) payment of legal fees (15% of victims) and increased health insurance premiums (8% of victims.) Non-financial consequences included loss of trust in a health care provider (51% of victims,) termination by a health plan or provider (41% of victims,) mistreatment of an illness because of inaccuracies in health records (14% of victims,) misdiagnosis of illness because of inaccuracies in health records (12% of victims,) employment-related difficulties resulting from inaccuracies in health records and revocation of licenses because of inaccuracies in health records (1% of victims.) *2012 Ponemon Report, supra* note 10, at 9 - 10.

¹²⁵ Patient Protection and Affordable Care Act, Pub. L. 111-148, 124 Stat. 119 (2010).

Statutory prohibitions on the use of genetic information are strengthened through regulatory mechanisms. The rules for determining civil monetary penalties have been clarified. In addition, there have been significant enforcement efforts at both the state and federal levels. Although progress has been made, more could be done to reduce the risk of misuse of health information. Organizations should be required to inform major media outlets promptly of all-but-the-smallest data breaches. The FTC should conform its breach standard to the one adopted by HHS. There should also be a public education program to inform people of things patients can do to reduce the risk of medical identity theft.

OBVIOUSNESS-TYPE DOUBLE PATENTING – A SURPRISING IMPEDIMENT TO COLLABORATIVE RESEARCH AND DEVELOPMENT

by DAVID SILVERSTEIN*

I. INTRODUCTION

This paper explores a small, little-noticed but increasingly important corner of U.S. patent law where multiple related patentable inventions derive from the individual and collaborative research and development efforts of different organizations. The question, broadly speaking, is whether the organizations participating in such collaborative research should be able (absent contrary contractual provisions) to independently patent their separate inventive contributions to the joint research project in addition to sharing the patent rights in the collaborative end result.

Surprisingly, this increasingly common situation often does not have a clear answer under current U.S. patent practice. The problem is the continued application of a doctrine known as “obviousness-type double patenting.”¹ This judicially created doctrine came into existence at a

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¹ See generally Anthony M. Insogna et al., *Obviousness-Type Double Patenting*, 5 No. 1 LANDSLIDE 37 (American Bar Assoc. 2012); Emily A. Evans et al., *Double Patenting Recapitulated*, 87 J. PAT. & TRADEMARK OFF. SOC'Y 625 (2005); Christopher A. Michaels, *Obviousness-Type Double Patenting Is Not So Obvious*, THE PATENT JOURNAL 6 (Nov. 2001); and Thomas L. Irving et al., *Double Patenting: One Way, Two Way; Whose Delay?* 1 U. BALT. INTELL. PROP. L.J. 180 (1993).

time (pre-1995) when U.S. patent terms extended for a period of 17 years from a patent's issue date.² Thus, under earlier law, a second, related but later-issued (and therefore later-expiring) patent containing patent claims that were merely "obvious" variants of patent claims in the earlier patent could potentially extend the period of patent exclusivity beyond the permitted 17-year term.³

As a result of a 1995 amendment of the U.S. Patent Act, however, the terms of more recent U.S. patents are now set at 20 years measured from the earliest effective patent application filing date.⁴ This means that a second-filed patent application that claims domestic priority rights back to an earlier, related first-filed and first-granted patent application will lead to a patent that terminates on exactly the same date (i.e., 20 years from the earliest filing date) as the patent granted on the first-filed application.

But, because the rules regarding "obviousness-type double patenting" have not been updated to take account of post-1995 U.S. patent law, difficult situations can arise in cases of modern collaborative research. For example, if the first patent application filed and patented is for the collaborative end result, a later-filed application (claiming priority to the earlier application) by one of the collaborators but directed to that organization's own contribution could face an obviousness-type double patenting rejection based on the first patent, even though no unlawful extension of the patent term is possible under these circumstances.

Furthermore, the Patent Office's familiar "Terminal Disclaimer" practice⁵ (which often helps to resolve obviousness-type double patenting situations) would be of no assistance here if the collaborator seeking the second patent wanted to obtain its own patent for its own inventive contribution independently of the other collaborators. This is because, under current USPTO rules, a "Terminal Disclaimer" can only be used where the patent and the pending patent application are commonly

² As a consequence of a U.S. patent law revision, U.S. patents issuing from patent applications filed on or after June 8, 1995, have a term that expires 20 years from the earliest claimed priority date. As a result, a sequence of patents all claiming priority back to a common parent patent application now have the same expiration date.

³ In *Double Patenting Recapitulated*, *supra* note 1, the authors observed *id.* at 626: "The double patenting doctrine was developed during an era when the term of a patent was dependent on its issue date, and permitting an applicant to obtain a series of patents with claims directed to the same subject matter would result in timewise extension of the expiration date of the monopoly for a single invention."

⁴ 35 U.S.C. §154(a)(2).

⁵ The use of a "terminal disclaimer" to overcome a Patent Office rejection in a pending patent application based on a commonly-owned patent is established under 37 C.F.R. §1.130(a)(1).

owned or assigned.⁶ The author is facing this very dilemma on behalf of one of his clients in a case now pending before the U.S. Patent and Trademark Office (hereinafter “USPTO”) Board of Patent Appeals.

This paper will describe some of the key history behind the “identical claim” and “obviousness-type” varieties of double patenting, the generic fact situation of the author’s pending Patent Office appeal, and the reasons why the obviousness-type double patenting rejection should not apply in this case in or similar cases of collaborative invention development.

II. USPTO DOUBLE PATENTING PRACTICE

U.S. patent law has long been interpreted as mandating that only one U.S. patent can be issued for one invention – i.e., a doctrine against what has become known as “double patenting.”⁷ Because each issued patent claim is regarded as a separate patent, the rule against “double patenting” means that the USPTO will not permit two identical patent claims to appear either in the same patent or in two different patents, even if the two patents are to the same or related inventive entities.

The logic behind this statutory double patenting prohibition is based, at least in part, on the principle that a patent is a narrow and limited exception to the general policy against government-conferred monopoly privileges.⁸ If the identical patent claim appeared in two patents issued at different times, there would be the potential for the period of exclusivity under the second, later patent to extend beyond the patent term of the first, earlier patent, thereby improperly extending the patent exclusivity period.⁹ The prohibition against “identical claim” double patenting is, therefore, a well-accepted part of U.S. patent practice.

Over the years, however, a wrinkle on the double patenting principle emerged from court decisions and became known as “obviousness-type double patenting.”¹⁰ The judicially created doctrine of obviousness-type double patenting was intended to prevent the issuance of a second, later patent containing a patent claim that differs only in “obvious” and

⁶ The requirements for a terminal disclaimer being used to obviate a Patent Office rejection in a patent application on judicially created double patenting are set forth in 37 C.F.R. §1.321(c).

⁷ See *supra* note 1.

⁸ See, e.g., David Silverstein, *The Capsizing of Small Businesses in a “Perfect Storm” of Patent Reform*, 19 SO. LAW J. 153, 154-55 (2009).

⁹ 35 U.S.C. §101 provides in pertinent part: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter ... may obtain a patent therefor....” (emphasis added). In *Miller v. Eagle Co.*, 151 U.S. 189 (1894), the U.S. Supreme Court interpreted an earlier version of Sec. 101 to prohibit the patenting of identical patent claims in separate patents.

¹⁰ See *Obviousness-Type Double Patenting*, *supra* note 1.

insubstantial ways from a claim of an earlier patent.¹¹ Similar to the “identical claim” situation, the obviousness-type double patenting case could potentially extend the term of patent exclusivity beyond the expiration date of the earlier patent and thereby improperly delay the invention from coming into the public domain.¹²

The USPTO has developed special rules for determining and addressing a wide range of double patenting situations.¹³ An important facet of those rules that helps to mitigate obviousness-type double patenting situations is “terminal disclaimer” practice.¹⁴ A USPTO rejection of a claim in a pending patent application on grounds of obviousness-type double patenting over a claim in an issued U.S. patent can typically be overcome by filing a document known as a “Terminal Disclaimer,” which specifically waives any part of the patent term of the second patent that might extend beyond the term of the first patent.¹⁵ In this way, any potential for an improper extension of patent exclusivity is foreclosed.

There are, however, some situations in which a Terminal Disclaimer either cannot be used or where its use would be seriously disadvantageous to the patent applicant. One requirement for the use of a Terminal Disclaimer to resolve an obviousness-type double patenting situation is that the issued patent and the rejected patent application be commonly owned or assigned to the same owner (and that the two resulting patents remain commonly owned) or that the invention be within the scope of a joint research agreement.¹⁶

But, in the case of individual and collaborative inventive activity that, perhaps unexpectedly, leads to more than one patentable invention, the separate inventive entities may wish to obtain patent rights in their individual names for their own inventive developments in addition to sharing joint ownership of the collaborative patent. In many cases, this situation has not been provided for in a joint research agreement.

¹¹ *Id.*

¹² For example, in his opinion in the case of *In re Kaplan*, 789 F.2d 1574, 1579-80 (Fed. Cir. 1986), Judge Rich observed: “All proper double patenting rejections, of either type [identical claim or “obviousness-type”], rest on the fact that a patent has been issued and later issuance of a second patent will continue protection, beyond the date of expiration of the first patent, of the very same invention ... (same invention type double patenting) or a mere variation of that invention which would have been obvious to those of ordinary skill in the relevant art (obviousness-type double patenting).”

¹³ See generally U.S. PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE (hereinafter MPEP), §804 (8th ed. Rev. 8, July 2010). Obviousness-type double patenting is addressed at MPEP §804 (II) (B)(1), *id.*

¹⁴ See 37 C.F.R. §§1.130(a)(1) and 1.321(c).

¹⁵ MPEP §804.02 (II) provides: “A rejection based on a nonstatutory type of double patenting can be avoided by filing a terminal disclaimer in the application or proceeding in which the rejection is made.”

¹⁶ See, e.g., 37 C.F.R. §1.321(c)(3), (d)(3).

Application of the obviousness-type double patenting doctrine based on a first-issued collaborative patent in such circumstances can be an impediment to securing a second related patent application by one of the collaborating inventive entities. Terminal Disclaimer practice could not be used to resolve this dilemma if the inventive entity for the second pending patent application was seeking its own patent to protect its own inventive contribution, as in the author's case pending before the USPTO Board of Patent Appeals.

III. THE FACTS OF THE CASE

Because of confidentiality issues and the fact that this matter is currently pending before the USPTO Board of Patent Appeals, the facts are presented below in generic terms and without specific identification of the patent/patent application or the inventive entities involved.

The patent claim of the issued U.S. patent reads as follows:

- "A method comprising the following sequential chemical process steps:
- (A) performing chemical process step A using starter chemical substance A;
 - (B) performing chemical process step B on the product that resulted from process step A, which leads to the formation of chemical intermediate substance B; and,
 - (C) performing chemical process step C on the intermediate substance B, which leads to the formation of a final chemical substance C."

Chemical process steps (A) and (B) were invented solely by Company 1. Chemical process step (C) was developed jointly by Company 1 and Company 2. The issued U.S. patent (hereinafter the "Co. 1+2 patent") was filed in the names of Company 1 and Company 2, and that Company 1+2 patent is now jointly owned by the two companies. But, Company 1 now wants to obtain a second patent solely in its own name directed to chemical process steps (A) and (B), which it developed independently of Company 2.

In the modern research and development environment, especially in "hot" emerging hybrid technologies like biomedicine, collaboration among inventors drawn from different technical specializations and different organizations is often essential to successfully putting together the pieces of the complex technological puzzle. For example, collaboration among pharmaceutical companies, chemical companies, and university and hospital research laboratories has become increasingly commonplace. As a result, the type of situation described above – where collaborating entities contribute jointly to an end result, but along the way make their own independent inventions – is also becoming increasingly common.

In an effort to protect its own inventive activity with its own solely-owned patent in the subject case, Company 1 filed a second patent

application (hereinafter the “Co. 1 patent application”) with a patent claim that reads as follows:

“A method consisting of the following chemical process steps:

- (AA) performing chemical process step AA using starter chemical substance A; and,
- (BB) performing chemical process step BB on the product that resulted from process step AA, which leads to the formation of chemical intermediate substance B.”

Step (AA) of the claim of the Co. 1 patent application is substantially identical to Step (A) of the claim of the Co. 1+2 patent; and, Step (BB) of the claim of the Co. 1 patent application is substantially identical to Step (B) of the claim of the Co. 1+2 patent. However, the claim of the Co. 1 patent application does not include Step (C) of the claim of the Co. 1+2 patent (where Step (C) is the joint inventive development of Companies 1 and 2). Furthermore, the claim of the Co. 1 patent application uses the claim terminology “consisting of the following chemical process steps....” (emphasis added), which arguably has significance as discussed below.

The U.S. Patent Examiner rejected the claim of the Co. 1 patent application on the sole ground of the judicially created doctrine of obviousness-type double patenting based on the claim of the Co. 1+2 patent. The Patent Examiner noted that this rejection could be overcome by the filing of a Terminal Disclaimer, but only if the patent and the pending patent application were commonly owned. Company 1 does not want to share the fruits of its own inventive activity with Company 2, which only participated in co-developing Step (C) of the patented chemical process.

IV. THE LEGAL ARGUMENTS OF THE CASE

A. The Patent Examiner’s Position

The focal point of the Patent Examiner’s arguments in support of the obviousness-type double patenting rejection was that the claim of the Co. 1+2 patent recited the three chemical process steps (A), (B), and (C); and, it would be “obvious” to leave out step (C) if you only wanted to form the chemical intermediate substance B that resulted from steps (A) and (B). But, if step (C) of the claim of the Co. 1+2 patent is omitted, what is left substantially duplicates the two steps (AA) and (BB) of the claim of the Co. 1 patent application. Admittedly, there is an inherent logic in this argument.

The Patent Examiner further contended that it did not matter that the claim of the Co. 1 patent application used the claim terminology

“consisting of” even though USPTO rules and practice customarily distinguish between the claim terms “comprising” and “consisting of.”¹⁷ While “comprising” is treated as an open-ended term that opens a process patent claim to the inclusion of additional steps, “consisting of” is normally treated as closing the claim to any steps not expressly recited.¹⁸

Additionally, the Patent Examiner argued that the relationship between the two-step claim of the Co. 1 application and the three-step claim of the Co. 1+2 patent was best characterized as a combination-subcombination relationship. Under USPTO rules of practice, if the Patent Examiner was correct in this characterization of the two claims, then the obviousness-type double patenting rejection would almost certainly be proper.¹⁹

B. Responses to the Patent Examiner

A first level of response to the Patent Examiner’s arguments was to point out that the chemical substance B (resulting from just the first two process steps) was a completely different material than chemical substance C (resulting from carrying out all three process steps). One substance is an element; the other is a chemical compound. The two substances have completely different physical and chemical properties, and very different industrial applications.

In response to the Patent Examiner’s refusal to recognize the significance of different claim terminology, Sec. 2111.03 of the USPTO Manual of Patent Examining Procedure was cited. Sec. 2111.03 states that: “The transitional phrase ‘consisting of’ [in a claim] excludes any element, step, or ingredient not specified in the claim,” (emphasis added).²⁰ Therefore, the two-step Co. 1 application claim must be construed to exclude the third step of the Co. 1+2 patent claim. As a result, these claims should be independently patentable.

In response to the Patent Examiner’s characterization of the two claims as “combination-subcombination,” it was argued that a more accurate characterization would be “intermediate product-final product.”²¹ A combination-subcombination typically characterizes a mechanical product. For example, an automobile can be a combination consisting of a chassis, an engine and four wheels. A subcombination of that automobile would be the addition of brakes or a horn.

¹⁷ See generally MPEP §2111.03.

¹⁸ *Id.*

¹⁹ See MPEP §806.05(c) – “Criteria of Distinctness Between Combination and Subcombination.”

²⁰ MPEP §2111.03.

²¹ See MPEP §806.05(j) – “Related Products; Related Processes.”

In this situation, when the subcombination is formed, the original combination (chassis + engine + wheels) still exists, but something additional (brakes, a horn) has been added. Because the combination and subcombination coexist, there is a strong argument that the combination and subcombination are merely obvious variants of one another that normally should not give rise to separate patents.

By contrast, in an “intermediate product-final product” relationship, such as in chemical process cases like the present case, the formation of the “final product” results in completely transforming the “intermediate product.” In this situation, the intermediate product and the final product do not coexist at any point in time. Because of the different USPTO rules of practice that apply to “intermediate product-final product” situations (as contrasted with “combination-subcombination” situations), the obviousness-type double patenting rejection in this case was arguably improper.²²

In response to the Patent Examiner’s central contention that it would have been “obvious” to omit the third process step, however, it was necessary to parse the opinions in a very limited and inconclusive set of legal precedents. Surprisingly, no cases of record are squarely on point with the facts of this case.

C. The Legal Precedents – In re Kaplan

Only one reported case even comes close to the facts of the present case. That is the 1986 decision by the Court of Appeals for the Federal Circuit (CAFC) in *In re Kaplan*,²³ an opinion authored by the legendary (in U.S. patent circles) Judge Giles S. Rich.

Similar to the present case, *In re Kaplan* involved an individual patent application to a chemical process in the name of one of two collaborating inventors, another joint patent application by the two inventors claiming a modified version of the chemical process and a USPTO obviousness-type double patenting rejection. Judge Rich reversed the USPTO Board of Patent Appeals decision, which had affirmed the obviousness-type double patenting rejection, and held that, because there was no double patenting, the USPTO requirement for a terminal disclaimer was improper.²⁴

There are, however, a number of significant distinctions between *In re Kaplan* and the presently pending case – some of which should make the

²² MPEP §806.05(j) provides in part: “[A]n intermediate product and a final product can be shown to be distinct inventions if the intermediate and final products are mutually exclusive inventions ... that are not obvious variants ... Typically, the intermediate loses its identity in the final product.”

²³ 789 F. 2d 1574 (Fed. Cir. 1986).

²⁴ *Id.* at 1581.

present case stronger than the fact pattern in *Kaplan*, but also some of which could make the present case weaker.

1. Pre-1995/Post-1995 Differences

A first important difference is that *Kaplan* involved two pre-1995 patent applications, both assigned to the same company, Union Carbide Corp. Therefore, in *Kaplan*, it would have been possible to use the USPTO's terminal disclaimer practice to overcome the obviousness-type double patenting rejection.

But, in *Kaplan*, the very reason that Union Carbide did not want to file a terminal disclaimer was because it wanted to extend the period of patent exclusivity beyond the original 17-year-from-issue term by means of a second, later-issued patent having its own 17-year-from-issue term.²⁵ This, of course, was precisely the outcome that double patenting practice was intended to prevent. By contrast, in the present case, arising under post-1995 law, there is no danger of a second patent extending beyond the 20-year-from-earliest-filing-date term. This difference arguably makes the present case a stronger case for two patents than in *Kaplan*.

2. Claim Structure Differences

Another important difference is in the nature of the chemical process claims in *Kaplan* and in the present case. The allegedly overlapping claims in *Kaplan* were both directed to a two-step chemical process. The second of the two steps in one claim used "an organic solvent" while the second of the two steps in the conflicting claim used a "mixture" of two organic solvents. Although this is not exactly a "combination-subcombination" relationship (such as the mechanical invention situation described above), it is also certainly not the two-step v. three-step "intermediate product-final product" relationship that characterizes the claims at issue in the present case.²⁶ For this reason as well, the present case would seem to be stronger than *Kaplan*.

3. Chronological Order of Filing/Patenting

On the other hand, the first-filed/first-issued patent application in *Kaplan* was the individual application by Kaplan (where step two of the claim used "an organic solvent"). The later-filed joint application by Kaplan and Walker (where step two of the claim called for a solvent "mixture") could be characterized as an improvement over the Kaplan invention. The CAFC opinion in *Kaplan* specifically noted that²⁷: "No

²⁵ *Id.* at 1577.

²⁶ See notes 19, 21 and 22 *supra* and related text.

²⁷ *Id.* at 1578.

claim in [the Kaplan patent] calls for a solvent mixture, which is significant with respect to the double patenting rejection....”

By contrast, in the present case, the joint Co. 1+2 patent application (with the three-step claim) was the first one filed and patented. Therefore, in this case, there is already a claim in the Co. 1+2 patent that includes substantially the same first two steps as the claim in the Co. 1 patent application. In this respect, the present case is weaker than the facts of *Kaplan*. On the other hand, should the eligibility to obtain two separate patents in these circumstances depend on the order in which the two patent applications are filed, or on the happenstance of which application is processed first by the USPTO? If there is no double patenting in one case, there should also be no double patenting in the opposite case.

4. Issued Patent as Prior Art

Another key issue in the CAFC *Kaplan* decision was the USPTO effort to use the Kaplan patent as “prior art” against the claim of the Kaplan and Walker patent application. Because the Kaplan and Walker patent application asserted (and was entitled to) domestic priority based on the original Kaplan patent application,²⁸ the CAFC agreed with the USPTO Board of Appeals “that the Kaplan patent cannot be used to show obviousness [of the Kaplan and Walker claim].”²⁹ But, because the USPTO had cited no other relevant prior art to support a finding of “obviousness,” the Court concluded:

“There is no way the board could have found appellants’ claimed invention to be an obvious variation of what Kaplan claims except by treating the Kaplan patent disclosure as though it were prior art. This has repeatedly been held in our precedents to be impermissible. ... In effect, what the board did was to use a disclosure of appellants’ own joint invention which had been incorporated in the Kaplan sole disclosure to show that their invention was but an obvious variation of Kaplan’s claimed invention. That amounts to using an applicant’s invention disclosure ... as prior art against him. That is impermissible....”³⁰

This seemingly unambiguous ruling leaves unclear, however, how the Court would have ruled had the joint application been patented while the sole Kaplan application was still pending (as in the present case). Also unclear is how the Court would have ruled if the USPTO “obviousness” determination did not have to rely on disclosure drawn from the descriptive portion of the patent but, instead, was based on a

²⁸ *Id.* at 1576.

²⁹ *Id.* at 15780.

³⁰ *Id.*

simple comparison of the two claims at issue (again as in the present case.)

5. *Post-Kaplan Decisions*

Subsequent decisions citing *In re Kaplan* unfortunately are distinguishable both from *Kaplan* and the present case and, therefore, provide little additional insight. One of those cases is *Ex parte Hans Oetiker*,³¹ a 1990 USPTO Board of Appeals decision which affirmed the obviousness-type double patenting rejection of a claim in a related later patent application. The *Kaplan* case principle that the patent disclosure cannot be used as prior art was found inapplicable here because the Patent Examiner based the “obviousness” finding on comparing the two claims at issue rather than relying on the patent disclosure from the issued patent.³² That, of course, is the situation in the present case. But, the *Oetiker* decision was not appealed, and the CAFC has never addressed this issue. A difference, however, is that *Oetiker* was a pre-1995 case where the potential for improper extension of patent term was still present.

A much more recent case citing and distinguishing over *Kaplan* is *Sun Pharmaceutical Industries, Ltd. V. Eli Lilly and Co.*³³ Sun Pharmaceutical, a generic drug manufacturer, brought a Declaratory Judgment action to have an Eli Lilly patent declared invalid, and Lilly counterclaimed for patent infringement. The U.S. District Court in *Sun Pharmaceutical* carefully examined a clarification of the *Kaplan* decision by the CAFC in the case of *In re Basell Poliolefine Italia, S.p.A.*³⁴

The *Basell* case raised the question of whether the disclosure of a first-issued patent can be used to clarify an ambiguity in the claims of the related second-issued patent for purposes of determining whether the two sets of patent claims are obvious variants. The CAFC answered affirmatively.³⁵

Based on the CAFC’s *Basell* decision, the *Sun Pharmaceutical* court held that it could likewise use disclosure from an earlier patent in construing a claim in a later patent for purposes of making an “obviousness” determination without running afoul of the *Kaplan* prohibition against using the earlier patent as prior art.³⁶

Both the *Basell* and *Sun Pharmaceutical* cases, however, are distinguishable from the present case. First, in the present case the

³¹ 23 U.S.P.Q. 2d 1641 (Bd. Pat. App. & Interf. 1990).

³² *Id.*

³³ 647 F. Supp. 2d 820 (E.D. Mich. 2009).

³⁴ 547 F. 3d 1371, 1378-79 (Fed. Cir. 2008).

³⁵ *Id.*

³⁶ 647 F. Supp. 2d at 825.

USPTO is not using the issued patent to clarify an ambiguity in the rejected claim of the pending application but rather as the basis for its “obviousness” determination.

Second, both *Basell* and *Sun Pharmaceutical*, despite being recent cases, involved patents based on pre-1995 patent applications which, accordingly, were entitled to the longer of 17-years- from-issue or 20-years-from-earliest-filing-date patent terms under the 1995 patent law revisions. In other words, both *Basell* and *Sun Pharmaceutical* involved the potential for improper patent term extension if the doctrine of obviousness-type double patenting was not applied. That is not true in the present case.

Therefore, it remains unclear based on current USPTO rules and existing case law how the present case will be decided.

V. CONCLUSION

Although research and development collaboration among different organizations has become increasingly important and commonplace, there are significant unresolved issues regarding individual and joint patent rights in the new technologies. In particular, under current rules, the doctrine of obviousness-type double patenting may prevent a partner in a joint research project from obtaining its own patent protection for its own inventive contribution, depending on the timing of filing patent applications and the progress of those applications through the USPTO examination process.

Organizations embarking on collaborative research projects must be aware of these potential patenting pitfalls so they can provide for these problems in their research agreements and by being proactive about securing patent rights on their own inventions.

“WHO GETS THE TIP?” EMPLOYER TIP THEFT LAWS AND THE CASE OF THE CELEBRITY CHEF DEFENDANTS

by DAVID M. SPATT*

INTRODUCTION

The restaurant business can be very lucrative for the business owners, although “about one in four restaurants close or change ownership within their first year of business. Over three years, that number rises to three in five.”¹ That same industry is also fraught with abuses, or alleged abuses, by employers perpetrated against their own employees, mostly involving issues of failure or refusal to pay minimum wage and overtime pay. Such conduct is a violation of the Fair Labor Standards Act (FLSA), as well as state labor laws and can result in the businesses being liable for back pay and additional liquidated damages. What is not so clear is the status of employer conduct involving employee gratuities, or tips, as when an employer requires tipped employees to share their tips with other employees, or even with managers or the employer.

The focus of this article is on a dispute predicated by the actions of one group of successful New York restaurants which includes: Babbo Ristorante e Enoteca (Babbo), Otto, Casa Mono, Bar Jamon, Esca, Lupa, Del Posto, and Tarry Lodge all of Pasta Resources, Inc. group, which is owned, in part, by Mario Batali and Joseph Bastianich, who also happen

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¹ *Kerry Miller, The Restaurant-Failure Myth, Businessweek.com* (April 16, 2007), <http://www.businessweek.com/stories/2007-04-16/the-restaurant-failure-mythbusinessweek-business-news-stock-market-and-financial-advice>

to be the stars of many television shows on PBS, ABC, and cable TV's Food Network and the Cooking Channel.

CERTIFICATION AS A COLLECTIVE ACTION

Pasta Resources, Inc. and their principals were named as defendants in a high profile collective action brought by 10 employees, later joined by 117 more, in which the plaintiffs alleged that the defendants deducted between four and five percent of the nightly wine sales from the employees' tip pool to pay for broken glassware, "wine research" and to fund the "wine program," thereby making illegal deductions from gratuities under New York State law.² In separate Federal counts, the plaintiffs also claimed that the defendants violated minimum wage and overtime pay laws under the Fair Labor Standards Act and pursuant to New York statutory laws.³

A collective action is different from a class action wherein all class members are presumed to be parties to the action (and bound by the judgment) unless they opt out by requesting exclusion and formally withdrawing from the lawsuit. Their prior consent is not required for inclusion in the class.⁴ This procedure is not permitted in a wage and hour claim under the FLSA, but a collective action can be brought. In a collective action, an employee must opt in, meaning that they must affirmatively sign a document stating that they wish to be a part of the lawsuit.⁵ Otherwise the employee is not bound by the judgment obtained in the collective action.

The issue for the collective certification is a two-stage process. The first is whether the plaintiffs may be similarly situated with respect to the FLSA violation alleged by making a "modest factual showing" that they and potential opt-in plaintiffs "together were victims of a common policy or plan that violated the law."⁶ The second is whether the "plaintiffs who have opted in are in fact 'similarly situated' to the named plaintiffs. The action may be 'de-certified' if the record reveals that they are not, and the opt-in plaintiffs' claims may be dismissed without prejudice."⁷

Defendants argued "against a collective action in that each restaurant functions as a separate entity and sets its own policies, including tip policy. As evidence for this claim, defendants point to the fact that the

² *Capsolas v. Pasta Resources, Inc.*, No. 10 Civ. 5595-RJH (S.D.N.Y. 2011).

³ *Id.*

⁴ FED. R. CIV. P. 23(b).

⁵ 29 USC § 216(b) (2011).

⁶ *Quoting Myers v. Hertz Corp.*, 624 F.3d 537, 555 (2d Cir. 2010) and *Hoffmann v. Sbarro, Inc.*, 982 F. Supp. 249, 261 (S.D.N.Y. 1997).

⁷ *Supra* note 2.

amount deducted varied from 4-4.5% of total wine sales and to the fact that the method for distributing tips among tipped employees varied from restaurant to restaurant.”⁸ Thus, they alleged that there was no common policy or plan.

In granting the plaintiffs’ motion for conditional certification Judge Holwell cited other cases that have certified classes based upon similar evidence.⁹ The Judge stated that:

It is undisputed that five of the restaurants withheld roughly the same percentage (all but Babbo withheld 4%, and Babbo withheld 4.5%) of exactly the same thing (wine sales). It is highly unlikely that each restaurant would reach this same policy independently. Plaintiffs who sought an explanation for the deduction were mostly told the same story: the money was supporting the wine program. Furthermore, many employees provided pre-printed tip worksheets with a space for the deduction, indicating the policy was entrenched and not the actions of particular managers. All of these facts support a reasonable inference that there was a uniform policy across the eight restaurants, all of which share common ownership, are supervised by the same individuals, and are administered by the same company.¹⁰

It was after this decision in May of 2011 that a settlement was reached between the parties after they participated in a voluntary mediation. Subject to court approval it was agreed that defendants would pay a total sum of \$5,250,000, but would not admit any liability or violation of law.¹¹ Prior to the 2011 ruling on the collective action certification, Joseph Bastianich gave a July, 2010 interview, in which he stated that he would “fight this to every inch of the law, because we know we’re right,”¹² The possible reason for the defendants’ decision to settle this action, despite being “right”, is the purpose of this article.

TIPPED EMPLOYEES, IN GENERAL

The FLSA mandates that most employees must be paid, at least, a federal minimum wage which currently stands at \$7.25 per hour.¹³ States may have a higher minimum wage for employees within their states. The minimum in Rhode Island is \$7.75 and \$8.00 in Massachusetts, although tipped employees can often be paid less by their employers and such tipped minimum wage amounts are generally

⁸ *Id.*

⁹ *Id. citing* Fasanelli v. Heartland Brewery, Inc. 516 F. Supp. 2d 317 (S.D.N.Y. 2007); Garcia v. Pancho Villa’s of Huntington Vill., 678 F. Supp. 2d 89 (E.D.N.Y. 2010).

¹⁰ *Supra* note 2.

¹¹ *Id.* 1:10-cv-05595-RLE Document 125-2 (S.D.N.Y. March 5, 2012).

¹² *Batali Agrees to \$5.25 Million Server Tip Suit Accord.* Bloomberg.com (Mar 9, 2012), <http://www.bloomberg.com/news/2012-03-09/chef-batali-settles-accusation-of-workers-cheated-tips-for-5-25-million.html>.

¹³ Fair Minimum Wage Act of 2007, 29 U.S.C. § 206(a) (2009).

also set by statute. While New York matches the Federal minimum at \$7.25, the minimum wage is \$4.65 for tipped employees. (\$2.89 in Rhode Island and \$2.63 Massachusetts) The reason for this discrepancy is simple. Their tips make up the difference between their lower minimum wage and the minimum wage of a non-tipped employee. The FLSA allows an employer to take a tip credit against its minimum wage obligations.¹⁴ Some states, like Alaska, don't even allow the employer to take a tip credit.¹⁵

Hospitality employers happily pay these lower minimum wage rates to their servers and other tipped employees, though the actual paychecks will often be for zero dollars, because taxes must first be deducted by the employer. The employer calculates the tips earned by an employee based upon a percentage of their sales (often 8% - 15%), then adds that amount to the employer-paid minimum for a gross wage and then deducts the withholding from the employer-paid wage, which is usually not sufficient to cover the full amount of the calculated withholding.

Employers do not realize, or possibly choose to ignore the fact that if the tips and employer-paid wage combined for a particular pay period do not amount to the state minimum wage for that employee, the employer must make up the difference.¹⁶ Therefore when a dinner server at a popular restaurant is given a string of breakfast shifts, the employer is going to have to cough up more cash from the company's own profits, because the lower tips no longer make up the difference.

STATE LAWS ON TIP POOLING AND SHARING

Another issue is whether an employer can require that tipped employees "pool" (combine) their tips, or "tip out" (pay out a percentage of their own tips) other employees who might collect fewer tips or are not tipped at all. These other employees may allegedly include bussers, dishwashers, food runners, expeditors or even managers. The dishwashers, expeditors and managers, though, generally must be excluded from the tip-pooling process.

New York State allows tip pooling, and directly tipped employees may share or pool their tips on a voluntary basis with other service employees or food service workers who participated in providing service to customers.¹⁷ An employer may also require directly tipped food

¹⁴ Fair Minimum Wage Act of 2007, 29 U.S.C. § 203(m) (1998). Also referred to as section 3(m) of the Fair Labor Standards Act.

¹⁵ ALASKA STAT. § 23.10.065 (2003).

¹⁶ *Supra* note 14.

¹⁷ Hospitality Industry Wage Order, N.Y.COMP. CODES R. & REGS. 146-2.14 -2.16, (2011).

service workers to share or pool their tips with other food service workers who participated in providing service to customers and may set the percentage to be given to each occupation.¹⁸ However, employees must handle the transactions themselves, and employers and managers cannot “share” in the tips. This has been interpreted to mean only front-of-the-house employees participate in the practice.¹⁹

New York’s Wage Theft Prevention Act²⁰ provides the remedies for unpaid wages by an employer. Pursuant to this statute, an employer can be held liable for damages for the unpaid wages, plus a liquidated damages amount of 100% of the unpaid wages. Civil penalties are also possible, in amounts of \$1000, \$2000 and \$3000 for the first, second and successive violations, respectively. A penalty of \$10,000 can also be assessed for failure to comply with a New York Department of Labor order issued under these provisions.²¹

Massachusetts has a similar law, wherein tip pooling is allowed and may even be administered by the employer, but the distribution of the proceeds is only permissible to a wait staff employee, service employee, or service bartender. The employer may not demand or accept from any wait staff employee, service employee, or service bartender any payment or deduction from a tip or service charge given to such wait staff employee, service employee, or service bartender by a patron. Either the Massachusetts Attorney General or an aggrieved employee may bring action for a violation of this law.²²

Similar legislation has been enacted in California, which punishes violation by up to \$1000 fine and/or up to 60 days in jail.²³ Other states have considered such laws, as when Rhode Island attempted to pass H7566, which would make it a misdemeanor for an employer to require that service employees share a percentage of their gratuities with their employer, perhaps under the guise of calling the tips “service fees.” Although the Rhode Island bill did pass the House, it died in Committee.²⁴ There are many references in other articles and publications to numerous criminal penalties for violation of other states’ laws governing an employer withholding wages or tips. Upon viewing the sources of much of this information, it appears that most, if not all of these penalties are for failures to comply with minimum wage laws, and

¹⁸ *Id.*

¹⁹ *Garcia v. LaRevis Assoc. LLC.*, No. 08 Civ. 9356, 2011 WL 135009 (S.D.N.Y. Jan. 13, 2011).

²⁰ A.11726/S. 8380 (2011) amending § 195 of the New York Labor Law.

²¹ *Id.*

²² Mass. Gen Laws Part I, Title XXI, Chapter 149, § 152(A) (2004).

²³ CA Labor Code 351, 356 (2013).

²⁴ *Joey L DeFrancesco, Senate Drops Ball on Tip Theft Bill*, *GoLocalProv.com* (June 22, 2012), <http://www.golocalprov.com/news/tip-thet/>.

they are not directly relevant to a discussion of laws regulating tips, tip-pooling or tip retention.

Some cities have also been acting to protect the wages of employees within their borders. The city of Chicago has empowered the city's commissioner of business affairs and consumer protection to deny an application for a business license if the applicant has admitted guilt or has been found liable for wage violations in a judicial or administrative proceeding for any federal or state law regulating the payment of wages.²⁵

FEDERAL LAW ON TIP POOLING AND SHARING

Federal law states that a "tip is the sole property of the tipped employee regardless of whether the employer takes a tip credit. The FLSA prohibits any arrangement between the employer and the tipped employee whereby any part of the tip received becomes the property of the employer. [Even if] a tipped employee receives at least \$7.25 per hour in wages directly from the employer, the employee may not be required to turn over his or her tips to the employer."²⁶

On February 29, 2012, the Deputy Administrator of the Wage and Hour Division (WHD) of the U.S. Department of Labor set forth the enforcement policy with respect to the 2011 tip credit regulations, in a Field Assistance Bulletin (FAB), specifically that the WHD will enforce nationwide the rule explaining that a tip is the sole property of the tipped employee regardless of whether the employer takes a tip credit, and that the employer is prohibited from using an employee's tips, whether or not it has taken a tip credit, except as a credit against its minimum wage obligations to the employee, or in furtherance of a valid tip pool.²⁷

The WHD stated that it would even seek to enforce this position in the states making up the Ninth Circuit, despite a contrary decision in that court. In the Ninth Circuit's *Cumbie v. Woody Woo, Inc.*, the employer required that the tipped employees participate in a tip pool with employees who are not typically permitted in a mandatory tip pool (e.g., cooks and dishwashers). The Court held that the limitations on an employer's ability to use an employee's tips are limited to those situations in which an employer takes the tip credit. Specifically, the court concluded that the FLSA "imposes *conditions* on taking a tip credit and does not state freestanding *requirements* pertaining to all tipped

²⁵ CHICAGO, ILL., MUN. ORDINANCE 2012-8533 (2013).

²⁶ Dep't of Labor Fact Sheet #15: Tipped Employees Under the Fair Labor Standards Act, U.S. Department of Labor Wage and Hour Division (March 2011). *Also see* 209 U.S.C. § 203(m) (2011).

²⁷ Dep't of Labor Field Assistance Bulletin 2012-2 (2012).

employees.”²⁸ The *Cumbie* case did not deal with the issue of an employer’s retention of the tips.

The FAB rule confirmed the WHD position stated in the Code of Federal Regulations, wherein an employer is prohibited from using an employee’s tips, whether or not it has taken a tip credit, for any reason other than that which is statutorily permitted by the FLSA including a credit against its minimum wage obligations to the employee, or in furtherance of a valid tip pool.²⁹

A decision in the Southern District of New York clarified many of the issues involving tip-eligible occupations and other aspects of this area of law. The Court in *Garcia v. LaRevise Assocs. LLC.*, held that “captains and banquet coordinators had regular interactions with customers in connection with core restaurant functions” so they were eligible to receive a share from the tip pool.³⁰ In *Garcia*, the court stated that “where an employer takes the tip credit in connection with a tip pooling arrangement, the application of the credit will only be valid so long as the pool includes only those employees who “customarily and regularly receive tips.” The court referred to the FLSA’s tip credit provision³¹, which does not specifically prohibit employers from sharing in an employee’s tips, but states that a tip credit taken by an employer may not exceed the actual tips received by the employee, and that that this subsection shall not be construed to prohibit the pooling of tips among employees who customarily and regularly receive tips. As with *Cumbie*, this case did not have to consider the issue of employer retention of gratuities.

RETENTION OF TIPS

Under New York statutory law, an employer may not withhold the tips from the service employee who performed the service for the patrons except where there is a tip pool, but the full amount of the pool must be paid to the service workers who participated in the services.³² Given the language of the statute, “any charge purported to be a gratuity” and its remedial nature, such language should be liberally construed in favor of the employees.³³

Federal law also forbids any arrangement between the employer and the tipped employee whereby any part of the tip received becomes the property of the employer. A tip is the sole property of the tipped

²⁸ *Cumbie v. Woody Woo, Inc.*, 596 F.3d 577 (9th Cir. 2010).

²⁹ 29 C.F.R. §531.52 (2011).

³⁰ *Garcia v. LaRevise Assocs. LLC.*, No. 08 Civ. 9356, 2011 WL 135009 (S.D.N.Y. Jan. 13, 2011).

³¹ 29 U.S.C.A. § 203(m) (1998). *Also referred to as* Section 3(m) of the Fair Labor Standards Act.

³² N.Y. LAB. LAW § 196(d) (2012).

³³ *Samiento v. World Yacht Inc.*, 10 N.Y.3d 70, 78 (2008).

employee.³⁴ In its 2011 ruling, the WHD expressly rejected the holding of *Woody Woo* and revised the regulations to state:

Tips are the property of the employee whether or not the employer has taken a tip credit under section 3(m) of the FLSA. The employer is prohibited from using an employee's tips, whether or not it has taken a tip credit, for any reason other than that which is statutorily permitted in section 3(m): As a credit against its minimum wage obligations to the employee, or in furtherance of a valid tip pool.³⁵

In the FAB, the Wage and Hour Division makes it clear that its position is enforceable across the country. Because *Woody Woo* was decided prior to the publication of the WHD ruling in 2011, the WHD concluded that it was not precluded from enforcing the rule everywhere, including the Ninth Circuit.³⁶ Interestingly, nothing in the FLSA creates an independent property right that can be enforced by the WHD or in private litigation. WHD has authority to enforce the minimum wage and overtime provisions of the FLSA, but, unless an employee's tips are being used in a manner that results in a violation of one of those provisions, the FLSA does not provide a remedy. The plaintiffs in *Capsolas v. Pasta Resources, Inc.* in the Southern District of New York alleged failures of the employer to pay minimum wage and overtime³⁷, which gave the U. S. District Court jurisdiction under the FLSA. The allegation of the illegal withholding of tips, though, was a state violation of New York State Labor Law,³⁸ which was brought as a supplemental count to the Federal action.³⁹ It appears that these allegations, and the laws supporting them, were sufficient to convince Pasta Resources, Inc. and their principals to settle the pending lawsuit.

CONCLUSION

The restaurant industry has been the subject of many investigations by the U.S. Department of Labor recently and many violations of the FLSA have been found. Between 2011 and 2012, 548 employees working in 38 different restaurants in just the greater Boston area were found to be owed \$1,982,808 in back wages, plus \$632,608 in liquidated damages,

³⁴ Dep't of Labor Field Assistance Bulletin ("FAB") 2012-2 (2012); 29 CFR 531.52 (2011); Dep't of Labor Fact Sheet #15: Tipped Employees Under the Fair Labor Standards Act (FLSA) U.S. Department of Labor Wage and Hour Division March 2011. Also see 209 USC § 203(m) (2011).

³⁵ 29 C.F.R. 531.52 (2011). Note 29 U.S.C.A. § 203(m) is also referred to as section 3(m) of the Fair Labor Standards Act.

³⁶ Dep't of Labor Field Assistance Bulletin ("FAB") 2012-2 (2012).

³⁷ *Capsolas v. Pasta Resources, Inc.*, No. 10 Civ. 5595-RJH (S.D.N.Y. 2011).

³⁸ N. Y. LABOR LAW § 196(d) (2012).

³⁹ *Capsolas v. Pasta Resources, Inc.*, No. 10 Civ. 5595-RJH (S.D.N.Y. 2011).

due to failure to pay overtime, making illegal deductions from wages, and for failure to keep accurate records of employees' hours.⁴⁰

It seems clear that the Fair Labor Standards Act, and some states' laws, prohibit any sharing or retention of employees' tips by an employer, except as a credit against its minimum wage obligations to the employee.⁴¹ Although Federal violations in this regard may not be enforceable at present, such violations often result in a failure to pay minimum wage, which is enforceable. Perhaps the retention of tips violation of the FLSA can be added as a supplemental count, as a similar state violation was added in the *Pasta Resources* case. Although the rules and regulations regulating employer-required sharing or retention of employees' tips are often difficult to apply, employers including those in the Ninth Circuit should review their payroll policies with respect to tipped employees to ensure that they are in compliance with both Federal and state laws governing minimum wages, overtime pay, and tip sharing or retention.

⁴⁰ News Release, US Labor Department initiative finds more than \$1.3 million in back wages due to 478 underpaid Massachusetts employees, Dep't of Labor (March 29, 2012); News Release, US Boston's Sunset Grill, Sunset Cantina, Big City Restaurant and owner pay \$675,000 in back wages and liquidated damages to 70 underpaid workers, Dep't of Labor (September 12, 2012).

⁴¹ A.11726/S. 8380 (2011) amending § 195 N. Y. LAB. LAW; MASS. GEN LAWS Part I, Title XXI, Chapter 149, § 152(A) (2004); CAL. LAB. CODE 351, 356 (2013).

PLAYING THE WRONG GAME: THE FOLLY OF CONTENT-BASED REGULATIONS OF VIDEO GAMES

by CHARLES E. THOMAS*

I. INTRODUCTION

Several legislatures at the local and state level have attempted to regulate the access of objectionable video games to minors over the past decade. These legislative actions are rooted in a growing concern regarding the possible linkages of violent video games and psychological or sociological harms to the minors that play them. To date, all federal courts reviewing these regulations have struck them down as violations of the First Amendment, including the U.S. Supreme Court in *Brown v. Entertainment Merchants Association*.¹ Despite these decisions, yet another attempt at content-based legislation aimed at video games is currently under consideration by the U.S. Congress.² This comment explains why such legislative action cannot be reconciled with the First Amendment in light of *Brown*, and proposes that concerned legislatures should abandon their current lawmaking approaches in favor of advancing goals through effective education and advocacy advertising campaigns, similar to those employed in other contexts. Legislatures may achieve greater returns for their efforts by redirecting their focus

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¹ 131 S. Ct. 2729 (2011). See discussion *infra* Part II.

² See proposed Video Games Ratings Enforcement Act, H.R. 287, 113th Cong. (2013). See also discussion *infra* Part III.

away from legislative paternalism to direct appeals to consumers aimed at changing the public dialogue and prevailing attitudes in favor of the legislature's intended objectives; a "game" with a significantly higher probability of success.

II. AN EXAMINATION OF CURRENT VIDEO GAME JURISPRUDENCE

Prior to the U.S. Supreme Court's decision in *Brown*, there have been eight separate federal challenges to legislation aimed at regulating violent video games in one form or another.³ This Part explores the reasoning of *Brown*, which will serve as a basis for evaluating the Video Games Ratings Enforcement Act,⁴ proposed by the 113th Congress, in Part III.

In 2005, the California Assembly passed AB 1179 (hereinafter, the "California Act").⁵ The California Act prohibits the sale or rental of "violent video games" to minors without the consent of a parent, grandparent, aunt, uncle, or legal guardian, and requires that such games have a sticker labeled "18" affixed to them.⁶ The California Act encompasses video games "in which the range of options available to a

³ See generally *Entm't Software Ass'n v. Swanson*, 519 F.3d 768 (8th Cir. 2008) (invalidating a Minnesota State statute prohibiting the sale or rental of video games bearing a "Mature" or "Adult Only" rating, and requiring video game retailers to post a sign concerning same); *Entm't Software Ass'n v. Blagojevich*, 469 F.3d 641 (7th Cir. 2006) (invalidating an Illinois State statute seeking to impose criminal penalties on any person who sells, rents or permits to be sold or rented any sexually explicit video game to any minor as well as requiring video game retailers to place a label on such games and post a sign concerning same); *Interactive Digital Software Ass'n v. St. Louis County*, 329 F.3d 954 (8th Cir., 2003), *reh'g denied, reh'g en banc denied*, 2003 U.S. App. LEXIS 13782 (2003) (invalidating a St. Louis County ordinance restricting the sale of graphically violent video games by minors, without a parent or guardian's consent); *Am. Amusement Mach. Ass'n v. Kendrick*, 244 F.3d 572 (7th Cir, 2001) *reh'g denied*, 2001 U.S. App. LEXIS 11010 (2001), *cert. denied*, 2001 U.S. LEXIS 10002 (2001) (striking down an Indianapolis ordinance that barred minors from video arcade games containing simulated graphic violence); *Entm't Merchs. Ass'n v. Henry*, 2007 U.S. Dist. LEXIS 69139 (W.D. Okla. 2007) (striking down an Oklahoma State statute attempting to expand video games with inappropriate violence to an existing statute prohibiting the sale or dissemination of any material considered harmful to minors); *Entm't Software Ass'n v. Foti*, 451 F. Supp. 2d 823 (M.D. La. 2006) (enjoining enforcement of a Louisiana State statute prohibiting and criminalizing the sale, lease or rental of video or computer games that appeal to a minor's morbid interest in violence); *Entm't Software Ass'n v. Granholm* (E.D. Mich. 2006) (striking down a Michigan State statute regulating the distribution of ultra violent explicit video games); *Video Software Dealers Ass'n v. Maleng*, 325 F. Supp. 2d 1180 (W.D. Wash. 2004) (enjoining the enforcement of a Washington statute restricting the sale of video games if they depicted violence against a public law enforcement officer).

⁴ Video Games Ratings Enforcement Act, H.R. 287, 113th Cong. § 1-4 (2013).

⁵ CAL. CIV. CODE §§ 1746-1746.5 (West 2005).

⁶ CAL. CIV. CODE § 1746.1-1746.2 (West 2005).

player includes killing, maiming, dismembering, or sexually assaulting an image of a human being, if those acts are depicted” in a manner that “a reasonable person, considering the game as a whole, would find appeals to a deviant or morbid interest of minors,” that is “patently offensive to prevailing standards in the community as to what is suitable for minors,” and that “causes the game, as a whole, to lack serious literary, artistic, political, or scientific value for minors.”⁷ Violation of the California Act is punishable by a civil fine of up to \$1,000.⁸

The Entertainment Merchants Association brought a pre-enforcement challenge to the California Act, contending that it violated the First Amendment. The District Court for the Northern District of California concluded the California Act violated the First Amendment and permanently enjoined its enforcement.⁹ The State of California appealed, and the Court of Appeals for the Ninth Circuit affirmed the District Court ruling.¹⁰ The State of California filed a writ of certiorari to the U.S. Supreme Court, which was granted in 2010.

The Court in *Brown* considered the California Act in three distinct steps: (A) whether video games qualify for First Amendment protection – the Court concluded they do; (B) whether the restricted content has been traditionally subject to proscription – the Court concluded violence has not been exempted from First Amendment protection, and declined an invitation to expand these exemptions; and (C) whether the proposed regulation could satisfy strict scrutiny analysis – the Court concluded it could not.

A. Are video games sufficiently “speech” to qualify for First Amendment protection?

The initial inquiry is whether video games are constitutionally protectable free speech. The party claiming the protections of the First Amendment has the burden of showing the conduct at issue expresses some idea or thought.¹¹ Communication designed merely to entertain the listener is just as eligible for constitutional protection as communication that imparts information or debates public affairs.¹² The Court in *Brown* acknowledged that while free speech exists principally to protect discourse on public matters, “we have long recognized that it is difficult to distinguish politics from entertainment, and dangerous to

⁷ CAL. CIV. CODE § 1746(d)(1)(A) (West 2005).

⁸ CAL. CIV. CODE § 1746.3 (West 2005).

⁹ *Video Software Dealers Ass'n v. Schwarzenegger*, 401 F. Supp. 2d 1034 (N.D. Cal. 2005).

¹⁰ *Video Software Dealers Ass'n v. Schwarzenegger*, 2009 U.S. App. LEXIS 3598 (9th Cir. 2009).

¹¹ See *Clark v. Community for Creative Non-Violence*, 468 U.S. 288, 293 n.5 (1984).

¹² See *Time, Inc. v. Hill*, 385 U.S. 374, 388 (1967).

try.”¹³ In evaluating claims of expressive conduct, the Court considers whether “[a]n intent to convey a particularized message [is] present, and [whether] the likelihood [is] great that the message would be understood by those who viewed it.”¹⁴

The first video games, essentially electronic board games, arguably lacked an expressive element; however, the same cannot be said of the video games produced today. Video games today frequently involve intricate story lines set against a complex narrative that evolves as the player progresses through the game. Despite representing a new medium of expression, video games cannot be excluded from First Amendment protection.¹⁵

It is worthwhile to consider whether the interactive nature of video games necessitates a cautioned application of First Amendment principles. Stated differently, do the distinctive features of this medium – such as the immersive qualities of video games – justify a distinct analysis from traditional free speech jurisprudence? Some have expressed concern regarding the application of First Amendment principles to new technology that is rapidly evolving.¹⁶ However, the majority in *Brown* makes clear that, notwithstanding the “challenges of applying the Constitution to ever-advancing technology, ‘the basic principles of freedom of speech and the press, like the First Amendment’s command, do not vary’ when a new and different medium for communication appears.”¹⁷

B. Do video games fit within any previously acknowledged exceptions to the First Amendment?

Generally, “[the] government has no power to restrict expression because of its message, its ideas, its subject matter or its content.”¹⁸ However, this general principle is not without limits. “From 1791 to the present, . . . the First Amendment has ‘permitted restrictions upon the content of speech in a few limited areas,’ and has never ‘include[d] a

¹³ *Brown*, 131 S. Ct. at 2733.

¹⁴ *Spence v. Washington*, 418 U.S. 405, 410-411 (1974).

¹⁵ “Like the protected books, plays and movies that preceded them, video games communicate ideas—and even social messages—through many familiar literary devices (such as characters, dialogue, plot and music) and through features distinctive to the medium (such as the player’s interaction with the virtual world). That suffices to confer First Amendment protection.” *Brown*, 131 S. Ct. at 2733.

¹⁶ *See id.* at 2742 (Alito and Roberts concurring). “We should take into account the possibility that developing technology may have important societal implications that will become apparent only with time. We should not jump to the conclusion that new technology is fundamentally the same as some older thing with which we are familiar.” *Id.*

¹⁷ *Id.* at 2733 (quoting *Joseph Burstyn, Inc. v. Wilson*, 343 U.S. 495, 503 (1952)).

¹⁸ *Id.* (quoting *Ashcroft v. American Civil Liberties Union*, 535 U.S. 564, 573 (2002)).

freedom to disregard these traditional limitations.”¹⁹ These limited areas include defamation,²⁰ obscenity,²¹ public safety,²² incitement,²³ and fighting words²⁴ – representing the “well defined and narrowly limited classes of speech, the prevention and punishment of which have never been thought to raise any Constitutional problem.”²⁵ In *Brown*, the State of California attempted to reconcile the California Act with existing obscenity jurisprudence, particularly obscenity as to minors, consistent with *Ginsberg v. New York*.²⁶ Alternatively, the State of California urged the Court to expand the constitutional proscription classes to include video game violence the State deemed harmful to minors. The Court rejected both arguments.

1. Do violent video games fit within existing obscenity jurisprudence?

The Supreme Court has recognized that government has a legitimate interest in prohibiting dissemination or sale of obscene material.²⁷ While the traditional use of the term “obscene” has a more expansive definition – to include anything grossly repugnant and beyond the general notions of appropriateness²⁸ – the Supreme Court has defined obscene material as “material which deals with sex in a manner appealing to prurient interest.”²⁹ Regulations that restrict obscene material, however, must include a savings clause that exempts speech with serious artistic, political or scientific value.³⁰

Additionally, the Supreme Court’s obscenity jurisprudence acknowledges the application of different standards for minors than adults. In *Ginsberg* the Court upheld a state prohibition on the sale of “girlie magazines” which were deemed obscene from the perspective of a child. The Supreme Court agreed that the New York legislature could consider the social realities of minors as distinct from those of adults, thereby justifying differing standards of proscription. “That the State has power to make that adjustment seems clear, for we have recognized

¹⁹ *U.S. v. Stevens*, 130 S. Ct. 1577, 1584 (2010) (quoting *R. A. V. v. St. Paul*, 505 U.S. 377, 382-383 (1992)).

²⁰ See *New York Times v. Sullivan*, 376 U.S. 254 (1964).

²¹ See *Roth v. United States*, 354 U.S. 476, 483 (1957).

²² See *Gitlow v. New York*, 268 U.S. 652 (1925).

²³ See *Brandenburg v. Ohio*, 395 U.S. 444, 447-449 (1969) (per curiam).

²⁴ See *Chaplinsky v. New Hampshire*, 315 U.S. 568, 572 (1942).

²⁵ *Id.* at 571-572.

²⁶ 390 U.S. 629 (1968).

²⁷ See *Miller v. California*, 413 U.S. 15, 18-19 (1973).

²⁸ See e.g. MERRIAM-WEBSTER, INC., WEBSTER’S NINTH NEW COLLEGIATE DICTIONARY (1983) (defining obscene as “(1) disgusting to the senses : repulsive; (2) abhorrent to morality or virtue; *specif* : designed to incite lust or depravity”).

²⁹ *Miller*, 413 U.S. at 18 n.2 (quoting *Roth v. United States*, 354 U.S. at 487).

³⁰ *Id.* at 24.

that even where there is an invasion of protected freedoms ‘the power of the state to control the conduct of children reaches beyond the scope of its authority over adults....’³¹

The California Legislature included a savings clause in the California Act as required by *Miller*; however, the Court found this insufficient for non-obscene content-based proscriptions. The Court clarified that the obscenity exception to the First Amendment has been limited to depictions of “sexual conduct” and does not cover content the legislature finds shocking or lacking of redeeming value.³² The Court made clear that violent speech simply cannot be shoehorned into the obscenity definition applied in First Amendment jurisprudence by inclusion of a savings clause.

The State of California also sought to dovetail the ruling of *Ginsberg* by framing the California Act as content-based regulation limited to speech directed at children; however, the Court rejected the State’s application of *Ginsberg* to justify the California Act. “No doubt a State possesses legitimate power to protect children from harm, but that does not include a free-floating power to restrict the ideas to which children may be exposed.”³³ Video game violence is distinguishable from *Ginsberg*, as the latter concerns depictions of sexual conduct, clearly within the traditional proscriptions of existing obscenity jurisprudence; the former does not. The Court makes clear, “[s]peech that is neither obscene as to youths nor subject to some other legitimate proscription cannot be suppressed solely to protect the young from ideas or images that a legislative body thinks unsuitable for them.”³⁴

2. Should the Court expand the constitutional speech proscription categories to include video game violence legislatures deem harmful to minors?

The State of California, in defending the California Act, urged the Court to create a new category of unprotected speech – namely violent speech it deemed harmful to minors. The Court has previously rejected invitations to supplement the classes of unprotected speech, based on a legislature’s conclusion that such speech is too harmful to be tolerated. For example, *U.S. v. Stevens*³⁵ concerned the constitutionality of a federal statute that criminalized the creation, distribution or possession of certain depictions of animal cruelty. The Court in *Stevens* held that

³¹ *Ginsberg v. New York*, 390 U.S. at 638 (quoting *Prince v. Massachusetts*, 321 U.S. 158, 170 (1944)).

³² See *Brown*, 131 S. Ct. at 2735.

³³ *Id.* at 2736.

³⁴ *Id.* (quoting *Erznoznik v. Jacksonville*, 422 U.S. 205, 213-214 (1975)).

³⁵ 130 S. Ct. 1577 (2010).

the federal statute was an impermissible content-based restriction on speech, notwithstanding its collective disgust with the content of these “crush videos”. While states have long outlawed *committing* acts of animal cruelty, the Court in *Stevens* concluded that there was no tradition in the United States forbidding the *depiction* of the same. “[W]ithout persuasive evidence that a novel restriction on content is part of a long (if heretofore unrecognized) tradition of proscription, a legislature may not revise the ‘judgment [of] the American people,’ embodied in the First Amendment, ‘that the benefits of its restrictions on the Government outweigh the costs.’”³⁶

Similar to *Stevens*, the California Legislature appeared influenced by the content of the speech it sought to suppress – contrary to the very purpose of First Amendment protection. The games the California Act sought to restrict involve the decapitation, disembowelment, dismembering of opponents, with severed body parts and human remains graphically displayed. However, these *digital* victims pale in comparison to the subject matter of *Stevens* – the depictions of *actual* animal cruelty, which often result in permanent maiming or death of the animal. In both cases the Court rejected the regulations in favor of protecting speech that has arguably little, if any, redemptive value to society.

In striking down the regulations in *Stevens* and *Brown*, the Court observed that, unlike obscenity, there has been no longstanding tradition in the United States restricting depictions of violence. Rightly or wrongly, our society is rife with depictions of violence – and those depictions even extend to minors unabated. One needs to look no further than Grimm’s Fairy Tales to find stories laden with violent themes and equally violent consequences. For example, the story of Hansel and Gretel ends with the two children killing their captor by baking her in an oven. The misadventures of Wile E. Coyote, in his attempts to catch the Road Runner in Warner Brother’s cartoons, often end with tragic and violent consequences. These represent content consistently provided to children before they can read.

Similarly, high-school reading lists are full of similar stories of violence. The *Odyssey* of Homer, Dante’s *Inferno*, Golding’s *Lord of the Flies* and the Christian Bible all depict extreme acts of violence. In short, the violence genie is already out of the bottle, and attempts by legislatures to carve a violence exception to First Amendment jurisprudence must be viewed in this context. As each new medium of expression is introduced, the same debate resurfaces regarding the scourge of the new medium to children. As the Court makes clear in *Brown*, violent video games are constitutionally no different from their

³⁶ *Brown*, 131 S. Ct. at 2736 (quoting *Stevens*, 130 S. Ct. at 1585).

predecessors – dime novels, motion pictures, radio dramas, comic books, television and music lyrics.

Some have argued that video games are “different in kind” and present special problems due to their interactivity.³⁷ The majority in *Brown* points out that interactivity is not a feature exclusive to video games; for example, young readers have been able to make decisions that determine the plot in choose-your-own-adventure stories. The argument that video games enable greater participation with the action than adventure stories, represents the advancements in technological capability, and does not place video games in a separate class of expression. “As Judge Posner has observed, all literature is interactive. ‘[T]he better it is, the more interactive. Literature when successful draws the reader into the story, makes him identify with the characters, invites him to judge them and quarrel with them, to experience their joys and sufferings as the reader’s own.’”³⁸ Despite their interactivity, current video games combine physical action with expression protected by the First Amendment; however, the same analysis may not be applicable to a game where physical activity predominated.³⁹

The cultural and intellectual value of reading the great works of literature are without question superior to playing *Call of Duty*; however drawing such distinctions is not the role of the First Amendment; in fact, this is precisely the tyranny the First Amendment is designed to protect against. “[C]ultural and intellectual differences are not constitutional ones. . . . Even if we can see in them ‘nothing of any possible value to society . . . they are as much entitled to the protection of free speech as the best of literature.’”⁴⁰

C. *Can the California Act survive strict scrutiny analysis?*

Any content-based restriction on protected speech must survive strict scrutiny analysis – that the questioned regulation serves a compelling governmental interest and is narrowly crafted to serve that interest.⁴¹ “The State must specifically identify an ‘actual problem’ in need of solving, and the curtailment of free speech must be actually necessary to

³⁷ See *Brown*, 131 S. Ct. at 2742 (Alito and Roberts, concurring). See also, Robert Bryan Norris, Jr., *It’s All Fun and Games Until Someone Gets Hurt: Brown v. Entertainment Merchants Association and the Problem of Interactivity*, 13 N.C. J.L. & TECH. ON. 81 (2011); Eric T. Gerson, *More Gore: Video Game Violence and the Technology of the Future*, 76 BROOK. L. REV. 1121 (2011).

³⁸ *Brown*, 131 S. Ct. at 2738 (quoting *Am. Amusement Mach. Ass’n v. Kendrick*, 244 F.3d 572 (7th Cir. 2001) *reh’g denied*, 2001 U.S. App. LEXIS 11010 (2001), *cert. denied*, 2001 U.S. LEXIS 10002 (2001)).

³⁹ See *id.* at 2765 (Breyer dissenting).

⁴⁰ *Id.* at 2737 (quoting *Winters v. New York*, 333 U.S. 507, 510 (1948)).

⁴¹ See *R. A. V. v. St. Paul*, 505 U.S. at 395.

the solution.”⁴² This is a demanding standard that typically strikes down content-based proscriptions on free speech. Each prong of strict scrutiny considered by the Court in *Brown* is addressed below separately.

1. Can the California Legislature demonstrate a compelling governmental interest in support of the California Act?

There have been numerous studies reaching conflicting conclusions that attempt to link violent video games with harms to minors.⁴³ The California Legislature, in passing the California Act, relied upon the studies of Dr. Craig Anderson, a Psychologist and Professor at Iowa State University, and a few other research psychologists. These researchers presented studies asserting a connection between playing violent video games and harmful effects in children – namely increased aggressive behavior, desensitization to violence, lack of empathy, and diminished prosocial behavior.⁴⁴ Relying on Dr. Anderson’s work, the California Legislature passed the California Act with the intent of protecting children within its borders from the sociological and neurological harms caused by playing violent video games.

The distinction between correlation and causation is critical. The linkage of two actions – for example, playing violent video games and aggressive behavior in children – fails to establish whether one causes the other. Stated differently, assuming there is a positive relationship between playing violent video games and aggressive behavior in children – the correlation alone cannot determine with any scientific certainty whether playing violent video games caused the aggressive behaviors. For example, it could be that “aggressive children” are attracted to playing violent video games in higher percentages. Alternatively, it is plausible that there is yet another unidentified factor that ties the correlated behaviors, such as familial structure or exposure to other violent media. Establishing correlation between items is an important

⁴² *Brown*, 131 S. Ct. at 2738 (internal citations omitted).

⁴³ See *Brown*, 131 S. Ct. at 2771-2779 (Breyer dissenting) (an appendix listing peer-reviewed academic journals on the topic of potential psychological harm resulting from playing video games).

⁴⁴ See generally, Craig A. Anderson et al., *Violent Video Game Effects on Aggression, Empathy, and Prosocial Behavior in Eastern and Western Countries: A Meta-Analytic Review*, 136 PSYCHOL. BULL. 151, 167 (2010). Meta-analysis “is a statistical technique used to aggregate study findings in a given area of research” that “holds the promise of providing researchers with both an estimate of an overall mean effect size (ES) across multiple studies and a level of precision of such an estimate across repeated trials under differing conditions.” Ashley E. Anker et al., *Meta-Analysis of Meta-Analyses in Communication: Comparing Fixed Effects and Random Effects Analysis Models*, 58 COMM. Q. 257, 258 (2010).

first step in establishing causation, but correlation alone cannot be used to establish causation.

Strict scrutiny analysis requires more than a correlative linkage between the harm to be prevented and the action proscribed by the legislature. Despite the California Legislature's reliance on social science data in passing the California Act, those studies fail to support the causal link necessary for content-based free speech proscription. The Court points out that, Dr. Anderson's "studies have been rejected by every court to consider them, and with good reason: They do not prove that violent video games *cause* minors to *act* aggressively (which would be at least a beginning). Instead, nearly all of the research is based on correlation, not evidence of causation . . ." ⁴⁵

Moreover, Dr. Anderson has acknowledged in testimony in prior video game legislation cases that the effects of violent video games on children are small and indistinguishable from effects produced by other violent media consumption, such as movies and television programming – mediums not covered by the California Act. ⁴⁶ Stated differently, the California Act seeks to address potential harms to children that are not significantly different than those linked to other expressive mediums, including playing video games that are rated appropriate for all age groups. "The consequence is that its regulation is wildly underinclusive when judged against its asserted justification, which in our view is alone enough to defeat it." ⁴⁷

When a governmental action is underinclusive, it raises serious doubts as to whether the government is actually pursuing its purported interest, instead of disfavoring a particular speaker or viewpoint. ⁴⁸ "Here, California has singled out the purveyors of video games for disfavored treatment—at least when compared to booksellers, cartoonists, and movie producers—and has given no persuasive reason why." ⁴⁹ In short, the Court expressed skepticism over a legislative measure that placed restrictions on a violent video game, but failed to regulate the violent movie that serves as the basis for the video game. Accordingly, the California Legislature, in addressing the potential sociological and neurological effects of violent media, may not select one slice of the pie for regulation; to survive strict scrutiny, legislatures will need to address all media forms – in essence consume the entire pie.

⁴⁵ *Brown*, 131 S. Ct. at 2739 (emphasis in original) (internal quotations and footnote reference to cases omitted, *see supra* note 3).

⁴⁶ *See id.*

⁴⁷ *Id.* at 2740.

⁴⁸ *See id.*

⁴⁹ *Id.*

The Court also found the California Act underinclusive in light of its purported purpose, as the regulation permits sales of violent video games to minors, provided a supervising adult is present. This exception, in the Court's view, serves to undercut the severity of the problem the California Legislature sought to address.⁵⁰ In other words, the California Legislature's desire to keep violent video games away from minors is based on the harm inherent in the games themselves, and having a parental figure at the point of sale doesn't change the asserted dangers of these games to a minor's psychological and sociological development. If violent video games are indeed harmful to minors, the legislature simply cannot allow a parental veto of its legislative goals. In the words of the Court, "That is not how one addresses a serious social problem."⁵¹

2. Is the California Act narrowly tailored to achievement of its stated purpose?

The State of California asserted to the Court that the goal of the California Act was to assist parents in restricting their children's access to violent video games, but lack the means to do so. The video-game industry, through the Entertainment Software Ratings Board (ESRB), already has a voluntary rating system in place designed to inform consumers (including parents) about the ratings and content within video games, policies for the marketing of video games, as well as policies adopted by retail members focused on enforcement of their ratings system.⁵² This comprehensive system mirrors the voluntary rating systems established in other media categories – such as "explicit lyrics" stickers on music, and movie ratings assigned by the Motion Picture Association of America. The California Act appears superfluous when viewed in this context.

The California Act is distinguishable from the video game industry's voluntary rating system in two important respects: (1) it attempts to supplant the ESRB's rating system, in favor of its own definitional categories for violence; and (2) it exposes the video game retailer to civil liability in the event of non-compliance. The California Legislature framed its goals as assisting parents; however, by mandating its own standards, the California Act imposes a judgment on what parents should want for their children. Put differently, some parents may simply disagree with the California Legislature on the potential negative effects of minors playing violent video games. Some parents

⁵⁰ *See id.*

⁵¹ *Id.*

⁵² *See infra*, Part III(A) for a discussion of the video game industry's voluntary regulatory efforts, administered by the ESRB and its related councils.

may conclude that playing violent video games is a valuable aggression outlet for their children that otherwise might be released in the real world.

In the absence of clear scientific data establishing that violent video games cause measurable harms, parents can have differing views on the appropriateness of violent video games for minors. The viewpoint of the California Legislature -- that playing violent video games is potentially harmful to minors -- is valid. Similarly, parents that reach alternative conclusions -- such as violent video games are either benign or even helpful to minors -- are also valid; however, the California Act fails to acknowledge this contrary viewpoint. To this point, the Court ruled that the California Act's assistance to parental authority is vastly overinclusive.⁵³ "Not all of the children who are forbidden to purchase violent video games on their own have parents who *care* whether they purchase violent video games. While some of the legislation's effect may indeed be in support of what some parents of the restricted children actually want, its entire effect is only in support of what the State thinks parents *ought* to want. This is not the narrow tailoring to 'assisting parents' that restriction of First Amendment rights requires."⁵⁴

While an industry may choose to self-regulate as it sees fit, government must be extremely careful in drafting similar provisions consistent with the First Amendment. *Brown* makes clear that video games, in their current form, are deserving of First Amendment protection as speech, despite their entertainment qualities, no less so than the expressive mediums that preceded them. Despite the government's restrictions on obscene speech (related to the prurient interest in sex) outlined in *Miller*, and its related restrictions on obscenity for minors articulated in *Ginsberg*, there is no similar history of proscription for violence in the United States. First Amendment principles dictate that regulations of speech, absent a historical tradition of proscription, must satisfy strict scrutiny analysis. Strict scrutiny requires the government to demonstrate convincing evidence of purported harms, beyond mere correlations, to establish a compelling state interest justifying content-based regulations of speech. Additionally, the government's interests must be pursued in the least-restrictive manner, with regulation narrowly tailored to achieve its stated purpose. The California Act, despite laudable goals of preventing psychological and neurological harm to minors, failed to support these goals with convincing evidence that violent video games cause the purported harms targeted by its legislation. Even assuming the

⁵³ See *Brown*, 131 S. Ct. at 2741.

⁵⁴ *Id.* (emphasis in original).

California Legislature could establish a compelling state interest; there appears to be less restrictive means of accomplishing California's legislative goals. As such, the California Act is an unconstitutional content-based proscription of free speech.

With the principles articulated by *Brown*, Part III examines the constitutionality of the H.R. 287 – The Video Games Ratings Enforcement Act of 2013, currently under consideration by the 113th Congress of the United States.

III. ANALYSIS OF H.R. 287 – THE VIDEO GAMES RATINGS ENFORCEMENT ACT IN LIGHT OF *BROWN*

On January 15, 2013, Rep. Jim Matheson of the 4th Congressional District of Utah, reintroduced The Video Games Ratings Enforcement Act (hereinafter, the “Federal Bill”).⁵⁵ The Federal Bill was originally introduced in 2008 by Rep. Matheson and Rep. Terry, which ultimately died in committee.⁵⁶ The Federal Bill has two distinct purposes: first, it seeks to require all video game publishers to obtain an age-based content rating determined by the ESRB as well as require all video game retailers to display information about the ESRB's rating system;⁵⁷ second, it prohibits the sale or rental of video games containing ESRB content ratings of “AO” or “adults only” to any person under the age of 18, and “M” or “mature” rated video games to any person under the age of 17.⁵⁸ Enforcement of the Federal Bill is delegated to the Federal Trade Commission as an unfair or deceptive trade practice violation and punishable by a civil penalty not to exceed \$5,000 per violation.⁵⁹

This Part explores the constitutionality of the Federal Bill, in light of *Brown*. Since the Federal Bill builds upon the system administered by the ESRB, this Part starts with an overview of the efforts of the video game industry in self-regulation. Thereafter, this Part examines whether the Federal Bill can overcome the fatal flaws inherent in the California Act struck down by *Brown*.

A. An overview of the video game industry's self regulation efforts.

In December 1993, a joint congressional hearing convened regarding a growing concern, largely in response to the popularity of the fighting game *Mortal Kombat*, that the video game industry was irresponsibly marketing violent video games to minors. On February 3, 1994, Senator Lieberman (Connecticut), along with Senator Dorgan (North Dakota)

⁵⁵ H.R. 287, 113th Cong. (2013).

⁵⁶ H.R. 5990, 110th Cong. (2008).

⁵⁷ H.R. 287, 113th Cong. § 3 (2013).

⁵⁸ *Id.*

⁵⁹ H.R. 287, 113th Cong. § 4 (2013).

and Senator Herbert "Herb" Kohl (Wisconsin) introduced The Video Game Rating Act of 1994, which proposed to create a federal commission to create an industry-wide standard for video game ratings.⁶⁰ In response, the video game industry created the Interactive Digital Software Association (ISDA) in 1994, which later changed its name to the Entertainment Software Association (ESA) in 2003. On July 29, 1994, the ISDA proposed to Congress a voluntary rating system, to be administered by the newly formed Entertainment Software Ratings Board (ESRB). Congress was satisfied with the system, and abandoned The Video Game Rating Act of 1994. The ESRB began rating video games on September 1, 1994.

1. The ESRB voluntary regulatory scheme for video game publishers

The ESRB administers the industry's voluntary rating system, designed to inform consumers about the content within video games.⁶¹ The system assigns age-specific ratings to video games in six categories: EC (Early Childhood); E (Everyone); E10+ (Everyone 10 and older); T (Teens); M (17 and older); and AO (Adults Only – 18 and older).⁶² The ESRB also provides more than thirty distinct content descriptors, which are included on the game package to provide consumers information as to the various kinds of potentially objectionable material contained

⁶⁰ See S. 1823, 103rd Cong. (1994).

⁶¹ See About the ESRB - Frequently Asked Questions, ESRB, <http://www.esrb.org/ratings/faq.jsp#1> (last visited March 26, 2013). According to research conducted by the ESRB, parent consumers of video games wanted a more detailed rating system than that used for movies; one that contained both an age-based rating system as well as concise and impartial information about the kind of potentially objectionable material to be found in each game. See About the ESRB, ESRB, <http://www.esrb.org/about/index.jsp> (last visited March 26, 2013).

⁶² See ESRB Ratings - Ratings Guide, ESRB, http://www.esrb.org/ratings/ratings_guide.jsp (last visited March 26, 2013). The recommended minimum age levels include: (1) "EC," or Early Childhood, for games that contain content suitable for people ages three and older, and no material that would be objectionable to parents; (2) "E," or Everyone, for games that contain content suitable for people ages six and older due to minimal cartoon, fantasy, or mild violence, and/or infrequent use of mild language; (3) "E10+," or Everyone Ten and Older, for games that contain content suitable for people ages ten and older due to cartoon, fantasy, or mild violence, mild language, and/or minimal suggestive themes; (4) "T," or Teen, for games that contain content suitable for people ages thirteen and older due to violence, suggestive themes, crude humor, minimal blood, simulated gambling, and/or infrequent use of strong language; (5) "M," or Mature, for games that contain content suitable for people ages seventeen and older due to intense violence, blood and gore, sexual content, and/or strong language; (6) "AO," or Adults Only, for games that contain content suitable for people ages eighteen and older due to prolonged scenes of intense violence and/or graphic sexual content and nudity. The rating system also includes "RP," or Rating Pending, for games that have been submitted for rating to the ESRB but have not yet been assigned a rating as of the time of the creation of the advertising.

within the video games.⁶³ While this system is voluntary, nearly all video games sold at retail stores in the United States are rated by the ESRB.⁶⁴ The ESA's membership is comprised of all of the major publishers of video games in the United States,⁶⁵ and members agree to submit all video games for rating by the ESRB as well as to include their ratings in all advertising related to their video games.⁶⁶

Game publishers submit their video game along with a DVD of all objectionable material and an extensive questionnaire to the ESRB during the final stages of development of the video game, but prior to its release to the public.⁶⁷ Submissions are reviewed by the ESRB staff, which may include playing a pre-release version of the video game.⁶⁸

⁶³ See *id.* The ESRB content descriptors are intended to provide an additional tool for consumers to determine if a game is suitable for their family members and include: (1) Alcohol Reference; (2) Animated Blood; (3) Blood; (4) Blood and Gore; (5) Cartoon Violence; (6) Comic Mischief; (7) Crude Humor; (8) Drug Reference; (9) Fantasy Violence; (10) Intense Violence; (11) Language; (12) Lyrics; (13) Mature Humor; (14) Nudity; (15) Partial Nudity; (16) Real Gambling; (17) Sexual Content; (18) Sexual Themes; (19) Sexual Violence; (20) Simulated Gambling; (21) Strong Language; (22) Strong Lyrics; (23) Strong Sexual Content; (24) Suggestive Themes; (25) Tobacco Reference; (26) Use of Alcohol; (27) Use of Drugs; (28) Use of Tobacco; (29) Violence; and (30) Violent References. Additionally, these content descriptors may be preceded by the term "Mild," in which case such content is in low frequency, intensity, or severity. In addition to all rating categories, the following content descriptors can be included or excluded in searches on the ESRB website: violence, blood/gore, sexuality, nudity, language, substances, gambling and humor. See ESRB Ratings, ESRB, <http://www.esrb.org/ratings/search.jsp> (last visited March 27, 2013).

⁶⁴ See About the ESRB - Frequently Asked Questions, ESRB, <http://www.esrb.org/ratings/faq.jsp#1> (last visited March 26, 2013).

⁶⁵ See About the ESA – Members, ESA, <http://www.theesa.com/about/members.asp> (last visited March 26, 2013). Members include: 345 Games, 505 Games, Capcom USA, Inc., Deep Silver, DeNA, Disney Interactive Studios, Inc., Electronic Arts, Epic Games, Inc., gloops International Inc., GREE International, Inc., Konami Digital Entertainment, LEVEL-5 Inc., Little Orbit, Mad Catz Interactive, Inc., Microsoft Corporation, Namco Bandai Games America Inc., Natsume Inc., NetDragon Websoft Inc., Nexon America, Inc., Nintendo of America Inc., NVIDIA, Perfect World Entertainment, Rubicon Organization, SEGA of America, Inc., Slang, Sony Computer Entertainment, Inc., Square Enix, Inc., Take-Two Interactive Software, Inc., Tecmo Koei America Corporation, Trion Worlds, Inc., Ubisoft Entertainment, Inc., Wargaming, Warner Bros. Interactive Entertainment Inc., and XSEED Games.

⁶⁶ See ESRB Ratings – Principles and Guidelines for Responsible Advertising Practices, ESRB, http://www.esrb.org/ratings/principles_guidelines.jsp (last visited March 26, 2013).

⁶⁷ See Ratings Process, ESRB, http://www.esrb.org/ratings/ratings_process.jsp (last visited March 27, 2013). Submitted questionnaires are required to specify all objectionable content that will be included in the game, including the most extreme content present in the game under the ESRB content descriptor categories (such as violence, sexuality, and alcohol or drug use or reference), the game's context (such as setting, storyline, and objectives), and the relative frequency of objectionable material.

⁶⁸ *Id.* Submitted materials must also disclose any content that is not readily playable but that will be included in the game code on the final game disc.

After determining the application is complete, the ESRB forwards the materials to at least three trained ESRB raters.⁶⁹ The raters independently assign a rating and the appropriate content descriptors for the video game.⁷⁰ After this process is complete, the raters converse and reach a consensus as to the final rating and content descriptors for the video game.⁷¹ The ESRB reviews the recommendations and forwards the rating and content descriptors to the video game publisher along with a rating summary, outlining the factors underlying their decision.⁷² Game publishers, upon receipt of the ESRB report, may: (1) accept the rating and content descriptors; (2) revise and resubmit the game to the ESRB (which restarts the process outlined above); or (3) appeal either the rating or content descriptors, or both, to an appeals board comprised of video game publishers and video game professionals.⁷³ Ratings, content descriptors and the rating summary for the video game are posted to the ESRB website within thirty days of the

⁶⁹ *Id.* Game raters are adults who typically have experience with children either through prior work experience, education, or as parents or caregivers. See Frequently Asked Questions - About the Rating Process, ESRB, <http://www.esrb.org/ratings/faq.jsp#14> (last visited March 27, 2013). They rate games on a full-time basis, and are assisted by part-time raters when necessary. Raters are not required to have special skill as video game players, but are required to play the final release versions of games when not rating, time permitting. The identities of raters are kept confidential and they are not allowed to have any ties to the computer or video game industry, so as to prevent improper influence on ratings.

⁷⁰ *Id.* Raters are not required to actually play the games they rate because lengthy play time required to complete many games (often upwards of fifty hours) would make this impractical, variability in game play experience based on player choice would disallow assurance that a rater's play experience would be representative of the most extreme content present in the game, and development schedules might not allow game publishers enough time to provide a fully tested and working version of the game to ESRB raters before release. See Frequently Asked Questions - About the Rating Process, ESRB, <http://www.esrb.org/ratings/faq.jsp#17> (last visited March 27, 2013). Additionally, ESRB staff, including raters, review released versions of games, particularly those that generate consumer inquiries, to ensure that game publishers provided accurate and complete rating materials. The ESRB may then take various enforcement actions, including sanctions, should it be discovered that the publisher did not fully disclose all objectionable game content. See Ratings Enforcement, ESRB, <http://www.esrb.org/ratings/enforcement.jsp> (last visited March 27, 2013).

⁷¹ *Id.* In reaching a consensus raters may review previously rated games and consider consistency with previous ratings and precedent.

⁷² *Id.* Rating summaries are not included with the game itself, but may be accessed via the video game rating search feature of the ESRB homepage, <http://www.esrb.org/index.js.jsp>, a free application for the Apple iPhone and Google Android mobile devices, or downloadable ESRB rating search application. See ESRB Rating Summaries, ESRB, <http://www.esrb.org/ratingssummaries/> (last visited March 27, 2013).

⁷³ *Id.* The members of the appeals board are not identified.

rating assignment, unless other action is requested by the video game publisher.⁷⁴

The ESRB's Advertising Council has published Principles and Guidelines for Responsible Advertising Practices, which provide detailed guidelines for game publishers, urging members to refrain from excessive depictions within game advertising in five distinct areas: violence, sex, alcohol and drugs, offensive verbal or bodily expression, and insensitivity to religious beliefs or physical/mental disabilities.⁷⁵

2. The ESRB regulatory scheme for video game retailers

The ESRB, through its Retail Council, encourages retailers to display the ESRB ratings information within their stores, to refrain from selling "M" rated games without parental consent, and restrict sales of "AO" rated video games to minors.⁷⁶ The members of ESRB Retail Council (ERC) include all of the major national distributors of video games for sale or rental in the United States, and all of the members have voluntarily agreed to not sell "AO" rated video games in their stores.⁷⁷ The ERC also has a Website Committee to ensure accurate rating information is disclosed on retail member websites, and when applicable, restricts underage user access to "M" rated video games.⁷⁸

ERC members also submit to participation in two "mystery shop" audits each year, where the ESRB sends consumers under the age of seventeen to a minimum of 100 retail stores for each ERC member, attempting to purchase or rent a "M" rated video game.⁷⁹ This audit serves to measure the effectiveness of the ERC member's compliance with its "Ratings Education and Enforcement Code,"⁸⁰ including whether the retailer displays information regarding the ESRB rating system in their stores. The ESRB publishes the aggregate results of its "mystery shop" audits on its website.⁸¹ All audits since May of 2009 have reported store policy enforcement compliance (restricting sale of "M" rated video games to children under 17) of 85% or greater, and rating signage

⁷⁴ *Id.*

⁷⁵ See ESRB Ratings – Principles and Guidelines for Responsible Advertising Practices, ESRB, http://www.esrb.org/ratings/principles_guidelines.jsp (last visited March 28, 2013).

⁷⁶ See ESRB Retailers – ESRB Retail Council, ESRB, http://www.esrb.org/retailers/retail_council.jsp (last visited March 27, 2013).

⁷⁷ *Id.* ESRB Retail Council members include Amazon, Best Buy, GameStop, Redbox, Target, Toys 'R' Us, and Walmart.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ See ESRB – ERC Commitment to Parents Code, ESRB, http://www.esrb.org/retailers/downloads/erc_code.pdf (last visited March 27, 2013).

⁸¹ See ESRB Retailers – ESRB Retail Council, ESRB, http://www.esrb.org/retailers/retail_council.jsp (last visited March 27, 2013).

compliance (displays of the ESRB ratings) of 80% or greater.⁸² Consumers may also contact the ESRB to directly report compliance failures by an ERC member, in the event the consumer is unable to resolve the issue at the store level.⁸³

In the event of compliance failures by a member, the ERC requires the member to provide a full refund to the consumer or an exchange for an age-appropriate game. Additionally, ERC members are obligated to provide appropriate training to their managers and employees to ensure future compliance. In the event of systemic failures, the ERC may provide the member a letter summarizing the deficiency. Upon receipt of a deficiency letter, the member has 30 days to improve, and if the ERC is unsatisfied with the remedial efforts, the member's participation may be terminated.

In sum, the ESRB system mirrors the voluntary rating systems established in other media categories – such as “explicit lyrics” stickers on music by the Recording Industry Association of America and movie ratings covered by the Motion Picture Association of America. It is also comprehensive in scope, including advertising standards, and protocols to ensure enforcement of its voluntary rating system at the retail level. The Federal Trade Commission (FTC) has independently evaluated the marketing of violent media to children and chronicled their findings in reports to Congress.⁸⁴ The FTC's own “undercover shops” for 2008 and 2009 report an enforcement compliance rate (restricting sale of “M” rated video games to minors) of 80% each year,⁸⁵ which is higher than those for movies (preventing sale of “R” rated movie tickets to minors; 2008 – 65%; 2009 – 72%)⁸⁶ or music (restricting the sale of “explicit content” CDs to minors; 2008 – 44%; 2009 – 28%).⁸⁷ The FTC concluded that, “the video game industry outpaces the movie and music industries in the three key areas that the Commission has been studying for the past decade: (1) restricting target-marketing of mature-rated products to children; (2) clearly and prominently disclosing rating information; and (3) restricting children's access to mature-rated products at retail.”⁸⁸

⁸² *Id.* Statistics weighted by market share. The website also supplies overall results, which reflect slightly lower compliance percentages.

⁸³ See ESRB Retailers – Retail Inquiries, ESRB, <https://www.esrb.org/retailers/contact.jsp> (last visited March 27, 2013).

⁸⁴ See *Marketing Violent Entertainment to Children: A Sixth Follow-Up Review of Industry Practices in the Motion Picture, Music Recording & Electronic Game Industries – A Report to Congress*, December 2009, FTC, <http://ftc.gov/os/2009/12/P994511violententertainment.pdf> (last visited March 27, 2013).

⁸⁵ *Id.* at 28.

⁸⁶ *Id.* at 13.

⁸⁷ *Id.* at 22.

⁸⁸ *Id.* at 30.

B. Analysis of the Federal Bill in light of Brown and the ESRB's voluntary rating system

The Federal Bill is susceptible to attack by the video game industry on at least two grounds. First, the Federal Bill mandates adoption of a voluntary industry compliance system and imposes civil fines that would likely impede the industry, especially at the retail level. Second, the Federal Bill's prohibitions on sale and rental of video games appear to run afoul of the First Amendment, as articulated in *Brown*. They are considered separately.

1. Challenges to government cooption of a voluntary regulatory scheme for video games

The Federal Bill diverges from most of the prior attempts at regulating violent video games, in that it builds upon the voluntary enforcement system created by the ESRB, rather than creating its own definitions of prohibited content.⁸⁹ It can be argued that since video game publishers almost uniformly submit to the ESRB rating process, the Federal Bill would not garner objection from the video software industry.

The ESA, however, is adamantly opposed to any and all governmental efforts to regulate the content of entertainment media, "including proposals to criminalize the sale of certain video games to minors; create uniform, government-sanctioned entertainment rating systems; or regulate the marketing practices of industry."⁹⁰ Consequently, the ESA would likely oppose the governmental oversight proposed by the Federal Bill, even if it seeks to employ the industry's own system. While the video game industry largely supports the ESRB ratings process and the ERC encourages retailers to post ratings information at the retail level, these guidelines are not *mandated* on all video game publishers and retailers – just those that voluntarily choose to support its goals.

The most objectionable portion of the Federal Bill would be the imposition of civil fines, not to exceed \$5,000 per violation.⁹¹ While the ESRB currently has enforcement efforts, they principally involve the development and implementation of greater controls at the retail level,

⁸⁹ Congress may have the power to delegate the creation of video games standards to a private entity like the ESRB, as the U.S. Supreme Court has upheld Congressional delegation of regulatory power to private entities in other contexts. *See e.g.* *St. Louis, Iron Mt. & So. Ry. v. Taylor*, 210 U.S. 281 (1908) (upholding a statute delegating the authority to determine the standard height for draw bars for freight cars to the American Railway Association, a trade group).

⁹⁰ *See* ESA – Government Affairs – Federal Issues, ESA, <http://www.theesa.com/policy/federalissues.asp#2> (last visited March 27, 2013).

⁹¹ *See* H.R. 287, 113th Cong. § 4(b) (2013).

and in the event of systemic failure, the expulsion of the retailer from the ERC. In contrast, civil penalties could force some retailers to avoid the sale or rental of video games entirely, as anything short of full compliance would open retailers up to substantial civil liability.

Virtually all video game publishers and video game retailers participate in the ESRB system; however, there still remain some video game publishers and retailers that do not. The Federal Bill would thereby mandate ESRB participation – and would likely be challenged by video game publishers and retailers that have chosen to avoid the voluntary regulatory scheme. Arguably these concerns are remote, as these parties may lack the financial resources to mount an effective challenge to the Federal Bill; however there are public interest groups such as the American Civil Liberties Union that may be urged to mount a challenge consistent with its mission.

2. Challenges to the Federal Bill as an unconstitutional restriction of free speech

While distinct from the regulation struck down in *Brown*, the Federal Bill still has significant flaws in light of First Amendment jurisprudence. Section three of the Federal Bill aims to restrict the sale or rental of video games rated “M” to any person under the age of 17, and those rated “AO” from any person under the age of 18.⁹² One important distinction between the Federal Bill and the California Act is that Federal Bill does not have a parental veto provision. The Federal Bill outlaws sales and rentals in all circumstances – thereby avoiding one of the underinclusive arguments articulated by the Court in *Brown*.

Unfortunately, other than the lack of a parental veto, the Federal Bill is otherwise fatally flawed in light of *Brown*. *Brown* has made clear that video games are protected expression under the First Amendment, and absent a tradition of proscription, the government will need to satisfy strict scrutiny. *Miller* and *Ginsberg*, as interpreted by *Brown*, allow the government to restrict expression appealing to the prurient interests in sex, including greater regulations of obscenity for minors. However, the ESRB ratings do not draw lines on the basis of obscenity articulated in First Amendment jurisprudence. A review of the games rated by the ESRB highlights the problem of applying either *Miller* or *Ginsberg* to the Federal Bill.

To date the ESRB has rated 30,359 video games for all game platforms, computers, tablets (I-Pad, Kindle) as well as mobile phones.⁹³ Of these video games, only thirty-two games have been rated “AO” or

⁹² See *id.* at § 3 (2013).

⁹³ See ESRB Ratings, ESRB, <http://www.esrb.org/ratings/search.jsp> (last visited March 27, 2013).

“adults only”; however, only eight have a content descriptor for “nudity,” and five have no content descriptors.⁹⁴ There are 1,839 video games that are rated “M” or “mature”; however only 170 have a descriptor for “nudity,” and fifteen have no content descriptors.⁹⁵

While the government can permissibly regulate depictions of obscenity in video games, the Federal Bill’s reliance on the ESRB classifications serves to expand its regulations to games that do not meet the obscenity proscription category. Moreover, *Miller* requires such regulations to include a savings clause, exempting speech with serious artistic, political or scientific value; absent from the Federal Bill. Assuming a savings clause is added to the Federal Bill, it could arguably restrict the sales and rentals of video games deemed obscene. The vast majority of “M” and “AO” rated video games, however, could not be restricted unless the government can satisfy strict scrutiny analysis.

As it relates to non-obscene “M” and “AO” video games, the Federal Bill suffers the same fatal flaws articulated by the Court in *Brown*. First, the government will want to establish a compelling interest in the absence of scientific data establishing a causal relationship between potential harms to minors and the speech being suppressed by the Federal Bill. The data identifying correlative relationships, presented by Dr. Anderson in *Brown* and every federal case that preceded it, is simply insufficient. In fact, the Federal Bill does not directly target violence; rather it targets all games rated “M” or “AO”. The sheer diversity of games under the “M” or “AO” rating categories creates a significant hurdle for the government in establishing a compelling interest for its content-based regulation of free speech. Consequently, any interest articulated by the government in support of the Federal Bill is arguably more specious than those rejected in *Brown*.⁹⁶

Additionally, the Federal Bill is plagued by the same underinclusive argument articulated in *Brown*; specifically the legislation fails to address the need for federal regulation of this media form to the exclusion of other forms. On this point, the Federal Bill fares slightly better than the California Act, as the Federal Bill does not just target violence; nonetheless, the government would still need to establish a valid reason for seeking the extreme remedy of First Amendment prohibition for just video games. One possible differentiating factor is the level of interactivity in the video game medium; however, *Brown*

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ For example, there are twenty-five games rated “M” that have no descriptors for violence, blood/gore, sexuality or nudity. And this also excludes fifteen “M” rated games with no descriptors. See ESRB Ratings, ESRB, <http://www.esrb.org/ratings/search.jsp> (last visited March 27, 2013).

majority expressly rejected that distinction. In short, absent scientific advancements establishing causation and a valid justification for singling out video games instead of regulating all media – the government will simply fail to establish a compelling interest necessary to survive strict scrutiny analysis.

Even assuming Congress could establish a compelling governmental interest for the Federal Bill, it still would need to demonstrate that it is proceeding in the least intrusive manner toward furthering that interest. To which, the Federal Bill is just as flawed as the California Act due to its overinclusive scope. Rightly or wrongly, there are numerous parents that simply do not share the government's concerns regarding the video games their children play. These parents, may conclude that the video game rating *guidelines* are not set in stone, but can be tailored to the individual needs of their children. It can be argued that most parents believe that they are the best arbiters of appropriateness for their children; not the government. As such, the Federal Bill would be deemed impermissibly overinclusive consistent with *Brown*.

Similarly, the government would need to demonstrate why less restrictive alternatives are unavailable to achieve its interests. The success of the existing voluntary ESRB system, vis-à-vis the rating systems for other media, as outlined in the 2009 FTC Congressional Report and Part III(A) *supra*, questions the necessity of the Federal Bill, especially in light of the significant free speech rights it seeks to curtail.

If Congress is truly interested in influencing the decisions of consumers regarding children's video game activity, there are other avenues that do not implicate the First Amendment. These will be explored in Part IV.

IV. PLAYING THE WRONG GAME – PROPOSING A VIABLE ALTERNATIVE TO CONTENT-BASED VIDEO GAME LEGISLATION

No less than seven states and municipalities in two other states have attempted to regulate access to violent video games by minors, in one form or another, and every one has been struck down as a violation of the First Amendment.⁹⁷ Despite this consistent legal precedent, Congress is considering yet another content-based regulation of video games that is inconsistent with the First Amendment principles articulated in *Brown*.⁹⁸ As the adage goes, doing the same thing again and again, expecting a different result is just insane. This is not to say that the goals of these legislatures are not well intentioned, or to say

⁹⁷ See *supra* note 3 and discussion of *Brown supra* Part II.

⁹⁸ See discussion *supra* Part III (B) .

that Dr. Anderson's research and preliminary findings in this area are irrelevant. Rather, the approach utilized by legislatures thus far is flawed, as there are other avenues available to lawmakers to address their growing concern regarding access to objectionable video games by minors. This Part first outlines the costs associated with the current legislative approach, and then offers an alternative use of these resources.

A. The costs of legislative attempts to regulate access to video games by minors

Upon conclusion of a case involving constitutional claims, the prevailing party may request attorney's fees under federal law.⁹⁹ To date, the ESA has received over \$3,100,000 in legal fees based on their successful challenges to laws attempting to restrict access to objectionable video games by minors.¹⁰⁰ Most notably, the State of Illinois was ordered to pay over \$544,000 and the State of California paid the ESA \$1,327,000 at the conclusion of *Brown*. These expenditures *do not* include the money expended by the States' own legal costs in defense of statutes that have been consistently deemed violations of the First Amendment, much less the opportunity costs expended by the legislatures in introducing, debating and ultimately passing these impermissible content-based restrictions on free speech.

Viewed in this context – legislation aimed at content-based access restrictions for video games is a costly exercise in futility, in light of the consistent negative legal precedent culminating in *Brown*. In a post-judgment opinion awarding the ESA \$91,900 in legal fees relating to its challenge of a Louisiana statute restricting access to violent video games by minors, Judge J. Brady said it best:

This Court is dumbfounded that the Attorney General and the State are in the position of having to pay taxpayer money as attorney's fees and costs in this lawsuit. The Act which this Court found to be

⁹⁹ See 42 U.S.C. § 1988 (West 2013). See generally, Mark R. Brown, *A Primer on the Law of Attorney's Fees Under § 1988*, 37 URB. LAW. 663 (2005).

¹⁰⁰ See ESA – Public Policy – Legal Issues – Essential Facts About Video Games and Court Rulings, ESA, http://www.theesa.com/facts/pdfs/ESA_EF_VidGamesCourtRulings.pdf (last visited March 27, 2013). These awards are distributed among the cases, cited *supra* note 3, as follows: *Am. Amusement Mach. Ass'n v. Kendrick*, (\$318,000); *Interactive Digital Software Ass'n v. St. Louis County*, (\$180,000); *Video Software Dealers Ass'n v. Maleng*, (\$344,000); *Entm't Software Ass'n v. Granholm* (\$182,000); *Entm't Software Ass'n v. Foti*, (\$91,900); *Entm't Software Ass'n v. Blagojevich*, (\$544,550); *Entm't Merchs. Ass'n v. Henry*, (\$56,367); *Entm't Software Ass'n v. Swanson*, (\$65,000). See also, ESA – News Releases – January 26, 2012, ESA, http://www.theesa.com/newsroom/release_archives_detail.asp?releaseID=164 (last visited March 27, 2013) (announcing its settlement with the State of California regarding legal fees in *Brown*, which, including lower court rulings, totaled \$1,327,000).

unconstitutional passed through committees in both the State House and Senate, then through the full House and Senate, and to be promptly signed by the Governor. There are lawyers at each stage of this process. . . . Prior to the passage of the Act, there were a number of reported cases from a number of jurisdictions which held similar statutes to be unconstitutional (and in which the defendant was ordered to pay substantial attorney's fees). The Court wonders why nobody objected to the enactment of this statute. In this court's view, the taxpayers deserve more from their elected officials.¹⁰¹

Yet, despite Judge Brady's admonishment, consistent federal court precedent, and the Supreme Court's decision in *Brown*, the Federal Bill was still reintroduced for consideration by the U.S. Congress. In defense of the recent Congressional action, it should be noted that the ESRB and its voluntary industry rating system was created in direct response to The Video Game Rating Act of 1994.¹⁰² It can be argued that the credible threat of federal legislation can exert pressure and concessions from the video game industry; however, in light of *Brown*, there are diminishing returns of this legislative strategy, especially as it relates to content-based regulations that implicate the First Amendment. There must be a better use of government resources.

B. Changing the "game" – A public advocacy through advertising approach

Rather than enacting legislation seeking content-based restrictions on free speech, governments should spend their resources on furthering their objectives through advertising campaigns aimed at educating parents of the existing ESRB system and advocating increased parental involvement in the selection of games they allow their children to play. Utilizing this strategy, concerned legislatures can advocate their positions regarding the potential harms to children from objectionable video games without mandating a solution that usurps parental authority, thereby avoiding the overinclusive critiques articulated in *Brown*. By changing their approach, from establishing statutes restricting speech to actively participating in the public debate, concerned legislatures have the opportunity to change the public dialogue on these issues; thereby achieving their goals without engaging in legislative paternalism. There are historical precedents for this approach and its long-term effectiveness – most notably the American Legacy Foundation's "truth" anti-smoking campaign and Mothers Against Drunk Driving (MADD) campaigns against drunk driving.

¹⁰¹ Entm't Software Ass'n v. Foti, 2007 U.S. Dist. LEXIS 46381.

¹⁰² See discussion *supra* Part III(A).

The “truth” anti-smoking campaign has been cited as an effective use of negative advertising in the service of public health.¹⁰³ Negative advertising is generally defined as messages intended to “attack, criticize, or discredit opponents and opponents’ messages, rather than messages designed to promote an alternative.”¹⁰⁴ The “truth” campaign consists of advertising messages focused on the consequences of smoking to individuals, the environment and society, promoted through grassroots advocacy and provocative advertisements targeting youth. One of the most memorable and effective components of the “truth” campaign was a television advertisement that first aired in 2000, entitled “Body Bags”. In it, a group of teens pulled up outside the Phillip Morris’ (now Altria) headquarters, and dumped 1200 body bags onto the sidewalk, representing the number of people killed by smoking each day.

In contrast, the tobacco industry’s anti-smoking advertising, typified by Phillip Morris’ “Think. Don’t Smoke.” campaign emphasized a “just say no” advocacy message. A study recently compared the effectiveness of the “truth” campaign to Phillip Morris’ “Think. Don’t Smoke” campaign in changing youth attitudes, beliefs and behaviors regarding smoking.¹⁰⁵

Not only did this study find the “truth” campaign was more effective in changing youth’s long term beliefs, attitudes, and behaviors, it also concluded that Phillip Morris’ campaign had a counterproductive effect on youth attitudes toward tobacco use.¹⁰⁶

Similarly, many credit MADD, which was founded in 1980, for changing the national dialogue and public attitudes regarding drinking and driving.¹⁰⁷ The advocacy and media efforts of MADD has led to the nationwide reduction of illegal blood alcohol levels,¹⁰⁸ increased penalties for drunk driving offenders¹⁰⁹ and encourage scientific research development to further its policy objectives.¹¹⁰ MADD also employs radical negative marketing techniques, such as leaving mangled cars from drunk driving accidents at high schools and along highways; methods that make lasting impressions and arguably more effective than the liquor industry’s “drink responsibly” messages. The most

¹⁰³ See D. E. Apollonio & R. E. Malone, *Turning negative into positive: public health mass media campaigns and negative advertising*, 24 HEALTH EDUC. RES. 483 (2009).

¹⁰⁴ *Id.* at 485.

¹⁰⁵ See Matthew C. Farrelly et al., *Sustaining ‘truth’: changes in youth tobacco attitudes and smoking intentions after 3 years of national antismoking campaign*, 24 HEALTH EDUC. RES. 42 (2009).

¹⁰⁶ *Id.* at 47.

¹⁰⁷ See James C. Fell & Robert B. Voas, *Mothers Against Drunk Driving (MAAD): The First 25 Years*, 7 TRAFFIC INJ. PREVENTION 195 (2006).

¹⁰⁸ *Id.* at 202-203.

¹⁰⁹ *Id.* at 203.

¹¹⁰ *Id.* at 204.

compelling evidence of MADD's influence on prevailing attitudes toward drunk driving is the 36% reduction in alcohol related traffic fatalities between 1982 and 2004, compared to the 46% increase in non-alcohol-related traffic fatalities during the same time period.¹¹¹

These examples highlight the difference between prescribing expected behavior in a message and presenting the negative consequences of an action in a message and allowing the audience to reach their own conclusions. Similar effects have been found in other public health contexts, such as preventing sexually transmitted diseases (contrasting messages advocating abstinence vs. the consequences of unprotected sex) and preventing illegal drug use (contrasting "just say no" vs. "this is your brain on drugs" advocacy messages). These examples also suggests that proscriptive regulations of video games could be a counterproductive strategy for concerned legislatures, beyond their inability to pass constitutional muster.

The effective advocacy strategies outlined in the previously discussed contexts can be utilized by legislatures that want to change the public discourse and attitudes regarding objectionable video game use by minors. To the ESRB's credit, they have produced numerous public service announcements aimed at educating parents about its rating system and encouraging parents to take an active role in the selection of video games their children play, consistent with its rating system.¹¹² Nonetheless, similar to the examples cited above, there remains an opportunity for concerned legislatures to go beyond "just say no" advocacy messages, and to highlight the potential negative consequences of objectionable video game usage by minors. For example, consider the following advertising concept: juxtaposing video from a fictional "warfare" game with severely injured military veterans, with the message "Warfare is **not** a game." In fact, a you-tube search of "war is not a game" yields numerous consumer generated videos exploring this very theme, suggesting that there is a grassroots effort already afoot, already aligned with these concerned legislatures' objectives, waiting to be tapped and mobilized.

V. CONCLUSION

Based on the numerous attempts by states and municipalities to create content-based restrictions to restrict access of video games by minors, there is a clear concern among legislatures regarding the potential negative effects of video games on child development. However, the existing social science research in this field has not, and

¹¹¹ *Id.* at 207.

¹¹² See ESRB – About the ESRB – Education and Outreach – Public Service Announcements, ESRB, <http://www.esrb.org/about/psa.jsp> (last visited March 27, 2013).

possibly cannot, establish a causal relationship between objectionable video game usage and negative psychological or sociological harms in children. As such, the use of content-based restrictions by legislatures to address this perceived problem will fail as impermissible violations of the First Amendment; resulting in considerable costs for legislatures, including paying for the video game industry's legal costs for developing and refining arguments to defeat such legislation. Rather than continuing to engage in a high cost "game" with a high probability of failure, concerned legislatures should seriously consider tapping into existing grassroots efforts through effective education and advocacy advertising campaigns aimed directly to consumers. By changing their approach to direct advocacy messages, concerned legislatures may obtain greater returns for their efforts, and potentially change the public dialogue and prevailing attitudes in their favor. As evidenced in the tobacco and drunk driving contexts, this is a "game" with a much higher probability of success.

