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Cutting-edge legal issues often arise at the intersection of entertainment and technology. For example, in this age of digital video recorders, how do studios, networks, and cable channels capture the attention of advertisers who are increasingly looking to redirect their activities to other platforms? The key may be found in brand integration, which is not merely a euphemism for product placement. In brand integration deals, brands—products or services—are used directly in the storyline of the picture or program for artistic purposes and to achieve specific objectives to drive the business of the brand. While brand integration opportunities appear to deliver fantastic value for advertisers, there are numerous risks that must be identified and managed in order to achieve that value. Shaun Clark’s article offers a comprehensive guide to effective brand integration deals.

Another issue producers and distributors confront is how to apply existing legal protections to the changing modes in which consumers experience entertainment. For example, in a study reported by Mashable, 34 percent of millennials watch mostly online video and no broadcast television. According to the Fourth Annual Media Engagement Barometer, more people now watch TV and movies on tablets in their bedrooms than on TVs. The article by Andrew M. White and Joshua M. Keesan analyzes recent litigation that showcases “judicial efforts to reconcile longstanding legal principles with changing technologies.” The article focuses particularly on two cases. First is Viacom v. YouTube, which addressed the safe harbor for service providers in Section 512(c) of the Copyright Act. Then it turns to American Broadcasting Companies, Inc. v. Aereo, Inc., which is presently pending before the U.S. Supreme Court. In that case, the Court has been called upon to answer the novel question whether it is lawful for a Web site to retransmit, without authorization, television programming that is broadcast over the air.

In addition to novel issues, other perennial questions producers and broadcasters face have been evolving. For example, can a trademark owner assert a Lanham Act claim against a studio if the owner believes that its trademark has been damaged by its portrayal in the movie or television program—or does First Amendment protection render these claims moot? The perceptive article by Lee S. Brenner and Audrey Jing Faber offers guidance.

Television and movies are not the only forms of entertainment subject to complex balancing tests. Mark S. Lee—another author of preeminent knowledge and experience—lists eight tests in his article concerning video games that use likenesses of athletes. Another complex area of law involves the termination rights provided in the Copyright Act. Applying termination rights is no simple task. The Practice Tip by Bernice Conn and Dan Stone cracks the code on the complex procedural rules that govern the application of these rights. Finally, while brushes and paint are not exactly cutting-edge technology, tax advice for artists and collectors can be, as Bradford S. Cohen, Sarah M. Johnson, and Charles K. Kolstad demonstrate in their article that uses the famous artwork Scream as an example of how proper estate and tax planning can save collectors money and help keep artists from starving.
Adding Value to Large-Scale Litigation as a Junior Associate

NEW ATTORNEYS AT LARGE LAW FIRMS are often added to multiattorney teams on complex litigation. For partners and senior attorneys on the case, a complex case may be only one of many large-scale litigations in which they are involved. These cases can seem overwhelming, but by following some simple steps a new attorney can learn the ground rules of the case and become an invaluable asset to the team.

The primary task is to read the case management and scheduling order that contains all dates essential to the case. These dates need to be recorded on a personal calendar and color coded by case basis. This is especially important on multiple litigation teams. Many large law firms have a calendaring department that will do this automatically, but it is always important to check their calculations. For each date, a reminder should be set two weeks and two days in advance. Depending on the type of deadline and the amount of time needed to comply with it, the timing of the reminders may vary.

At two weeks, if a more senior attorney on the team has not begun work yet, an inquiry should be made to the managing attorney to see if help is needed to prepare for the upcoming deadline. This serves to remind the team of an important deadline that may be off the radar while allowing enough time to meet the deadline. It also provides awareness that there is a junior attorney who understands the case and who wants to help.

At two days, checking with the managing attorney to see if any help is required to file or serve the documents related to the deadline serves to maintain awareness of the timing of the motion or discovery deadline and ensures that someone is available who knows how to complete these tasks. For example, electronic filing requires using the proper credentials in that jurisdiction. Legal assistants are often not available if the filing needs to be completed outside of business hours. The junior member of the team should ensure that all procedural problems are worked out before the filing date in order to avoid undue stress.

Second, it is important to calculate hidden, easily missed deadlines. For example, it is essential to calculate the last day to serve discovery and be able to receive a response prior to fact discovery cutoff. This varies depending on the forum. Factoring in the ability to file a motion to compel can be useful in the event that the supplied responses are inadequate. Some district courts require meet-and-confer sessions prior to bringing discovery disputes before the court. Bringing a motion to compel prior to the close of fact discovery should therefore factor in the days required to request a meet-and-confer with opposing counsel. Once hidden deadlines are calculated, the calculations should be double checked and calendared in the same manner as the scheduling order with a two-week and two-day alarm.

The third step is to become familiar with the local rules. For example, different federal courts have local patent rules that vary among states and even among district courts in the same state. Local rules are essential to calculating hidden dates because they often have specific discovery and motion rules. It is also important to check the judge’s standing order. Becoming knowledgeable on local patent rules by searching blogs that follow the intricacies of these rules can prove invaluable to any case brought by the firm in that local jurisdiction. For example, many of the more active jurisdictions for patent litigations have blogs that follow those districts and even certain judges.

Fourth, it is important to read the protective order. In complex litigation there often are confidentiality agreements that need to be honored. All documents received and produced must be treated appropriately under the protective order. A junior associate is often tasked with production-related issues. Familiarity with the protective order is essential to treating these documents appropriately. For example, in patent litigation, source code often has unique protections. Further, there may be restrictions on the amount of code and the number of consecutive pages of code that can be printed. There may be unique instructions for printing and producing the code, such as a requirement that it be delivered by hard-copy three days after the request for printing was made, on colored paper, with line numbers and comments preserved. All of these restrictions require extra time to comply.

Fifth, it can be very helpful to point out inconsistencies to more senior attorneys. Anyone can make a mistake. The more checks and balances in a case, the more likely that something important will not slip through the cracks. If an important interrogatory is served, and a more senior attorney provides a summary, taking a few minutes to confirm that the contents of the document match that attorney’s summary can save the firm embarrassment and money. Always be prepared to admit a mistake. Communication is essential to a fully functioning team, and almost everything can be remedied.

The final step entails asking for opportunities to attend hearings, depositions, or other activities that a junior associate might otherwise not be able to attend. If the firm wants to keep the bills low, it is preferable to offer to attend without expense to the client. Some firms provide shadowing hours, which allows a junior attorney to shadow these opportunities without billing the client. Affirmatively asking displays confidence, demonstrates keen interest in the case, and signals to senior attorneys a willingness to take on greater responsibilities in the case. Attorneys always advocate for their clients, but junior attorneys also must advocate for themselves.

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Negotiating Contracts Involving Copyrights Subject to Termination

WHEN J. K. ROWLING COMPLETED THE FIRST Harry Potter novel in 1995, she was a struggling single mother eager to sell her rights, and no one, including Rowling, knew that she had just authored a global phenomenon. The termination provisions of the 1976 Copyright Act are designed to give an author like Rowling the chance to terminate her original copyright grant and renegotiate it after the value of the copyright is established in the marketplace. In short, the termination provisions allow an author to get paid based on what the copyright is worth and not based on what buyers were willing to pay before the copyrighted work had an audience. While the concept behind termination rights may be straightforward, taking advantage of these rights is not.

Even for intellectual property practitioners, the termination of transfer provisions of the 1976 Copyright Act are a specialized area of law. Sections 203 and 304 of the 1976 Copyright Act and the applicable regulations are detailed and complex, and case law has done little to simplify them. For example, if coauthors entered into a single copyright grant after January 1, 1978, only a majority of those authors or their statutory heirs can effect termination. Before that majority can terminate, the statute requires the grantors or their heirs to determine the proper termination window, a five-year period that may begin either 35 years after the date of execution of the grant at issue, 35 years from the date of publication under the grant, or 40 years from execution of the grant, depending on the circumstances. Even after determining the proper termination window, termination can only be effected after serving proper written notice to the original grantee or its successor in interest during a separate window between two and 10 years before the effective date of termination. Rights holders must therefore consider their termination rights years if not decades in advance.

These complex procedural aspects of Sections 203 and 304 also include an apparent paradox. On one hand, Sections 203 and 304 provide that an author or statutory heir may effect termination “notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant.” The Copyright Act does not define an “agreement to the contrary.” Sections 203 and 304 also provide that “a further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid only if it is made after the effective date of the termination.” Thus, the termination provisions clearly restrict how and when a grantor or his or her heirs may alienate their termination rights.

On the other hand, Sections 203 and 304 provide an exception in which the grantor or his or her heirs may provide a “further grant” to the “original grantee or such grantee’s successor in title, after the notice of termination has been served.” The legislative history of the termination provisions goes even further, stating that Congress did not intend to “prevent the parties to a transfer or license from voluntarily agreeing at any time to terminate an existing grant and negotiating a new one.” Under the plain language of the statute, a grantor can contract his or her termination rights away before he or she ever has the opportunity to exercise those rights, but only by regranting those rights to the original grantee. This exclusive right of renegotiation—and, specifically, when and how an author or heir can contract away termination rights to the original grantee—has been the subject of two published Ninth Circuit decisions.

Until the law is clarified, agreements between an author or heir and an original grantee should either expressly extinguish prior grants and regrant the underlying copyright or expressly reserve the grantor or heir’s termination rights.


In 1983, after the deaths of Milne and his wife, the Pooh works were in their notice and termination windows. Milne’s only son, Christopher Robin Milne, entered into an agreement with Disney and SSI in which Christopher agreed not to seek termination, expressly revoked his father’s prior grants, and expressly regranted his rights in the Pooh works to SSI, which, in turn, regranted many of its rights to Disney. The 1983 contract was far more lucrative for Christopher than any prior grant. He died in 1996, and his daughter Clare was his beneficiary.

In 1998, Congress amended Section 304 by way of the Copyright Term Extension Act (CTEA) and created a second window for certain authors to terminate pre-1978 grants. In 2002, Clare attempted to cut SSI out of the equation by serving SSI with a notice of termination of the pre-1978 grants and simultaneously assigning her termination rights to Disney. The Ninth Circuit reversed a district court’s finding that Clare’s
terminations were valid, holding that her termination notices were invalid for two reasons. First, the Ninth Circuit affirmed that the CTEA only allows for termination of pre-1978 grants. The court held that because Christopher had expressly extinguished any pre-1978 grants by way of the 1983 agreement, there were no remaining pre-1978 grants for Clare to terminate.

Second, the court held that the 1983 agreement was valid and not an “agreement to the contrary” because Christopher revoked the prior grants and regranted his rights with full knowledge of his termination rights and, in the process, secured a better deal. The court concluded that Christopher used his termination rights as a bargaining chip in a renegotiation with the original grantee as contemplated by Section 304, which the Ninth Circuit interpreted as permitting an author or heir to give up his or her termination rights before serving a termination notice.

**Classic Media, Inc. v. Mewborn**

The Ninth Circuit returned to the same topic in *Classic Media, Inc. v. Mewborn,* a case concerning the intellectual property rights to the fictional dog Lassie. In this case, author Eric Knight granted the pertinent television rights to Classic Media’s predecessor in interest, LTI, before his death in 1943. Knight’s heirs—a wife and three daughters—filed their copyright renewals under the 1909 Copyright Act between 1965 and 1967. In 1976, Knight’s daughter Winifred Mewborn entered into an agreement selling, assigning, and granting her 25 percent share of the motion picture, television, and radio rights in Lassie to LTI. Mewborn’s two sisters assigned the same rights, plus other ancillary rights, to LTI in 1978. In order to conform the sisters’ differing grants, Mewborn entered into another agreement with LTI in 1978 again assigning her share of the motion picture, television, and radio rights and assigning the same ancillary rights that her sisters had assigned. Mewborn’s 1978 agreement explicitly stated that her grant was “in addition to” the 1976 grant. In 1996, Mewborn served a notice purporting to terminate the 1976 agreement. The district court found that Mewborn’s termination was invalid because she intended to relinquish and impliedly waived her termination right by way of the 1978 agreement.

The Ninth Circuit reversed. The court held that the 1978 agreement was an agreement to the contrary because, as opposed to Christopher Milne, Mewborn did not have the right to serve a termination notice at the time she entered into that agreement and therefore had nothing with which to bargain. The court also found that the 1978 agreement did not reference Mewborn’s termination rights and there was no other evidence to support Mewborn’s intent to relinquish those rights in the 1978 agreement. Noting that Mewborn signed the 1978 agreement as is, without the advice of counsel, the court found that Mewborn had merely assigned her previously unassigned ancillary rights to LTI by way of the 1978 agreement. In this decision, the Ninth Circuit appears to require two preconditions for an author or heir to validly assign his or her termination rights to the original grantee. One is that the copyright be within the statutory notice period at the time of the agreement, and the second is that there must be evidence that the author or heir contemplated assigning his or her termination right.

**The Superman Case**

If the Lassie decision brought some semblance of order to copyright terminations, it appears that the Ninth Circuit’s recent decision in *DC Comics v. Pacific Pictures Corporation* may have restored chaos. The unpublished case, referred to as the Superman decision, concerns a 1992 agreement in which DC Comics agreed to provide lifetime pensions to the siblings of the deceased co-creator of Superman, Joseph Shuster. The 1992 agreement, which is governed by New York law, provides that it “fully settles all claims regarding any copyrights, trademarks, or other property right in any and all work created in whole or in part by...Joseph Shuster, and further now grants to DC any such rights.” In a majority opinion, the Ninth Circuit affirmed the district court’s judgment invalidating the termination notice of the Shuster heirs and held that, as a matter of New York law, the 1992 agreement constituted a revocation and regrant of the copyright in Superman.

In doing so, the Ninth Circuit rejected the argument that federal law imposes certain additional requirements on a revocation and regrant, such as that it must be in express terms. Relying on its finding that the 1992 agreement was a regrant under New York law, the court went on to hold that the 1992 agreement was not an agreement to the contrary because “it would permit the copyright termination provision to extinguish a post-1977 copyright assignment.” The majority failed to recognize that prior to the passage of the CTEA in 1998, only a surviving child or spouse could terminate. Thus, as noted in the dissent, it is unclear how Shuster’s siblings—who arguably had no termination rights prior to 1998—could have assigned those rights by way of the 1992 agreement.

The Superman decision should be viewed...
as a cautionary tale for attorneys. The relationship between the author of a valuable copyright and an original grantee often lasts for decades and may involve numerous agreements that may span more than one generation. An attorney drafting an agreement involving a copyright should always consider the agreement’s effect on termination rights. If one party to the agreement is an original grantee, the attorneys should consider whether the counterparty is a statutory heir or potential statutory heir. The Superman decision raises the possibility that potential statutory heirs, such as an author’s trustee, may be capable of assigning prospective termination rights before they stand to inherit those rights.

When a transaction involves an original grantee and a statutory heir or potential statutory heir, another question is what state’s law will govern the contract. After the Superman decision, it appears that state contract law may become increasingly important in determining whether an agreement that does not expressly address termination rights nonetheless constitutes a revocation and regrant, thereby extinguishing the termination right.

The one clear lesson from the Superman decision is that any new agreement between an author or heir and original grantee should expressly address termination rights. As the Superman decision demonstrates, courts can be unpredictable in the manner in which they interpret the impact of agreements that do not expressly address such rights. Accordingly, until the law is clarified, agreements between an author or heir and an original grantee should either expressly extinguish prior grants and regrant the underlying copyright or expressly reserve the grantor or heir’s termination rights.

1 See 37 C.F.R. §201.10.
2 If the author is no longer alive when the termination right vests, 17 U.S.C. §§203 and 304 mandate the author’s heirs who stand to inherit his or her termination rights: the author’s widow or widower, children, or grandchildren—or, absent any surviving spouse or issue—the author’s executor, administrator, personal representative, or trustee.
4 Milne ex rel. Coyne v. Stephen Slesinger, Inc., 430 F. 3d 1036 (9th Cir. 2005).
5 Classic Media, Inc. v. Mewborn, 532 F. 3d 978 (9th Cir. 2008).
6 DC Comics v. Pacific Pictures Corp., No. 12-57245 (9th Cir. Nov. 21, 2013).
7 Id. at 5.
8 The Superman decision, id., is the latest in a series concerning the copyright in Superman. In that decision and a prior one—In re Pacific Pictures Corp., 679 F. 3d 1121 (9th Cir. 2012)—the Ninth Circuit expressed concern as to the ability of a joint venture between the heirs and a corporation headed by their counsel to exploit any Superman works recovered by way of the termination notices at issue.
THE STRUGGLING ARTIST HAS NEVER had an organized lobby in Congress, a fact reflected in the Internal Revenue Code’s different treatment of artists and art collectors. While based in logic, certain code provisions can leave artists feeling jilted, especially when compared to the tax treatment of their patrons, the art collectors. Lawyers who represent artists or collectors should therefore be aware of how tax rules affect artists and collectors differently.

For example, one should hesitate before accepting a gift of art from an artist. Owners of art are treated differently for income tax purposes when art is sold compared to when art is donated to charity. When a work of art is sold, it can be classified as either ordinary income property or capital gain collectible property. If a work of art is held by a collector for more than one year, it is usually a capital gain collectible property, gain on the sale of which is subject to tax at a maximum federal rate of 31.8 percent (28 percent plus the 3.8 percent net investment income tax that was phased in beginning in 2013). Gain from the sale of art that is ordinary income property is taxed at a maximum federal rate of 39.6 percent. A work of art is ordinary income property in four circumstances:

- It has been owned for one year or less at the time of the sale,
- It is part of the inventory of an art dealer,
- It was created by the seller, or
- It was received by the seller as a gift from the creator.

Should the recipient of a work of art gifted by the donor or creator later try to sell the work, the seller will pay tax on the gain at higher, ordinary income rates. How is this gain calculated? At the most basic level, gain is the difference between the sales price of the work of art and the seller’s basis in the work. Like the federal tax rates, basis is also determined differently for collectors and artists. The collector’s basis is the purchase price; the artist’s basis is the cost of the materials used to create the work of art. Paint brushes can be expensive, but their cost would get allocated over multiple paintings sold during their useful life. Unless one is sculpting out of gold, an artist’s basis in a creation is likely to be insignificant. Until a work of art is sold or the owner dies, that almost-zero basis stays with the work.

For example, imagine that a contemporary Edvard Munch paints Scream with canvas, brushes, and paints costing $150 and sells the painting to a billionaire some time later for $120 million. The artist’s tax liability is determined as follows: $120 million sale price less $150 cost basis equals $119,999,850. Applying the 39.6 percent ordinary income tax rate results in a tax liability of approximately $49.5 million.

If instead the painter had given Scream to his sister, Sophie, shortly after he painted it, and Sophie sold the work several years later for $120 million, she would also have to pay federal ordinary income taxes of about $49.5 million. The result is different, however, if Edvard had sold the work to his sister for its fair market value immediately after he painted it. In this scenario, he charges her only the cost of his materials, $150. When Sophie sells the work several years later for $120 million, she still has a basis of $150 (her purchase price), so the amount of her gain is the same, but her federal tax rate is 31.8 percent. Her tax liability is just over $38 million—a tax savings of over $11 million in comparison to having received the painting as a gift from the artist.

This example is extreme, but it shows why it is better to buy art than to receive it as a gift. When the recipient later sells the work, he or she will be taxed at the collectible capital gain tax rate and not the higher ordinary income tax rate.

Donations to Charities

There is almost no income tax incentive for an artist to donate his or her works to charity during the artist’s life. An artist’s charitable contribution deduction is limited to his or her basis in the work of art—the cost of materials. So the artist will receive little to no income tax benefit from the contribution. However, if the artist makes the donation at death, the artist’s estate will receive an estate tax charitable contribution deduction of 100 percent of the full fair market value of...
the work. Nevertheless, several nontax reasons may exist for giving an artist's works to a museum during life. If the museum will display the artist's work, the public exposure can increase the artist's popularity with art critics, collectors, and the general public, thereby increasing the value of the artist's work overall.

A recipient of a gift of art from an artist is subject to the same charitable contribution rules as the artist. If Sophie from the example received *Scream* as a gift from its creator, her charitable income tax deduction would also be limited to $150—the cost of her brother's materials. On the other hand, if the billionaire donated the work to a museum immediately after purchasing *Scream* for $120 million, the billionaire would receive a charitable contribution deduction up to the full fair market value of the work, which should be the $120 million purchase price.

When a collector makes a charitable contribution of a work of art, the collector is entitled to deduct up to 30 percent of his or her adjusted gross income (AGI). Alternatively, a collector can elect to deduct up to 50 percent of his or her AGI if his or her deduction is limited to the basis in the work rather than the work's fair market value. Immediately after a purchase would be the perfect time to make the 50 percent deduction election, as the collector's basis and fair market value should be the same. This may be an unusual scenario, however, as one wonders why a collector would want to donate a recently purchased work to charity. The collector could have second thoughts, or the work could not fit its intended use. Contributions of cash to charity are also eligible for the 50 percent of AGI limitation, so one would not likely buy a work of art and then donate it for the sole purpose of increasing the percentage limitation. Instead, one would simply donate cash to the charity.

An ideal time to make the 50 percent deduction election would be when the beneficiary of an estate receives a work of art on account of a person's death. All assets get an adjustment to basis at death that resets the basis to the asset's fair market value. If an artist has charitable inclinations and is married, the artist could leave his or her collection to the surviving spouse, and the surviving spouse could then make the charitable donation and deduct 50 percent of his or her AGI, because the basis of the collection would equal its fair market value due to the basis adjustment at the artist's death.

Charitable contribution deduction rules apply when the work of art is donated to a public charity or an operating foundation only if the donee organization uses the work in a manner related to its exempt purpose. A use is presumed to be related to the charitable purpose if art is donated to a museum that generally displays art of a similar type. When the use is either not related, or when the charity is a private foundation (as opposed to a public charity or an operating foundation), the charitable contribution deduction will be limited to the donor's basis in the work, regardless of whether the donor is a collector or an artist. Donations of art to a private foundation are also capped at lower levels—20 percent of the collector's AGI and 30 percent of the artist's AGI (as opposed to 30 percent and 50 percent caps, respectively, for deductions to a public charity for a related use).

A public charity is an organization that is primarily funded by the general public, such as a university, hospital, museum, or other organization that actively conducts its charitable purpose. An operating foundation also actively conducts its charitable purpose, but it receives most of its funding from one family. The Crystal Bridges Museum of American Art in Bentonville, Arkansas, is a prime example of an operating foundation that engages in activities in furtherance of its charitable purpose, having been funded with three endowments from the Walton family totaling $800 million. The world-class art museum offers free admission to the public.

None of these complicated rules about related use, type of organization, or varying percentage limitations for creators and collectors applies to the contribution of art to a charity at death. The estates of both artists and collectors are able to deduct 100 percent of the fair market value of the property contributed to a charitable organization at death, for any type of charity, whether it is a public charity, an operating foundation, or a private foundation. Many high-profile artists and collectors, such as Andy Warhol, Robert Rauschenberg, Robert Motherwell, and Frederick Weisman left their art collection to a private foundation at death. Doing so allows the art to be kept together as a collection and avoids the need for a fire sale of the art at death in order to raise funds to pay estate taxes. The foundation can hire staff to archive the works, create catalogues raisonne, and continue to promote the artist or the collection after death by arranging retrospectives or exhibitions with museums.

**Copyright**

When an artist creates a work of art, he or she also creates a copyright in the work. The U.S. copyright laws treat a work of art and the related copyright as two separate property interests, but our tax laws have always treated works of art and the copyrights therein as two interests in the same property. This inconsistency makes it impossible to obtain a lifetime charitable income tax deduction for a donation of art to a charity if the copyright...
is not also specifically transferred with the work. The Code disallows the charitable contribution income tax deduction for gifts of partial interests in property.\textsuperscript{13}

For yet another reason to wait until death to donate an artist's works to charity, the estate tax rules were changed in 1981 to treat the work of art and the copyright as two separate property interests. Therefore, a charitable contribution deduction from the estate tax is available in certain situations if the artist gives a work of art to charity at death but leaves the copyright to the surviving spouse, children, or other heirs. To receive a charitable contribution deduction for the art given to charity when the charity does not also receive the copyright, the art must be given to a public charity or operating foundation, and the use of the property by the organization must be related to its exempt purpose.\textsuperscript{14}

These are the same requirements that allow a collector to deduct the full fair market value of a charitable contribution of art. If the work of art is donated without the copyright to a private foundation or to a charity that cannot use the work of art in a manner related to its exempt purpose, the estate tax charitable contribution deduction for the value of the work of art is denied.

So, Edvard could leave \textit{Scream} to the Getty Foundation at his death (which would display the work for the benefit of the general public), leave the copyright to his sister Sophie, and receive an estate tax charitable deduction of $120 million—the fair market value of \textit{Scream}. Each time the Getty Center store sold a book, postcard, mug, or T-shirt with the \textit{Scream} image, Sophie would receive a royalty. On the other hand, if Edvard left \textit{Scream} to the hospice that cared for him in his dying days and the copyright to Sophie, his estate may have to pay a 40 percent estate tax on the value of \textit{Scream} (a liability of $48 million) if it is determined that the painting was not related to the charitable purpose of the hospice. No estate tax charitable deduction would be allowed. The hospice, however, could take the position that the art on its walls is therapeutic and helpful to its patients, so that the relatedness test would be satisfied. This position is frequently taken by hospitals, which accounts for much of the art on their walls. Whether the IRS would accept the therapeutic-use argument in the case of a hospice rather than a hospital is unclear.

Artists need to be careful when specifically bequeathing works of art to charity in their wills. A bequest of “my painting entitled ‘XYZ’ to the ABC Church; all the rest and residue of my property to my children” would probably result in the copyright’s passing with the residue under state law. If the ABC Church cannot satisfy the related-use test, the estate tax charitable contribution is
denied. The safest course of action is to specifically include the copyright in the bequest unless the artist has confirmed with the charity in advance that its use of the art will be related to its exempt purpose. Collectors do not typically own the copyrights in the works of art they have purchased, so these rules usually apply only to artists.

Like-Kind Exchanges

In certain cases, it may be possible for an artist or art collector to do a tax-free exchange of art under Section 1031. There are several hurdles that must be overcome to qualify for like-kind exchange treatment. First, the owner must qualify as an investor and not as a dealer or collector (collectors buy and hold the art for their own appreciation, not for the appreciation in the value of the art). Both pieces of art must be held for investment and must be of “like kind.” For example, an exchange of an oil painting for a sculpture or a photograph would not constitute a like-kind exchange. In addition, the transaction needs to be accomplished through a qualified intermediary, and the other technical rules for these exchanges must be properly followed, such as filing Form 8824.

If the requirements for a like-kind exchange are satisfied, then the owner does not recognize gain at the time of the exchange unless cash is received in an adjustment to properly reflect the respective fair market values of the art. Furthermore, the tax basis of the old art becomes the tax basis of the new art.

When an artist or art collector sells a piece of art, generally sales tax is collected and paid to the appropriate state tax agency. There are exceptions for a sale to a buyer who has a valid resale permit, for occasional sales (under California’s sales tax rules, this means selling one or two pieces of art a year), or if the art is shipped out of California under a contract requiring that the art be shipped out of state. California aggressively seeks to impose and collect its sales tax. California’s Resale Royalty Act requires the payment of a 5 percent royalty to certain artists when their works are sold. If the seller is a California resident or if the sale occurs in California, the royalty may be due. There are several pending court cases on the validity of this act.

The Auction House

When artists or collectors choose to leave their art to their family and not to charity, one concern is often the lack of liquid assets to pay any estate tax that results from the inclusion of the art collection in the taxable estate. For an artist with an estate under the $5 million, inflation-adjusted federal estate tax exemption, this is not a concern. But for the successful artist or wealthy collector, estate tax will often be assessed on the art left to fami-
ily members. Careful planning must be undertaken to avoid a grossly unfair result if the estate sells the works after the artist’s or collector’s death.

If the artist’s or collector’s estate sells the works through an auction house or an art broker, it will pay the auction house or art broker a commission on the sale of the works. Often, the commission can be as high as 20 to 35 percent of the sale price. If a work sells for $100,000, for example, the estate will receive only $65,000 to $80,000. Also, if the work of art is sold during the period of estate administration, the sales price usually is deemed to be the work’s fair market value. At a 40 percent rate, this results in an estate tax of $40,000. If the family pocketed only $65,000 from the sale and owes a tax of $40,000, then they will receive only $25,000 on the sale of a $100,000 painting. This sad result can be avoided with proper planning.

The expenses of the sale of estate assets, including broker’s commissions, are only deductible if the estate assets must be sold in order to pay the decedent’s debts, taxes (including estate taxes), or to effect distributions.17 If the decedent had other liquid assets that allow for the art’s not being sold in order to pay the estate tax, no deduction will be permitted for the broker’s commissions. If, however, the artist’s or collector’s will mandates that the art be sold and the proceeds distributed to the family, the expenses should be deductible, as the sale is necessary to effect the distribution of the estate in accordance with the will. If the will of the decedent in the example above had included this instruction, the family would have owed the 40 percent estate tax on only the $65,000 pocketed after the sale, walking away with $39,000 instead of $25,000.

An even better result, however, would be to find a broker who would be willing to serve as the art executor of the estate. This broker would receive commissions by way of an executor’s fee. The executor’s fee is always deductible as an expense of administration, regardless of whether the will mandates that the art be sold or not. In California, an executor is entitled to a statutory fee ranging from 4 percent (for small estates) down to .5 percent (for large estates) of the estate assets. This fee would be paid to the broker in lieu of commissions. The broker could serve as executor along with other family members who would not take a commission.

The tax rules applicable to artists and art collectors can be surprising and have divergent results depending on whether the taxpayer created, purchased, or received the art as a gift. Understanding these rules can help mitigate some of the feelings of unfairness that may be experienced by the artist or the gift recipient and can ensure the best possible result for the heirs and the art community.

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1 I.R.C. §§1(h)(4), 1411(a)(1).
2 I.R.C. §§31(a)(e).
4 Edvard Munch’s Scream was auctioned for almost $120 million. Kelly Crow, An Art Mystery Solved: Mogul Is Scream Buyer: Financier Leon Black Paid Nearly $120 Million for Munch Pastel at May Auction, WALL STREET J. (July 11, 2012).
5 I.R.C. §170(e)(1)(A); Treas. Reg. §1.170A-4(b)(1) defines “ordinary income property” to include, for example, “property held by the donor primarily for sale to customers in the ordinary course of his trade or business, a work of art created by the donor, a manuscript prepared by the donor, and letters and memorandum prepared by or for the donor.” This is consistent with the definition of property denied characterization as a capital asset under I.R.C. §1221(a)(3).
8 I.R.C. §1014(a).
9 I.R.C. §170(e)(3).
11 I.R.C. §2055.
13 I.R.C. §170(f)(2), (3).
14 I.R.C. §2055(e)(4).
15 I.R.C. §1031(a)(1).
16 I.R.C. §2055(e)(3).
At the crossroads of Hollywood Boulevard and Madison Avenue, a variety of legal and business issues must be considered and addressed in order to set the stage for a successful brand integration deal. In the historical television network model, the advertiser-brand indirectly finances the content by purchasing television commercial spots on a television network, and the network uses the revenues from the commercial spots to acquire content from studios or independent producers with the expectation of making a profit on the margins between the cost of the content and the value of the advertising.

In the new world of greatly expanded channels of distribution, more opportunities are open for advertiser brands to deliver their messages to particular demographics. Opportunities exist for brand integration into the programming, for characters in the program to represent or use a brand, for brands to be featured on the desks of judges, for brands to be the prizes that are sought by competitors, or for brands to otherwise appear within the story of the show. Integrations take place in all forms of audiovisual content, including scripted television series, reality series, talk shows, games shows, movies of the week, music videos, theatrical motion pictures, video games, Web-specific digital content, viral videos, and content for in-store use. Among other benefits, when the brand is integrated into the content (as opposed to appearing as a commercial), it is more difficult for the viewer to fast forward through the message.

No simple answer exists to the question of how brand integration deals happen. Currently, countless independent reality producers and production companies are attempting to identify the perfect combination of business ties, compelling characters, and interesting stories to create the next big hit. Likewise, brand and advertising agencies are looking for new opportunities to establish or deliver brand messaging and to identify suitable content for the target demographic. Sometimes the studio or producer of an existing, established series looks to generate additional dollars for the production budget by selling integrations into their series. Also, it is not uncommon for network media sales executives to parlay the value of television commercials or aggregate specific media into the programming as a component of the media package that the brand may purchase. The prominent advertising agencies recognize the value of a successful brand integration and are now developing specific content, including television series, around brands.

At first glance, brand integration opportunities appear to deliver fantastic value, costing far less than the old model of paying for production of a commercial and then paying additional amounts to have it exhibited. The first glance deserves a second look, however, because successful brand integration is not that easy. Risks can be managed, but...
they should be carefully considered and addressed before embarking on a brand integration adventure.

Some issues are of equal concern to household names and to start-ups striving for brand recognition. With others, the difference in approach and tolerance for risk varies between the established national public company and the smaller single-owner business. The deals increase in complexity when the integration includes more than just the brand and the content, and negotiations among the brand, the producer, and the distributor (i.e., the network, in the case of television) can be very complex. No two situations are the same, leverage can vary dramatically from deal to deal, and the unique brand- or series-specific issues require that the various representatives think about each variable and address all legal and business issues during the deal negotiations (and often after). A prudent lawyer or executive should consider every possible factor in determining whether a proposed brand integration opportunity is right for the client or should be avoided.

For example, a successful brand integration may showcase the brand, but it is not a commercial. If a commercial fails, the brand can simply elect not to exhibit the commercial. On the other hand, if the content featuring the integration does not favorably depict the brand, the brand will have little to no ability to stop delivery of the content. In an unscripted show, for example, the brand's products could malfunction or otherwise appear in a manner detrimental to the brand. While steps can be taken to reduce the likelihood of a negative depiction (e.g., limit involvement to scripted projects), brand executives who want to realize the value of a successful integration may be willing to take the risk.

Before taking the risk, however, executives should understand that they will not have sole control over how the brand is depicted or what role the brand will play in the content. With scripted content, the brand may simply ask to read each teleplay or screenplay to determine how the brand is being depicted and whether there is any component of the content that is objectionable to the brand or inconsistent with its message. However, in reality programs or video games, this issue may not be as easy to address because of the uncertainty of what will result after turning the cameras on or making the video game. In situations in which there is no way to ensure that the brand's product is going to be depicted in a positive light or that the product will function properly when being filmed, the key is to negotiate basic parameters regarding the use of the products within the content and to be as involved as possible in production. Occasionally, the studio producing the content is secretive about the

screenplay (for example, the next installment of a major superhero franchise). The studio will only provide the brand with a basic description of how the product is going to be depicted, and it is up to the brand to determine whether it is comfortable enough with what the studio or director is saying about how the brand will be used.

The most successful integration permits the brand to deliver a specific message, showcases a new product or service, and independently activates promotions. Sophisticated brands seek to engage key talent from the content in separate promotional appearances or the production of commercials or additional content specific to the brand. Sometimes, success is found in a jointly funded copromotional campaign, promoting the content and the brand. For example, an auto manufacturer’s new line of vehicles is depicted in a hot new video game and the video game publisher and the auto manufacturer coproduce a series of television commercials around the launch of the video game. This additional content drives mutually beneficial brand awareness for the automobile brand and the content. These types of copromotional campaigns can be very successful, but they often require significant resources from the brand for activation of the campaign and the purchase of media.

The monetary aspects of brand integration deals vary considerably. With some deals, the brand pays for all or some of the production costs. Often the brand provides some in-kind consideration, such as free vehicles, accommodations, or use of the branded products, including as prizes for contest winners. In other situations, producers and networks make the argument that the content’s contribution to the brand is so valuable that they want an equity interest or participation in sales of branded products. The brand may even be considered so essential that the brand receives a fee for involvement in the content. Depending upon the level of integration into the program, it is becoming more prevalent that the networks seek a concurrent media buy. In other words, the brand may be required to purchase advertising on the network. This dynamic occurs more frequently when the brand is seeking the integration or paying a portion of the production cost. The ad sales teams at networks receive commissions and so are likely to want to make sure that they are being compensated in a situation in which money that might otherwise have gone to purchasing advertising is instead going to cover production costs. From the brand’s point of view, a brand that purchases media during the exhibition of the content is more likely to be able to protect against ambush marketing during the content. No less important, the greater the investment in the success of the program and the relationship—often evaluated by financial contribution—the greater the likelihood of being able to seek “make goods” if things do not go as planned or if the ratings for the program are lower than anticipated. “Make goods” are additional benefits accorded to a brand or advertiser when the integration does not meet minimum expectations or the ratings for the content are materially below the values used to calculate the fees paid by the brand for the integration or commercial advertising inventory. Make goods often come in the form of additional integration of the brand in future episodes or content or additional exhibition of the brand’s commercials.

While concurrent media buys are fairly common, other agreements also occur. For example, a brand may become a producer or coproducer of the content and receive a fee, ownership, or potential backend participation. Brands even occasionally finance all or a majority of the costs of developing or producing the content rather than just paying an integration fee or purchasing media. When the brand is a financier, it can seek the protections typically accorded to financiers. These range from repayment of financial contributions, participation in revenues derived from exploitation, and ownership or attachment to subsequent productions. Attorneys for brands should remember that without a proper agreement, a successful initial release (e.g., a motion picture or the first season of a series) in which the brand plays a key role may be followed by a second release in which the producer or network elects not to be affiliated with the brand, or even elects to be affiliated with a competitor of the brand.

Workplace Production

When cameras are permitted in the brand’s workplace as a component of the integration, it can be burdensome and create issues with the brand’s employees. A television episode may only be 22 minutes long, but the filming that goes into production can take days, if not weeks, and can be very intrusive in the workplace. A workplace is not necessarily as interesting on film as it is in real life, and requests are often made to enhance the workplace for the filming. Often, art such as posters may be removed to avoid rights claims, and additional lighting is required. Customers may be asked to sign releases when they visit the brand’s premises. The brand has to be prepared for the disruption of a production team’s filming employees for weeks and weeks, with multiple crews maneuvering to capture the required footage. It is, therefore, very important to have a comprehensive understanding of the producer’s expected access requirements and production-related accommodations before completing a deal.
In some situations, the brand’s employees are not deemed to be ideal for television. Producers may request that the brand hire new employees who may be more attractive for the television audience. The brand’s regular employees can prove problematic. Each employee represents the brand, and the things an employee says or does may not have positive or negative effects on the success of the brand, making it all the more important to screen the employees who will be involved in the content to assure that selected employees obtain adequate media training before the cameras start recording.

Throughout the production process, the brand should foster close relationships with the producer in order to mitigate production issues. What may be best for the program may not be best for the brand, and vice versa. Except in special circumstances, brands should not expect final approval over the content. A good relationship with the producer goes a long way toward avoiding situations in which a network refuses to eliminate a particular storyline or scene that could be problematic for the brand. For example, it can be good entertainment if a product malfunction or employee represents the brand, and the things an employee says or does may not be best for the brand, and vice versa.

Negotiating the Deal

Regardless of the level of sophistication of the brand and its executives, the value of the brand, and how much the producer or financing network desires to include the brand within the content, brands can take certain precautions during negotiations to protect the brand. In a brand integration deal, the brand accords the producer and network the right to depict the brand in the content. The producer or network will control the exploitation of the content pursuant to a very broad license. It is not uncommon for brands to seek reasonable limitations on the use of the brand and to block footage depicting the brand in copromotions with third-party brands, certain merchandise, or in any programs other than the content in which the footage was filmed.

Additionally, brands should determine if the integration agreement contains minimum obligations regarding the nature of the depiction of the brand in the content. First, brands should be cautious when considering integration into content that does not have guaranteed distribution. Even with guaranteed distribution, it is a mistake to think that because the brand is permitting a producer to shoot at the brand’s facilities, they will appear in the final content. The brand may expect that when one of its employees appears on screen, a graphic will identify that person (e.g., John Smith, VP of Customer Relations at Brand). However, without a contractual obligation to depict the brand for a certain amount of time, or that there will be graphic identification or voice-over recognition of the brand during the content, the producer may not include the shots, graphics, or audio references that deliver value to the brand. In situations in which the brand has a significant amount of leverage or is paying for the integration, minimum depiction requirements and even potentially minimum protections regarding the time and date of exhibition of the content should be set forth as obligations or as conditions to payment of any integration fee.

Networks and producers will sometimes require strict confidentiality agreements in connection with the brand integration deal. For example, the success or failure of contestant-based reality programming is maintaining secrecy over who wins, who gets a rose, or who gets home until the initial public exhibition of the episodes. It may be weeks or months between the completion and exhibition of an episode. As a result, the networks and producers require strict confidentiality obligations from anyone who is involved in the production, and this includes the brands involved in providing benefits or services in connection with the content. As a brand executing an integration agreement, internal procedures must be established to avoid the disclosure of confidential information, as even inadvertent disclosures can result in damage claims in the millions.

To ensure the brand gets the most from the integration arrangement, a brand may want to prohibit the depiction of a competitor in the content. If a brand’s integration deal is for one episode, it is unlikely that the brand will have the leverage to demand categoric exclusivity for the entire series. For example, episode one of a series could feature the brand’s new vehicle extensively, and the brand may be able to negotiate that no other automobile brands will be prominently featured in that episode or that no other auto brands can purchase advertising during the episode. Episode two, however, could be home for a new integration deal with a competitive automobile brand. This can be acceptable. However, the owner of a high-end sushi restaurant that is the inspiration for a new series called The Sushi Samurai may not countenance other sushi chefs or restaurants in the same episode, season, or subsequent seasons, because the affiliation between the brand and the series is so inextricably linked that an association with another sushi restaurant could be detrimental to the brand. Likewise, if the brand is making a real contribution to the costs of production, it is reasonable to seek protections against the integration of (or even the mention or depiction of) competitors in the same content.

There also may be implications for the brand if competitors are allowed to advertise during the content. A brand that makes a significant contribution to the series (e.g., through a media buy, contribution to production financing, or extensive access to the company and its employees) is often able to obtain protections from the producer and the network that the network will not exhibit competitor advertising during the program. While the definition of “competitor” or “categoric exclusivity” can be subject to a significant amount of negotiation, it is essential that a brand not make a big investment into a series and leave open the possibility that a brand competitor can engage in ambush marketing during the program. For example, consider an adventure-driven competition series in which an auto manufacturer contributes vehicles for the contestants to drive, pays an integration fee, purchases commercial spots on the network, and agrees to promote the series at its dealerships. In that situation, it would be disastrous for the network to sell a competitive automobile brand advertising during the program. It is therefore essential that the brand negotiate its expectations and exclusions in detail.

When negotiating the integration agreement, a brand should determine whether the agreement will limit the brand’s normal media exposure. The producer or network may seek to limit media exposure of the brand in the weeks or months leading up to the initial exhibition of the content and sometimes for a period thereafter. These types of restrictions may not be consistent with the ongoing customary media strategy for the brand or may be inconsistent with the brand’s expectations in connection with the integration. Sometimes these restrictions can even go as far as to limit or restrict key executives from making appearances in the press or on other television programming during a window around the initial exhibition of the content. It is crucial that the brand fully understand the expectations regarding any restrictions on the brand prior to proceeding forward with the integration.

Finally, a brand should evaluate the opportunity to utilize the content for its own purposes and how to do so. The brand may be able to help copromote the content through its digital platforms, social media, e-mail, and point-of-sale materials. In most brand integration relationships the brand does not own the content. As a result, any use of the content (or even references to it) needs to be made pursuant to a license from the entity that owns the content. The licensed use is likely to be subject to approvals designed to maintain the quality and consistency of message regarding the content. The use also must avoid divulging confidential information
regarding the content. If there are celebrities or actors depicted in the content that the brand desires to license, this can trigger an additional layer of approvals and royalty obligations.

**Little Case Law, but General Guidance**

Brand integration arrangements are relatively new to the legal landscape and, as a result, a dearth of legal precedent exists to guide parties and their representatives. These deals involve a variety of general legal issues that do appear in case law, which in turn can affect agreements.

For example, if the brand’s business involves significant trade secrets or confidential information about customers, careful consideration should be given to the access accorded to the producers of the content. Contracts should address procedures to avoid disclosure of trade secret or confidential information. A florist who handles celebrity weddings may have confidential information regarding a wedding that is subject to a nondisclosure agreement. A medical facility may have HIPPA liability regarding patient information. A security company or advertising agency could have information that should not be broadcast to the world. The brand needs to consider and negotiate appropriate limitations on what can and cannot be recorded or divulged, and the brand should take steps to adequately police this process during production.

If the brand is going to be involved in the production of the content, the brand should make sure that adequate insurance exists for the production. Special insurance policies are available to protect producers. The brand’s general liability insurance policy may or may not cover claims arising out of production (e.g., a fire started by a short in production equipment). Thus, it is prudent to not only confirm coverage with existing carriers but also have the brand added as an additional insured on the policy carried by the producer. It is also common that the brand be added to the producer’s errors and omissions policy.

Further, the brand should understand that in most situations its remedies will be limited by contract. In other words, in the event of a material breach—even one regarding depiction of the brand—it may not be possible to seek any type of injunctive relief as these contracts usually limit the brand’s remedies to monetary damages or make goods.

The brand should also be aware that the law requires disclosures regarding any promotional consideration paid for inclusion of products or services in content exhibited on television. Section 317 of the Communications Act requires that stations broadcast a notice that there is a sponsorship arrangement in connection with television programming when money, services, or other consideration have been provided in exchange for the agreement to include a brand or product in programming. As a result, the brand engaging in a brand integration deal with content that is going to be broadcast should expect to hear a voice-over or see credits stating, “Promotional consideration was provided by Brand.”

Trademark issues can also arise, especially if the content has a title that includes the brand’s trademark. If the content is based on the brand (e.g., a television series about a fashion designer and her company called Hot Fashion) and the producer wants to use the brand in the title of the content (e.g., the series will be titled Hot Fashion), discussions should take place regarding the scope of rights accorded to the producer in connection with the use of the brand’s trademark. While the proposed use of the brand’s name and trademarks in the title of the content might be valuable for the brand, it can create confusion in the marketplace and present a legal puzzle for those drafting the agreement. For example, the producer and network may seek to sell Hot Fashion T-shirts at Target in promotion of the content, but that might not be consistent with the Hot Fashion company’s exclusive distribution arrangement with Neiman Marcus. When this issue arises, the trademark rights accorded to the producer and network should be subject to a carefully crafted license. Similar issues arise in connection with the official Web site for the content, as the brand will want to ensure that consumers seeking the brand’s products or services are not misdirected to the series site when attempting to purchase the brand’s products online.

Traffic is increasing at the intersection of Hollywood and Madison. Ultimately, the quality of the content is the most determinative factor in the success or failure of the integration. If the content is compelling, it is more likely that a greater number of people will view the content and that when it is viewed it will resonate favorably with the viewer. However, it is possible that great content with significant viewership can be considered a failure for the brand. Sometimes even less successful content can still be considered a win for the brand. Addressing the foregoing factors does not guarantee a successful brand integration deal. However, lawyers and executives charged with responsibility for these deals will certainly be better able to sleep at night knowing that they have addressed these issues, matching expectations with obligations and mitigating risk for their clients.

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Copyright Capabilities

Courts continue to be challenged to reconcile the Copyright Act to new technologies

As consumers shift to experiencing television, movies, and other entertainment through Internet-based delivery systems, broadcasters, studios, and other traditional content providers struggle to preserve their intellectual property rights (and income streams) under legal frameworks that were devised in an earlier, less technological environment. The proliferation of new content distribution technologies has also led to an array of new methods to misappropriate works without obtaining permission from the owners of the intellectual property in those works. When old laws are interpreted with respect to technology that was unforeseen when the laws were enacted, how can content producers, distributors, and lawyers understand what is permissible?

Recent litigation continues to demonstrate judicial efforts to reconcile longstanding legal principles with changing technologies. Two areas of acute interest in this conflict between copyright protection and technological innovation are 1) Internet services that allow users to upload and share video clips without permission from copyright owners, and 2) an Internet service that allows its customers to view broadcast television programs over the Internet, even though the program owners did not grant the service provider permission to copy or transmit the programs. The first conflict was addressed under a particular safe harbor provision of the Digital Millennium Copyright Act (DMCA) in Viacom v. YouTube. The second conflict is found in American Broadcasting Companies, Inc. v. Aereo, Inc. The implications of these cases for content owners, potential infringers, and service providers are significant.

In 1998, recognizing that existing copyright law was in need of an update for the...
digital age, Congress passed the DMCA.\(^1\) The act includes Title II, the Online Copyright Infringement Liability Limitation Act,\(^2\) the purpose of which is “to detect and deal with copyright infringements that take place in the digital networked environment.” Rather than rewrite copyright law in its entirety, Congress created safe harbors to exclude liability for certain common activities of service providers.\(^3\) The four safe harbors under Section 512 of the act are for 1) transitory communications, 2) system caching, 3) storage of information on systems or networks at the direction of users, and 4) information location tools.\(^4\) Notably, these safe harbors apply only “if the provider is found to be liable under existing principles of law.”\(^5\)

The third safe harbor deals with information uploaded by users onto systems or networks and is only available if the service provider 1) does not have actual knowledge that the material or an activity using the material on the system or network is infringing, 2) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent, or 3) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material.\(^6\)

Although securing adequate rights and avoiding intellectual property disputes can be a tricky business even under more traditional content delivery models, things get trickier in the case of the many Internet services (such as YouTube, Vimeo, and others) that allow users to upload and share content of their own. In these situations, the safe harbor is important in defending against infringement claims. Although video sharing sites have proven to be remarkably popular, user-uploaded content raises a number of copyright concerns for rights holders.

**Viacom v. YouTube**

The challenges of interpreting the requirements of the safe harbor found in Section 512(c) came to a head in Viacom International, Inc. v. YouTube, Inc.\(^7\) The case, which was merged with a case brought by various film studios, music publishers, and sports leagues, sought substantial damages for the alleged public performance, display, and reproduction of approximately 79,000 clips appearing on YouTube between 2005 and 2008.\(^8\)

In 2010, the U.S. District Court for the Southern District of New York granted summary judgment to YouTube and its parent company Google, finding that YouTube was entitled to safe harbor protection. In reaching this determination, the critical question for the district court was whether the safe harbor’s phrases “actual knowledge that the material or an activity using the material...is infringing” and “facts or circumstances from which infringing activity is apparent” should be construed to mean a general awareness that infringements are widespread and common, or instead to mean actual or constructive knowledge of “specific and identifiable infringements of individual items.”\(^9\) The district court concluded that the latter approach was proper.\(^10\)

Part of the rationale for this decision was that, unlike more statutory schemes, the DMCA places the burden of policing copyright infringement on the copyright owners rather than on the defendant.\(^11\) Thus, the DMCA safe harbors do not condition protection on whether the service provider actively monitors its service or affirmatively seeks facts indicating infringing activity. What matters is what the service provider does after learning about infringing material.\(^12\) The district court concluded that, based on the record on summary judgment, it was uncontroversed that when YouTube was given take-down notices by Viacom and others, it quickly removed the potentially infringing material. As a result, YouTube was thus protected from liability.\(^13\)

The plaintiffs appealed immediately, arguing that if affirmed, the district court’s interpretation of Section 512(c) “would radically transform the functioning of the copyright system and severely impair, if not completely destroy, the value of many copyrighted creations.”\(^14\) Rather than looking to specific instances of actual knowledge of infringement, the plaintiffs argued that under the DMCA, Internet service providers “that not only are aware of pervasive copyright infringement, but actively participate in and profit from it, enjoy no immunity from the copyright laws and may be held to account for their theft of artists’ creations.”\(^15\)

**The Second Circuit’s Opinion**

In April 2012, the Second Circuit issued its unanimous opinion.\(^16\) On the central issue of the requirements of DMCA safe harbor found in Section 512(c)(1)(A), the Second Circuit noted that the act offers two scenarios—one subjective and one objective. The court held that the reference in Section 512(c)(1)(A)(i) to a service provider’s “actual knowledge that the material or an activity using the material on the system or network is infringing,” implicates the defendant’s subjective belief— in other words, liability turns on “whether the provider actually or ‘subjectively’ knew of specific infringement.”\(^17\) On the other hand, under Section 512(c)(1)(A)(ii), which provides a safe harbor for a provider that “in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent,” liability turns on “whether the provider was subjectively aware of facts that would have made the specific infringement ‘objectively’ obvious to a reasonable person.”\(^18\) Thus, the Second Circuit affirmed the lower court’s ruling that “actual knowledge or awareness of facts or circumstances that indicate specific and identifiable instances of infringement will disqualify a service provider from the safe harbor.”\(^19\)

Despite this affirmation of the district court’s interpretation of the law, the Second Circuit concluded that in light of the facts presented, summary judgment was premature. For example, the court acknowledged various internal e-mail messages among YouTube principals that appeared to acknowledge the presence of illegal and infringing content on the site.\(^20\) Based on those messages, a reasonable juror could conclude that YouTube “had actual knowledge of specific infringing activity, or was at least aware of facts or circumstances from which specific infringing activity was apparent.”\(^21\)

The plaintiffs also argued that, regardless of Section 512(c)’s requirements, the evidence showed that YouTube was “willfully blind” to specific infringing activity, a concept from common law.\(^22\) The Second Circuit held that because the DMCA does not abrogate the doctrine of willful blindness, it could be applied, in appropriate circumstances, to establish a defendant’s knowledge or awareness of specific instances of copyright infringement.\(^23\) The court remanded to allow the district court to consider whether YouTube made a “deliberate effort to avoid guilty knowledge” as a matter of common law.\(^24\)

Following remand, YouTube submitted to the district court a list of 63,060 video clips that were at issue in the litigation and that it claimed were never subject to any takedown notices and challenged the plaintiffs to provide evidence of notice sufficient to meet the standards of Section 512(c).\(^25\) Over the objections of the plaintiffs, the district court concluded that it remained their burden to show that YouTube was aware of the specific infringements at issue and that the plaintiffs lacked sufficient evidence to allow a clip-by-clip assessment.\(^26\)

On the issue of willful blindness, the district court similarly concluded that the evidence proffered by the plaintiffs demonstrated, at best, that YouTube was aware that infringing activity was taking place with respect to particular works but not that YouTube knew the specific locations of the infringements.\(^27\) The court concluded that the plaintiffs had not presented evidence of willful blindness as to the specific clips at issue.\(^28\) On these and other remaining issues, the district court granted summary judgment in YouTube’s favor, dismissing the case and
The Los Angeles County Bar Association certifies that this activity has been approved for Minimum Continuing Legal Education credit by the State Bar of California in the amount of 1 hour.

1. DMCA stands for:
   A. Digital Media Communications Act.
   B. Digital Millennium Communications Act.
   C. Digital Millennium Copyright Act.
   D. Digital Media Copyright Act.

2. Congress passed the DMCA in 1998.
   True.
   False.

3. The U.S. Supreme Court addressed safe harbor protection for Internet service providers (ISPs) in Viacom International, Inc. v. YouTube, Inc.
   True.
   False.

4. Title III of the DMCA is the Online Copyright Infringement Liability Limitation Act (OCILLA).
   True.
   False.

5. Which of the following is not one of OCILLA’s safe harbors?
   A. Transitory communications.
   B. System caching.
   C. Storage of information on systems or networks at the direction of users.
   D. Content chosen by the ISP.
   E. Information location tools.

6. In Viacom v. YouTube, the U.S. District Court for the Southern District of New York granted summary judgment to Viacom.
   True.
   False.

7. Viacom v. YouTube places the burden of policing copyright infringement on the copyright owners rather than on ISPs.
   True.
   False.

8. Viacom v. YouTube holds that an ISP’s safe harbor protection depends on whether the ISP actively monitors its service for infringing activity.
   True.
   False.

9. In Viacom v. YouTube, the Second Circuit affirmed that actual knowledge of a specific infringement disqualifies an ISP from safe harbor protection.
   True.
   False.

10. Viacom v. YouTube holds that an ISP may lose safe harbor protection if it deliberately avoids knowledge of infringing activity on its service.
    True.
    False.

11. On remand in Viacom v. YouTube, the district court concluded that it was YouTube’s burden to demonstrate that it was unaware of the specific infringements at issue.
    True.
    False.

12. On remand in Viacom v. YouTube, the district court denied YouTube’s motion for summary judgment.
    True.
    False.

    True.
    False.

14. The central issue in American Broadcasting Companies, Inc. v. Aereo, Inc. (ABC v. Aereo) is whether retransmission of television programming via Web sites constitutes the creation and broadcast of unauthorized derivative works.
    True.
    False.

15. In ABC v. Aereo, the U.S. Supreme Court granted ABC’s petition for certiorari.
    True.
    False.

16. Aereo provides a service that allows subscribers to watch broadcast television programs over the Internet on a pay-per-view basis.
    True.
    False.

17. One of the exclusive rights which the Copyright Act grants to the copyright owner is the right to perform the copyrighted work publicly.
    True.
    False.

18. In ABC v. Aereo, the Second Circuit Court of Appeals ruled that the potential audience for each Aereo transmission is any user who could have accessed the program.
    True.
    False.

19. In ABC v. Aereo, Judge Denny Chin called Aereo’s system a “contrivance, over-engineered in an attempt to avoid... the Copyright Act.”
    True.
    False.

20. Who called for substantial copyright reform in March 2013?
    A. David Nimmer.
    B. The Register of Copyrights.
    C. The Motion Picture Association of America.
    D. Chief Justice John Roberts of the U.S. Supreme Court.
    True.
    False.
In March 2013, Maria A. Pallante, the Register of Copyrights, called for substantial copyright reform, including to the DMCA and the Copyright Act, in testimony before the House Judiciary Committee’s Subcommittee on Courts, Intellectual Property, and the Internet. She called for Congress to draft “the next great copyright act” to address such pressing issues as “reviewing the efficacy of the DMCA” and “updating the framework for cable and satellite transmissions.”

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is a Rube Goldberg-like contrivance, over-engineered in an attempt to avoid the reach of the Copyright Act and to take advantage of a perceived loophole in the law. Even though each subscriber has an individual antenna and a unique copy, Judge Chin reasoned, these are nonetheless public performances. In other words, because Aereo is transmitting television signals to paying strangers, all of its transmissions are to the public, even if intervening devices or processes limit the potential audience of each separate transmission to a single member of the public.

Just as the contours of the DMCA safe harbors continue to bedevil parties and courts struggling to determine if such safe harbors apply to new (and sometimes innovative) services, Aereo makes clear that even the classic exclusive rights (such as the public performance right) in the Copyright Act may require clarification or revision in order to be brought up-to-date with the latest technological practices. In March 2013, Maria A. Pallante, the Register of Copyrights, called for substantial copyright reform, including to the DMCA and the Copyright Act, in testimony before the House Judiciary Committee’s Subcommittee on Courts, Intellectual Property, and the Internet. In her testimony, she called for Congress to draft “the next great copyright act,” which could address such pressing issues as “reviewing the efficacy of the DMCA” and “updating the framework for cable and satellite transmissions.”

Although the Supreme Court’s forthcoming decision in Aereo could bring clarity to the interpretation of the Copyright Act’s public performance right in a more modern day context, more technological change and more uncertainty is inevitable, and it is only a matter of time before new technologies and new online practices bring an entirely new slew of unanticipated legal challenges.
63 (2d Cir. Dec. 7, 2010).
15 Id. at 3-4.
17 Id. at 31.
18 Id.
19 Id. at 32.
20 Id. at 34.
21 Id.
22 Id. at 34-35.
23 Id. at 35.
24 Id. The Second Circuit also remanded as to other ancillary issues in the case. Id. at 36-42.
26 Id. at 31.
27 Id. at 32.
28 Id. at 34.
29 Id. at 35.
30 Id. at 36.
34 Capitol II, 2013 WL 1987225, at *1.
35 Id. at *2.
36 Id. at *3.
37 Id. at *4.
38 See, e.g., UMG Recordings, Inc. v. Shelter Capital Partners LLC, 718 F.3d 1006, 1011 (9th Cir. 2013) (relying on Viacom in concluding that Veoh, which enables users to share videos, was entitled to safe harbor defense under §512(c)); Disney Enters., Inc. v. Hotfile Corp., No. 11-20427, 2013 WL 6336286, at *1 (S.D. Fla. Sept. 20, 2013) (relying on Viacom in concluding that Hotfile, a repository for numerous pirated copyrighted works, was not entitled to any safe harbor protection under §512(c)); Columbia Pictures Indus., Inc. v. Fung, 710 F. 3d 1020, 1023-24 (9th Cir. 2013) (holding that defendant, who operated various sites that allowed third parties to download infringing copies of copyrighted works, was not entitled to DMCA protection).
41 Aereo, No. 13-461.
43 Id. at 682-83.
45 WNET, Thirteen, 712 F. 3d at 696.
48 WNET, Thirteen, 712 F. 3d at 686.
49 Cartoon Network v. CSC Holdings, 536 F. 3d 121 (2d Cir. 2008).
50 WNET, Thirteen, 712 F. 3d at 690.
51 Id.
52 Id. at 697.
53 Id.
54 Id. at 699.
56 Id.
When the use of trademarked products in film and television programs does not create consumer confusion, Lanham Act claims are likely to fail

In the film *Flight*, released in 2012, Denzel Washington played an alcoholic pilot who crashes a passenger plane after engaging in a night of debauchery, including excessive consumption of drugs and alcohol. After surviving the crash, Washington’s character falls into an alcohol-fueled tailspin and handles a case of Budweiser and numerous other alcoholic beverages throughout the film. Anheuser-Busch and other alcohol distributors requested that the film studio remove or obscure their logos, marks, and other branding. However, the studio’s use of the marks in the film was consistent with and permitted pursuant to recently developed case law concerning these issues. Accordingly, the studio had no obligation to remove or obscure the logos, marks, or other branding.

Nevertheless, there are exceptions to this rule, and litigation may arise when a film or television program features a product or trademark without the owner’s authorization. The typical claims asserted in this context are federal claims under the Lanham Act for trademark infringement, unfair competition, and dilution.
petition, and trademark dilution. In general, the plaintiff alleges that use of its product in the entertainment program confuses the consumer to believe, erroneously, that the plaintiff sponsored or is affiliated with the project, and such use harms the mark itself. Such claims rarely are successful. As a fundamental matter, the appearance of products in entertainment programs is commonplace, and courts have routinely held that no such consumer confusion exists. Without the ability to establish consumer confusion—the core of trademark and unfair competition law—the claims fail. Similarly, courts have rejected dilution claims by holding that the unauthorized use of the mark in entertainment programs does not tarnish or harm the reputation of the mark, or harm the ability of the mark to serve as an identifier of the product.

Even if the plaintiff can establish potential consumer confusion, recent court decisions have emphasized that the use of products and trademarks in entertainment programs without the owners’ permission will not give rise to liability if the creator establishes that such use is protected by the First Amendment. As the courts have expressed, although a trademark serves an identifying purpose, the trademark owner does not have the right to control all public discourse about its marks or products. And, while most entertainment programs are commercial products, such content consists of communicative “vehicles through which ideas and opinions are disseminated.” The reasoning of these courts is clear: The public has at least as much interest in the free exchange of ideas as it does in avoiding misleading advertising.

The General Rule

In 2003, The Northern District of California cleared the way for a producer’s alleged unauthorized use of a famous product in Wham-O, Inc. v. Paramount Pictures. Wham-O arose out of Paramount’s unauthorized use of Wham-O’s iconic Slip ‘N Slide in the film Dickie Roberts: Former Child Star. The film included a scene that depicted the main character’s exaggerated misuse of the Slip ‘N Slide, such as coating the slide with cooking oil and then careening off it and crashing into a wooden fence. The scene, which lasted approximately 70 seconds, played a prominent role in the promotion of the film in the months leading up to its theatrical release, appearing in the film’s trailer, in television advertisements, and on the film’s Web site.

Wham-O contacted Paramount the day before commercial release of the film and requested that Paramount insert a disclaimer regarding the slide’s trademark and its proper use. Paramount refused, and Wham-O filed a lawsuit in the U.S. District Court for the Northern District of California for trademark infringement, unfair competition, and dilution under the Lanham Act. Wham-O also subsequently filed a motion for a temporary restraining order. The court denied Wham-O’s motion on the grounds that Wham-O failed to establish that it was likely to succeed on the merits.

In rejecting Wham-O’s trademark infringement and unfair competition claims, the court explained that consumers would not be confused about who makes the Slip ‘N Slide since, among other reasons, Paramount was not a toy manufacturer or distributor. Moreover, the manner in which the slide was used in the film did not suggest sponsorship or endorsement by Wham-O. The court recognized that “[a]ss any moviegoer can attest, it is not unusual for movie producers to use a signature scene—to cultivate interest in a film. Films with car chases do so with cars; films with gunplay do so with firearms; films with haute couture wardrobes do so with clothing.” The court also rejected Wham-O’s dilution claims, stating that the misuse of the slide was so “hamfisted and exaggerated” that it did not tarnish or harm the reputation of the mark. Nor did the purported use or misuse harm the ability of the mark to serve as an identifier of Wham-O’s product.

The same year, the Central District of Illinois refused to enjoin the release of a children’s film based on the unauthorized and purported misuse of well-known trademarks. The action, filed by Caterpillar, Inc., against the Walt Disney Company and Buena Vista Home Entertainment, Inc., arose out of Disney’s depiction of Caterpillar machinery bearing the Caterpillar and CAT trademarks in the children’s film George of the Jungle.

The film’s protagonist, George, was a Tarzan-like man who was raised in the jungle and could converse fluently with animals. The film’s plot involved the villains’ evil plan to oust George from his jungle home on the fict-
tional Ape Mountain. To do this, the villains used Caterpillar bulldozers, which bore the recognizable CAT trademark. The bulldozers, which appeared only briefly in the film, are shown running over plants and into the animals, while the narrator of the film describes the machines as “deleterious dozers” and “maniacal machines.”

Caterpillar filed suit against Disney on the eve of the film’s commercial release, alleging claims for trademark infringement, unfair competition, and dilution. In addition, Caterpillar sought an order enjoining the release of the film until “the acts allegedly violating its trademarks were undone.” The district court denied Caterpillar’s request for preliminary relief. As in Wham-O, the court noted that the appearance of products bearing well-known trademarks in entertainment content is common and questioned whether the mere appearance of a car, for example, could be sufficient to constitute a Lanham Act violation. With regard to the unfair competition and trademark infringement claims, the court held that Caterpillar failed to establish improper intent on behalf of Disney and failed to establish any confusion that Caterpillar somehow sponsored the film. The court also rejected Caterpillar’s dilution claim, finding that the film made clear that it was the humans—and not the CAT bulldozers—who wanted to destroy George’s jungle home.

Subsequent cases have reached similar conclusions concerning unauthorized use of consumer products in entertainment content. For example, in one subsequent case, Gottlieb Development LLC v. Paramount Pictures Corporation, the Southern District of New York dismissed the plaintiff’s Lanham Act claims at the pleading stage on the ground that Paramount’s use of the plaintiff’s Silver Slugger pinball machine as a background prop in the film What Women Want could not plausibly confuse consumers as to the sponsorship or affiliation of Paramount’s film (or of the pinball machines).

The First Amendment Defense to Lanham Act Claims

The Second Circuit was the first to address the intersection between the First Amendment and the Lanham Act in the landmark decision Rogers v. Grimaldi. Rogers arose out of the 1986 film titled Ginger and Fred, which is a story about two fictional Italian dancers who imitated Ginger Rogers and Fred Astaire and became known as “Ginger and Fred.” Ginger Rogers brought a claim for, among other things, false designation of origin under the Lanham Act, alleging that the use of her name in the film’s title suggested that she sponsored, endorsed, or was otherwise affiliated with the film. The Second Circuit upheld the defendant’s use of Rogers’ name in the film’s title on the ground that such use was artistic expression protected by the First Amendment.

In reaching this conclusion, the court devised a two-prong test, under which a defendant will be liable under the Lanham Act for the unauthorized use of a plaintiff’s trademark in an expressive work only if 1) the use of the plaintiff’s trademark has no artistic relevance to the work or 2) the use of the plaintiff’s trademark has some artistic relevance to the work, but it explicitly misleads as to the source or content of the work. The first prong—artistic relevance—asks whether the use of the mark is related to the content of the defendant’s own work, e.g., whether it is related to the story of the defendant’s work. This very low threshold seeks to protect the public interest in free expression. In its simplest terms, the second prong—explicit misstatement—asks whether the defendant explicitly misled or expressly misstated that the plaintiff produced, sponsored, or endorsed the defendant’s work.

Following the Second Circuit’s decision, the Fifth, Sixth, Ninth, and Eleventh Circuits each adopted the Rogers test. The Ninth Circuit applied Rogers in a pair of lawsuits brought by Mattel, Inc., in which the court refused to grant Mattel relief under the Lanham Act for the unauthorized and purported misuses of Mattel’s Barbie trademark. In Mattel Inc. v. MCA Records, Inc., the court held that Danish band Aqua’s use of “Barbie” in the title of its song Barbie Girl did not infringe Mattel’s trademark, finding that the use of the mark was clearly relevant to the underlying work (a commentary of Barbie and her values) and that it did not suggest (explicitly or implicitly) that it was produced by or associated with Mattel. The Ninth Circuit reached the same result one year later in Mattel Inc. v. Walking Mountain Productions, which arose out of artist Thomas Forsythe’s use of the Barbie mark in connection with a series of photographs entitled Food Chain Barbie in which Barbie is shown being attacked by various kitchen appliances.

In 2008, the Ninth Circuit applied the Rogers test in another case, E.S.S. Entertainment 2000 v. Rock Star Videos. The E.S.S. case arose out of Rockstar’s Grand Theft Auto: San Andreas, the seventh installment of its highly successful Grand Theft Auto video game series. Like its predecessors, San Andreas is a role-play game set in fictional, crime-riddled big cities modeled after actual American urban areas. San Andreas is partially based in the city of Los Santos, which was meant to lampoon the seedy underbelly of Los Angeles. One of the places that players could elect to visit was the fictional Pig Pen strip club, which Rockstar conceded was inspired in part by the real-life Play Pen Gentlemen’s Club in East Los Angeles. The owner of this club brought various Lanham Act claims alleging that Rockstar’s use of the distinctive Play Pen logo without authorization caused consumer confusion as to E.S.S.’s endorsement of or involvement with the video game.

The Ninth Circuit affirmed the district court’s grant of summary judgment in favor of Rockstar, holding that Rockstar’s use of the Pig Pen mark and trade dress was protected by the First Amendment under the Rogers test. First, Rockstar’s use of the term “Pig Pen” was “relevant to Rockstar’s artistic goal, which is to develop a cartoon-style parody of East Los Angeles.” Second, Rockstar’s use of the “Pig Pen” did not mislead consumers as to the source of the game. There was no explicit indication that E.S.S. sponsored or had any role in producing San Andreas. As such, the First Amendment provided Rockstar with an absolute defense to E.S.S.’s Lanham Act claims.

Following the Ninth Circuit’s decision in E.S.S., a number of federal courts have applied Rogers and determined that a defendant’s unauthorized use of a trademark or product in a film, television program, or other expressive work was protected speech that did not give rise to liability under the Lanham Act, including the use of a plaintiff’s trademark on the back cover of the book Hannah Montana: Rock the Waves, the identification of weapons as “Dillinger guns” in The Godfather video game series, the use of a knockoff travel bag bearing the famous Louis Vuitton Toile Monogram trademark in the film The Hangover: Part III, and the use of football legend Jim Brown’s name and other identifying information in the Madden NFL video game series. In a very recent decision, Fortres Grand v. Warner Bros., the plaintiff filed an action against Warner Bros. arising out of the Batman film The Dark Knight Rises. The plaintiff, Fortres Grand Corporation, is a software company that develops, markets, and sells a program called Clean Slate, which wipes previous user activity from public access computers. The Dark Knight Rises included scenes in which Catwoman attempts to procure a software program, referred to as the “clean slate” program, that would erase her storied criminal history from every computer database in the world. Warner Bros. also used the descriptor “clean slate” in its online advertisements for the film, including on its promotional Web sites for the movie.

Two months after the theatrical release of The Dark Knight Rises, Fortres Grand sued Warner Bros. for reverse trademark infringement and unfair competition, claiming that the film’s use of the phrase “clean slate” caused consumers to confuse or mistakenly associate the fictional clean slate program with Fortres Grand’s real-world Clean Slate computer security software. Warner Bros.
moved to dismiss the claims on the grounds that Fortres Grand failed to state a claim under the Lanham Act and that the studio’s use of the phrase “clean slate” was protected by the First Amendment. The district court agreed with Warner Bros., first finding that “no consumer—reasonable or otherwise—'[could] believe the fictional ‘clean slate’ software in the movie emanates from, is sponsored by, or connected to Fortres Grand because the fictional software does not exist in reality.” Second, the court held that “no consumer—reasonable or even unreasonable—would believe that The Dark Knight Rises itself is connected to Fortres Grand.”

Next, applying the Rogers test, the district court held that even if the fictional “clean slate” program could conceivably give rise to consumer confusion, the use of the phrase in the film and promotional Web sites was nonetheless protected by the First Amendment.28 The court found that Warner Bros. satisfied both prongs of the Rogers test. First, the studio’s use of the phrase “clean slate” was clearly relevant to the plot of The Dark Knight Rises and the related Web sites, which served as creative outgrowths of the movie itself. Second, the court held that the use was not “explicitly misleading,” and noted the absence of any “affirmative statement...that would indicate that Fortres Grand sponsored or endorsed the use of ‘clean slate’ in The Dark Knight Rises.”29

Exceptions to the Rule
The Rogers test clearly favors a defendant’s First Amendment interests. The first prong of the test requires only that there be “some” relevance between the trademark and the expressive work. In the Ninth Circuit, the defendant must demonstrate that the level of “artistic relevance” is “merely above zero.”30 The second part of the test requires a showing that the defendant made an “explicit indication,” “overt claim,” or “explicit misstatement” of sponsorship or endorsement.31 OutKast claimed that the use of Parks’s name was “symbolic,” the court doubted, among other things, how Parks’s qualities of “freedom, humanity, dignity and strength” were “artistically related to the content of a song that appeared to be diametrically opposed to those qualities.”32 Indeed, OutKast itself admitted that it “never intended for the song to be about Rosa Parks or the civil rights movement.”33

Similarly, in Electronic Arts, Inc. v. Textron, Inc., the Northern District of California denied the video game creator’s motion to dismiss Lanham Act claims filed by helicopter manufacturer Bell Helicopter Textron Inc. on the ground that Electronic Arts failed to meet the explicit misstatement prong of the Rogers test. This case arose out of Electronic Arts’s Battlefield video game series, a multiplayer, first-person shooter game that gives users the ability to participate in fictional and historical wars using a variety of weapons, aircraft, and other vehicles. Bell alleged that Electronic Arts featured and used Textron’s helicopters and trademarks in the game Battlefield 3, including on packaging and marketing materials, without permission.34 The court found that Textron’s allegations were “sufficient to establish plausible disputes as to the existence of actual consumer confusion,” including allegations that Textron products, trademarks, and trade dress were given “particular prominence” in the game, allegations that Electronic Arts featured Textron products in advertisements and on its Web page to entice consumers to purchase the game, and allegations that the ability to fly Textron’s helicopters was a main selling point of the game.35 Consequently, the court held that, at least at the pleading stage, the gist of Electronic Arts’s conduct could be interpreted as an explicit misstatement that Bell Helicopter sponsored the Battlefield 3 video game. As such, the court was not willing to find that the First Amendment defense applied as a matter of law on a motion to dismiss.

Perhaps the district court opinion in Electronic Arts v. Textron is an outlier and it can be confined to an analysis regarding the pleading stage. It may signal, however, an exception to the clear First Amendment defense in these cases. If so, it means that if a defendant goes too far in its use of the plaintiff’s mark (for example, by giving it too much prominence), a court could find that the defendant’s First Amendment protection has been lost. At least under the district court’s reasoning in the Textron case, the use of the plaintiff’s mark, if it is too prominent or pervades the defendant’s work, can give rise to an inference that the plaintiff somehow endorsed or sponsored the defendant’s work.

Nevertheless, a relatively bright-line rule has emerged, one that provides significant protection to the creators of entertainment content. First, the mere use or appearance of a mark in an expressive work does not automatically give rise to liability under the Lanham Act. Additionally, if the unauthorized use of the product in the body of the movie or television program is lawful, the courts most likely will find that it is lawful for the advertising for those entertainment programs to feature that product as well. The Sixth Circuit’s reasoning in Parks v. LaFace Records is instructive. The court observed that “if a song is sold, and the

Courts have recognized that while the public certainly has a right not to be misled about the source or endorsement of a product, it also has a First Amendment interest in free expression. And even though an expressive work—be it a work of art, book, movie, or television show—may be a commercial product or otherwise sold in commerce, it is also a valuable means of communication, deserving of protection under the law.
title is protected by the First Amendment, the title naturally will be ‘inextricably intertwined’ with the song’s commercial promotion.” The same logic was employed in the Wham-O and Fortres Grand cases in which the advertising also did not give rise to liability.

Finally, so long as the use of the mark bears some relevance to the expressive work and does not overly mislead as to the source of the work, the use is protected by the First Amendment. Courts have recognized that while the public certainly has a right not to be misled about the source or endorsement of a product, it also has a First Amendment interest in free expression. And even though an expressive work—be it a work of art, book, movie, or television show—may be a commercial product or otherwise sold in commerce, it is also a valuable means of communication, deserving of protection under the law.

1 To establish a claim for trademark infringement under the Lanham Act, a plaintiff must demonstrate that the defendant used 1) a valid registered mark, 2) in commerce, 3) in connection with the sale or advertisement of goods or services, 4) without the plaintiff’s consent, 5) in a manner that is likely to cause consumer confusion as to the origin, affiliation, sponsorship, endorsement, or approval, of a product, service, or commercial activity. 15 U.S.C. §§1114, 1125(a). Likewise, the gravamen of an unfair competition claim is that the defendant used the plaintiff’s mark with the intent of poaching or free-riding off the mark’s name or goodwill. New Kids on the Block v. News Amer. Pub., Inc., 971 F. 2d 302, 305 (9th Cir. 1992); 15 U.S.C. §1125(a). Finally, dilution claims are based upon allegations that the defendant’s use of a mark harms the reputation of a famous mark or impairs the mark’s ability to serve as a unique identifier of the plaintiff’s product. 15 U.S.C. §1125(c).


4 Id. at 1260-64.

6 Id. at 1264.

7 Id. at 1261-62.


9 Id. at 917.

10 Id. at 915.

11 Id. at 922.


13 Gottlieb, 590 F. Supp. 2d at 634-35.

14 Rogers v. Grimaldi, 875 F. 2d 994 (2d Cir. 1989).

15 Id. at 1001-02.

16 Id. at 999-1000.

17 Parks v. LaFace Records, 329 F. 3d 437, 448-49 (6th Cir. 2003).

18 Mattel Inc. v. MCA Records, Inc., 296 F. 3d 894, 901-02 (9th Cir. 2002).

19 Mattel Inc. v. Walking Mountain Prods., 353 F. 3d 792, 807 (9th Cir. 2003).

20 E.S.S. Entm’t 2000, Inc. v. Rock Star Videos, Inc., 547 F. 3d 1095 (9th Cir. 2008).

21 Id. at 1098.

22 Id. at 1101.


26 Brown v. Electronic Arts, 724 F. 3d 1235 (9th Cir. 2013).


28 Id. at 934.

29 Id. at 932.

30 E.S.S. Entm’t 2000, Inc. v. Rock Star Videos, Inc., 547 F. 3d 1095, 1100 (9th Cir. 2008).


32 Rogers, 875 F. 2d at 997.

33 Parks v. LaFace Records, 329 F. 3d 437 (6th Cir. 2003).

34 Id. at 459.

35 Id. at 456.

36 Id. at 452.


38 Id. at *3-4.
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As Justice Ruth Bader Ginsburg stated, “the First Amendment securely protects the freedom to make...one’s own speech; it bears less heavily when speakers assert the right to make other people’s speeches.” Similarly, courts have struggled with how to reconcile the right of freedom of speech with the right of publicity and other intellectual property rights. In the process, courts have created eight different tests to address the issue. They can be characterized as 1) the merchandise versus media test, 2) the U.S. Supreme Court’s test in Zacchini v. Scripps-Howard Broadcasting Company, 3) the transformative use test, 4) the constitutional malice test, 5) the balancing test of Rogers v. Grimaldi, 6) the relatedness test found in the Restatement (Third) of Unfair Competition, 7) the alternative means test, and 8) the predominant use test.

Two Ninth Circuit decisions—In re NCAA Student Athlete Name & Likeness Licensing Litigation (NCAA) and Brown v. Electronic Arts—as well as a similar case from the Third Circuit, Hart v. Electronic Arts, are recent reported appellate attempts to address four of these tests as they apply to the right of publicity.

NCAA and Hart hold that groups of former college football players could pursue claims against video game maker Electronic Arts (EA) for the unauthorized use of their likenesses in a football video game. Brown, in contrast, holds that football great Jim Brown could not pursue similar claims against EA for its use of his avatar in a video game. The difference in result turns not on different facts but on the different legal tests that were applied.

In Hart, the Third Circuit reversed a district court’s dismissal of a right of publicity class action suit. Hart first discusses the legal standard that should apply to the First Amendment right of a video game maker.

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Amendment defense and determined that, based on Zacchini, the court must balance the competing First Amendment and right-of-publicity interests.\(^6\) Hart then evaluates three tests that the parties had advocated to balance those interests: 1) the predominant use test adopted by the Missouri Supreme Court in Doe v. TCI Cablevision, 2) the balancing test adopted by the Second Circuit in Rogers v. Grimaldi, and 3) the transformative use test adopted by the California Supreme Court in Comedy III v. Saderup.\(^7\)

The “predominant use” test looks at whether the use of a person’s identity predominantly exploits or makes an expressive comment. Exploitation is infringing; an expressive comment is not.\(^8\) This test has not yet been accepted outside Missouri. Hart declines to follow this test, characterizing it as “subjective at best, arbitrary at worst.”\(^9\)

Hart next looks at the Rogers balancing test. Rogers involved Lanham Act and right of publicity claims arising from the use of the names of two celebrities in a movie title. Rogers claims to balance relevant rights, determining that the use of Ginger Rogers’s name in a movie title does not violate the Lanham Act unless 1) the title has no artistic relevance to the underlying work, or 2) if it has some artistic relevance, the title explicitly misleads as to the source or content of the work. The court in Rogers found artistic relevance and no deception.\(^10\)

The balancing test of Rogers has been adopted by panels in several circuits,\(^11\) but the Hart court declined to apply it. The court was reluctant to extend Rogers beyond use of a name or mark in the title of a work and believed it was inappropriate to broadly apply the test to the right of publicity (rather than trademark) because “the right of publicity is broader and, by extension, protects a greater swath of property interests.”\(^10\)

Hart also discusses the transformative use test, which was first articulated by the California Supreme Court in Comedy III. That case involved a drawing of the Three Stooges that was reproduced in prints, posters, and merchandise. Taking the notion of transformative use from the first prong of copyright law’s fair use test, the California Supreme Court asked courts to determine “whether the literal and imitative or the creative elements predominate in the work.” The First Amendment prevails if the creative elements predominate.\(^12\)

The Hart court adopted this transformative use test and held that the modest changes made to the avatars of football players in EA’s video game were not sufficiently transformative to allow EA to avoid liability. Noting the realistic depictions of the players in EA’s game, Hart holds that the creative elements of the game did not transform those realistic depictions and thus did not avoid liability.\(^14\)

Two months after Hart was decided, the Ninth Circuit in NCAA affirmed a district court’s denial of an anti-SLAAP motion to dismiss a right of publicity claim that had been made on First Amendment grounds. In contrast to Hart, which engages in an extensive discussion about the appropriate legal standard to apply to the facts, NCAA simply applies the transformative use test without a significant discussion of the alternatives. NCAA, like Hart, also holds that under transformative use standards the altered avatars used in EA’s video game are not sufficiently transformed to avoid right of publicity liability, stating: “Given that NCAA football realistically portrays college football players in the context of the college football games, the district court was correct in concluding that EA cannot prevail as a matter of law based on the transformative use defense at the anti-SLAAP stage.”\(^13\) The NCAA court thereafter quickly declined EA’s invitation to adopt the balancing test of Rogers “wholesale for right of publicity claims,” noting that its conclusion was consistent with Hart.\(^16\)

Hart and NCAA are largely consistent with each other and appear to stand for the proposition that the unauthorized use of avatars of people in creative audiovisual works can violate their rights of publicity and do not constitute speech protected by the First Amendment. Should these rulings prove influential, they could resolve an issue that has been debated in the motion picture industry for 15 years. The legality of avatars in video games (and by implication, realistic digital animation of actors in motion pictures) that appear to depict performances of individuals who did not actually render them has been unclear under right of publicity law.

The Supreme Court previously held that the unauthorized recording and broadcast of an individual’s actual performance without permission could violate the right of publicity and withstand First Amendment attack.\(^17\) Also, a few lower courts have held that imitating a celebrity’s performance violated his or her right of publicity.\(^18\) On the other hand, with the encouragement of the Motion Picture Association of America, several states have enacted right of publicity statutes that specifically exempt motion picture or video game use.\(^19\)

Hart and NCAA clearly support the position that the use of avatars can violate the right of publicity. These decisions could have a significant impact on whether actors or others who are digitally recreated in motion pictures and video games will be compensated for such uses of their identities if their holdings are accepted in other states or federal circuits.\(^20\) Given the general disarray of First Amendment jurisprudence in this area, however, it is unclear whether Hart and NCAA, or the analytic methodologies they adopt, will be widely accepted. There remains a not insignificant possibility that another court will apply one of the other legal tests that have been applied in this area and reach a contrary result.

Indeed, that is what the NCAA panel itself did in Brown. The same day that the Ninth Circuit panel rejected the balancing test and ruled for the athletes in NCAA, it ruled just the opposite in Brown, which, in contrast to NCAA, adopted the balancing test. Brown holds, contrary to NCAA, that Jim Brown could not pursue a Lanham Act claim against EA for its unauthorized use of his altered avatar in a video game.\(^21\) What accounted for the different legal test and result? Not the facts, which although not identical, were not distinguishable in any material way. Hart, NCAA, and Brown all involved unauthorized use of modestly altered avatars in EA’s video games.\(^22\)

The same panel issued the NCAA and Brown decisions, and it was well aware of its different analysis and results in the two cases. To address those differences, the panel emphasized in Brown that the appeal related only to Brown’s Lanham Act claim. The court argued that had the right of publicity causes of action been before it, the analysis may have been different and a different outcome may have been obtained.\(^23\)

The same panel also emphasized that it applied the transformative use test in NCAA rather than the balancing test it applied in Brown because a relatively broader right of publicity claim was being asserted in NCAA. The court stated: “The right of publicity…does not primarily seek to prevent consumer confusion…rather, it primarily protects a form of intellectual property in one’s person that society deems to have some social utility…the right of publicity protects the celebrity, not the consumer.”\(^24\) NCAA’s characterization echoed the Hart court’s statement that the right of publicity deserves more room than the Lanham Act because it “protects a greater swath of property interests.”\(^25\)

The court in NCAA declined to apply the balancing test to the right of publicity claims before it for this reason.

How persuasive is the panel’s reasoning for distinguishing NCAA and Brown? Why should consumers receive less protection than celebrities? One can make reasoned arguments that, in fact, the panel’s affirmance of the dismissal of Brown’s Lanham Act claim irreconcilably conflicts with its NCAA decision, for at least two reasons.

First, the Lanham Act rights that Brown sought to protect are the same property rights in goodwill that the college football players were permitted to protect in the NCAA deci-
sion. The Lanham Act and right of publicity both seek to protect the goodwill associated with a trademark or individual’s identity, which in the celebrity endorsement context often are the same thing.24 Further, case law affirms that the Lanham Act protects not only against consumer confusion but also against the unauthorized taking of a trademark owner’s property rights.25 Since the same property rights in personas were being violated in Brown and NCAA, one can make a reasoned argument that the same First Amendment standard should have applied in both cases.

Second, the only significant legal difference between NCAA’s right of publicity claim and Brown’s Lanham Act claim further calls into question the consistency of the Brown and NCAA decisions. The right of publicity is a creature of state law that restricts speech more broadly than does the Lanham Act. Right of publicity claims, unlike trademark claims, prohibit even nonconfusing commercial uses of an individual’s persona.26 The Lanham Act claim at issue in Brown thus inherently provided more First Amendment protection than does the right of publicity claim at issue in NCAA because the Lanham Act regulates only commercially misleading uses of Brown’s persona and because the Lanham Act has statutory fair use and other defenses that significantly accommodate First Amendment concerns.27 The panel’s decisions in NCAA and Brown effectively hold that because right of publicity claims seek to restrict more speech than Lanham Act claims, they must be permitted to do so. Is that logical? The First Amendment accommodates the broader restrictions on speech present in NCAA, so one could logically argue that it must accommodate the lesser restriction on speech presented by Brown’s Lanham Act claim. Another interesting aspect of Brown is that it mentions, but does not substantively address, several prior Ninth Circuit panel decisions that had adopted different standards for addressing First Amendment defenses to Lanham Act claims. In International Olympic Committee v. San Francisco Arts & Athletics (SFAA), a Ninth Circuit panel held that use of the Olympics trademark in political speech was not protected by the First Amendment and infringed trademark rights because there were alternative means to communicate the message that would not infringe trademark rights.28 In Dr. Seuss Enterprises, LP v. Penguin Books USA, Inc., another Ninth Circuit panel held that the First Amendment did not protect potentially confusing uses of marks on the cover of and within a book, applying the Lanham Act’s traditional likelihood-of-confusion test to reject the First Amendment related parody defense.29 Finally, in Hoffman v. Capital Cities/ABC, Inc., the Ninth Circuit applied the constitutional malice test to evaluate a First Amendment defense to a Lanham Act claim, holding that a digitally altered photograph of Dustin Hoffman did not violate the Lanham Act because the photo was not published with constitutional malice.30 There was no dispute in Brown that constitutional malice did not apply, as case law has applied it only to newspapers and magazines. However, Brown argues that either of the other two approaches was preferable to the balancing test and that under either the approach of SFAA or Dr. Seuss, Brown, rather than EA, would have prevailed.31

The Brown court acknowledged these earlier panel decisions but declined to follow them because two other panel decisions had instead applied the balancing test in the trademark setting.32 However, recent panel decisions cannot overrule earlier panel decisions; only an en banc decision may do that.33 Further, earlier decisions can be distinguished by a subsequent panel, but the Brown panel did not attempt to distinguish Brown from the earlier panel decisions that hadarticulated the other standards.34

Finally, the approaches followed in Hart, NCAA, and Brown arguably are all inconsistent with Supreme Court authority. Zaccchini v. Scripps-Howard Broadcasting Company involved a local television station that claimed a First Amendment right to broadcast on the evening news a human cannonball being shot out of a cannon.35 SFAA involved an organization that claimed a First Amendment right to use the “Olympics” mark in the title “Gay Olympic Games” because it was political speech and because its use allegedly was not confusing.36

The Supreme Court rejected First Amendment defenses in both cases. In Zaccchini, the Supreme Court did not articulate an analytic methodology to the right of publicity claim before it but merely stated that copying someone’s entire act was no more immune from right of publicity liability than it would be from copyright infringement liability.37 In SFAA, in contrast, the Supreme Court engaged in extensive First Amendment analysis. The Court did not dispute that some of SFAA’s speech was political38 but nevertheless combined content-neutral time, place, and manner case law restricting speech with commercial speech case law, as well as language from Zaccchini, to articulate what amounts to an intermediate level of review for trademark infringement actions. Applying that standard, the Court stated:

Section 110 [of the Olympic Trademark Act] restricts only the manner in which the SFAA may convey its message.…The appropriate inquiry is thus whether the incidental restrictions on First Amendment freedoms are greater than necessary to further a substantial governmental interest.39

Concluding that the incidental restric-
tions on SFAA’s political speech were not greater than needed to further the government’s interest in protecting USOC’s property rights in its mark, the Court further stated: The SFAA’s expressive use of the word [“Olympic”] cannot be divorced from the value USOC’s efforts have given to it. The mere fact that the SFAA claims an expressive, as opposed to a purely commercial, purpose does not give it a First Amendment right to “appropriate to itself the harvest of those who have sown.” The USOC’s right to prohibit use of the word “Olympic” in the promotion of athletic events is at the core of its legitimate property interest.

The Supreme Court further noted that the SFAA’s proposed use of the word “Olympic” was “a clear attempt to exploit the imagery and goodwill created by the USOC.” Two years later the Supreme Court described this as an intermediate scrutiny standard.

**Which Standard to Apply?**

One can reasonably argue that the Supreme Court’s intermediate scrutiny standard, rather than the other standards articulated by lower courts in the years since, should have applied to Hart, NCAA, and Brown, not to mention Rogers and Comedy III. EA’s actions in Brown should have been actionable under the intermediate scrutiny standard regardless of the prior holdings of any lower courts. The trademark regulation under the Lanham act at issue in Brown is permissible under the intermediate scrutiny standard because it promotes a substantial government interest that would be achieved less effectively absent regulation.

National protection of trademarks is desirable because trademarks foster competition in the maintenance of quality when infringement occurs within an allegedly expressive work. Further, the trademark regulation at issue in Brown was content-neutral because its purposes of protecting intellectual property and avoiding consumer confusion are unrelated to the content of the video games. Any effect on EA’s speech rights would have been truly incidental, because EA could still produce and distribute football or other sports-related video games with or without using Brown’s likeness and persona.

The apparent reluctance of appellate courts to accept and apply Supreme Court authority, and the diverging paths that appellate courts continue to follow as they grappling with these issues means that there likely will be continued judicial uncertainty over how First Amendment concerns should be addressed when the likenesses and performances of people are digitally imitated in creative works.

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3. In re NCAA Student Athlete Name & Likeness Licensing Litig., 724 F. 3d 1265 (9th Cir. 2013).
7. Hart, 717 F. 3d at 152; TCI Cablevision, 110 S.W. 3d 363 (en banc); Rogers v. Grimaldi, 875 F. 2d 994 (2d Cir. 1989); Comedy III, 25 Cal. 4th 387.
8. TCI Cablevision, 110 S.W. 3d at 374.
10. Rogers, 875 F. 2d at 1000-01.
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STARTING TUESDAY, MAY 6, Trial Advocacy and the Litigation Section will host a program on the evenings of May 6, 8, 13, 14, 20, and 21 from 5:30 to 8:30 P.M. in one in a series of courses offered by LACBA’s Trial Advocacy Project (TAP). Designed for attorneys who have little or no trial experience, this course provides trial advocacy instruction, mock trial performance, and constructive feedback. Participants will learn to mark exhibits, lay evidentiary foundation, deliver opening statements, conduct direct and cross examinations, and deliver closing arguments. Classes will be taught at the LACBA-Executive Presentations Mock Courtroom. The course instructors are local prosecutors. Successful completion of this course meets the prerequisites for admission to the five-week Traditional TAP course taught annually in the fall. Completion and certification from Traditional TAP qualifies participants for a pro bono practicum with a local prosecutorial agency trying criminal cases. Written course materials will be distributed via e-mail prior to the first class, so a correct e-mail address at the time of registration is needed. The program will take place at the Los Angeles County Bar Association, 1055 West 7th Street, 27th floor, Downtown. Parking is available at 1055 West 7th Street and nearby lots. The registration code number is 012259.

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ON FRIDAY, MAY 9, the International Law Section will host a conference on attorney-client privilege, ethics, bias, and appointment of arbitrators. Leading international arbitrators and practitioners from Australia, Canada, China, England, Hong Kong, and the United States will share accounts of trends and legal developments in international arbitration. The program will take place at the Los Angeles County Bar Association, 1055 West 7th Street, 27th floor, Downtown. Parking is available at 1055 West 7th Street and nearby lots. On-site registration and breakfast will begin at 8 A.M., with the program continuing from 9 A.M. to 5:30 P.M. The conference will be preceded by an opening reception hosted at the American Arbitration Association headquarters at 725 South Figueroa Street, Downtown, on May 8 from 6:30 to 8:30 P.M. The registration code number is 012283.

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How a Private Jury Trial Worked for My Client

CONTINUANCES ARE MORE COMMON in today’s civil courts. Court staff employees have been laid off, departments have been closed, and judges are finding themselves sharing staff and courtrooms. This has resulted in a backlog of cases waiting for trial. In late 2012, I found myself waiting in line and decided a private jury trial would be the best solution for my client.

I represented Gentec Enterprises, Inc., against Transistor Devices, Inc. The parties entered into a purchase agreement in which Gentec was to purchase a subsidiary company of TDI. My client paid the initial down payment, took possession of the subsidiary’s facility, and assumed the lease and other financial obligations. A dispute arose as to whether my client could use the name of the subsidiary. The issue was whether the contract was an asset purchase agreement or a stock purchase agreement. The deal included a large lease obligation, payroll, employee transportation, security, and utilities. The deal never closed, however, and we filed a lawsuit in November 2010.

The original trial date was February of 2012. Due to the economic crisis, however, the courts became backlogged, and the court vacated our trial date on the eve of trial. Later that year, another trial date was set for September 11, 2012. Once again on the eve of trial, the court unilaterally vacated the trial date and ordered us to a mandatory settlement conference, although we had already participated in mediation and numerous settlement discussions. My client was still paying for the subsidiary’s obligation and still had no trial date in sight.

An alternative solution was needed.

I have experience conducting arbitrations and experience using mock juries to evaluate cases. Since I represented the plaintiff in this matter and knew damages would be an issue, I did not want to go to traditional arbitration. During the mandatory settlement conference, I asked if we could put together a jury panel with the assistance of a trial consultant and hire a retired judge to conduct a private trial. Pursuant to the Federal Arbitration Act, parties can limit the issues of a trial consultant and hire a retired judge to conduct a private trial.

We stipulated the use of a smaller number of jurors in the event we found that TDI had breached the purchase agreement and awarded damages to Gentec.

The experience of the private jury trial far surpassed a regular jury trial or a standard arbitration. The paid jury wanted to be of assistance. We were able to schedule our court days according to everyone’s schedule, so there was no wasted time waiting in hallways. The venue provided a pleasant environment for the trial with nice waiting rooms for witnesses. Each side had a war room and did not have to rush out of a courthouse at 4:30, making the trial experience much more enjoyable for the attorneys and more efficient in respect of the judge’s and jurors’ time. Unlike a standard arbitration, we did not have one to three retired judges deciding the fates of our clients.

We had a full jury panel of individuals with different backgrounds and experiences to make the critical factual findings.

We conducted the trial following the same rules and procedures we would in federal court, where the case was venued. We performed voir dire, empaneled our jury, and for three weeks conducted a private jury trial. At the conclusion of deliberations, the jury found that TDI had breached the purchase agreement and awarded damages to Gentec. After contacting several companies, we learned this had never been done before. Once selected, the alternative dispute resolution company coordinated the judge and the jury, located vacant office space, and rented authentic courtroom furniture. The jury was called in the same manner and from the same pool as any jury would be summoned.

This process was costly, but it saved my client attorney’s fees, reduced the operating costs of the subsidiary, and gave my client certainty to move on with its business. We were allowed to move to the front of the line for our day in court. In today’s congested courtrooms, alternative ways to expedite trials should be explored. While a private jury trial may not be the best solution for every continuance, it may be a viable option. If conditions are right, private jury trials ensure that clients achieve legally binding, timely conclusions to their disputes.

We agreed to arbitrate all issues involved in the case, dismiss the pending action, and request the court to retain jurisdiction to enforce the verdict and award. We stipulated that the final award would be binding and could be converted into a judgment. We agreed that there would be no right of appeal. We defined how costs would be split, what rules would govern the proceeding, and what number of jurors would be used to act as the trier of fact.

We signed the arbitration agreement during the mandatory settlement conference and began the process of locating an alternate dis-


Roy Jimenez, a partner at Tredway Lumsdaine & Doyle, LLP, specializes in business and real estate litigation.
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