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Inside

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of the New York State Bar Association

An Appreciation of Rachelle Stern

May 23, 1948 – December 10, 2015

Rachelle Stern was a longstanding and active member of the Corporate Counsel Section's Executive Committee, having joined in 2005, until her untimely death in December 2015 following a courageous battle with pancreatic cancer. Rachelle's insight and wisdom surrounding the legal and business challenges corporations face, coupled with in-house counsel's role in preventing or resolving such challenges, were instrumental in planning and producing the Section's CLE programs. Indeed, Rachelle was active in many, if not all, of the successful Corporate Counsel Institutes ("CCI"), including her role as co-chair for the Fifth CCI, which was held in the Fall of 2013.

Rachelle, the child of Holocaust survivors, was a graduate of City College of the City University of New York, where she graduated with an honors degree in English. After graduation, Rachelle worked as a librarian and concurrently obtained her MS from Columbia University School of Library Science. Thereafter, Rachelle matriculated to Columbia University School of Law, where she was named a Harlan Fiske Stone Scholar and Morris Berick Fellow.

Rachelle began her legal career working at the Donovan Leisure Newton & Irvine firm and then the firm of Fried, Frank, Harris, Shriver & Jacobson. In 1984 she joined the Law Department of RH Macy & Company. She was one of only two attorneys to remain with the Company after the Federated Department Stores acquisition of RH Macy in 1994 and was assigned to Federated's New York Regional office. In 2006 Federated changed its name to Macy's, Inc.

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SPECIAL EDITION: INTELLECTUAL PROPERTY

An Appreciation of Rachelle Stern

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Rachelle was beloved by her clients for her thoughtful solutions and dedication. Rachelle's love for the art of words served her well as chair of the Contracts Group of the Macy's Law Department. As a corporate generalist, Rachelle's practice areas included complex transactions, business operations, regulatory compliance, prize promotions and cause-related marketing. She was very proud of her portfolio which included Macy's signature promotional events, including the Macy's Thanksgiving Day Parade and July 4th Fireworks Spectacular.

In addition to being a highly intelligent and extremely talented lawyer, passionate about the law and enthusiastic about being in-house counsel, she was a staunch supporter of Macy's. For many years, Rachelle marched as a clown in the Macy's Thanksgiving Day Parade and, in later years, worked behind the scenes as a Parade Marshal. If you happened to mention where you did your holiday shopping and it did not involve Macy's, you could always count on Rachelle sending you a "family and friends" discount coupon so you would not make the same mistake twice.

Most importantly, Rachelle will be remembered for being a true friend and devoted mother. Rachelle's greatest joys and accomplishments in life derived from being Jessica's and Rebecca's mother and ultimately, grandmother to Jessica's daughter Morgan. She was kind and selfless in so many ways, always willing to lend an ear or provide assistance even when not asked. In true Rachelle fashion, if you asked her how she was doing you could not expect an answer; however, you could expect that she would insist you tell her how you were doing.

Rachelle, you will be sorely missed by your family, friends and colleagues. We thank you for your love, dedication, and support throughout the years. Rest assured that your legacy will live in the hearts of so many forever.

If you would like to make a donation in Rachelle's honor, her family requests that you do so to the Lustgarten Foundation, a non-profit organization with a goal to defeat pancreatic cancer.

—The Corporate Counsel Section
Executive Committee

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Message from the Chair

"Everybody gets so much information all day long that they lose their common sense."

—Gertrude Stein

Welcome to the Corporate Counsel Section's 2016 Spring/Summer issue of *Inside*! Spring is regarded as a time of renewal by many cultures and traditions, and as your new Chair, with the assistance of equally energetic and committed colleagues, I hope to usher in some reinvigorating changes— hopefully without the growing pains, and in a manner that will make some sense.

The most prominent of these innovations will be the focus on our website. A new online "communities" area soon will open, where you, as one of our 1,600+ distinguished members, will enjoy the opportunity of posting your very own comments, questions and thoughts directly to the Corporate Counsel Section website. Through the modern magic of science and technology, your writings instantly—*whoosh*—will be pushed out and transmitted to the Executive Committee and the general membership alike, in the form of daily digests, so that others can respond to you in a timely manner.

In this way, you and our fellow members will have the opportunity to communicate directly with one another. You can ask professional questions such as if anyone has a form for a certain type of agreement, or how much they typically pay outside counsel for certain kinds of work. You can even ask our more social compatriots if they know of a good hidden speakeasy in Midtown or if a good art exhibit is coming to town. Those with an answer or a follow-up question will be able to respond either privately or publicly, as the situation dictates.

And, best of all, you need not fear these changes, as members will retain control over their notification preferences (to avoid, for instance, spamming). By default, all members shall be auto-set for a daily digest of such posts (that is, you will receive a single email each day from the Corporate Counsel Section that details any posts that were made in that day), but members may adjust their settings to "Weekly" or "Never" (or "Real Time" for information junkies!). Further, rather than having to log in and enter your password, you simply hit "Reply" or "Reply All," making it all rather convenient.

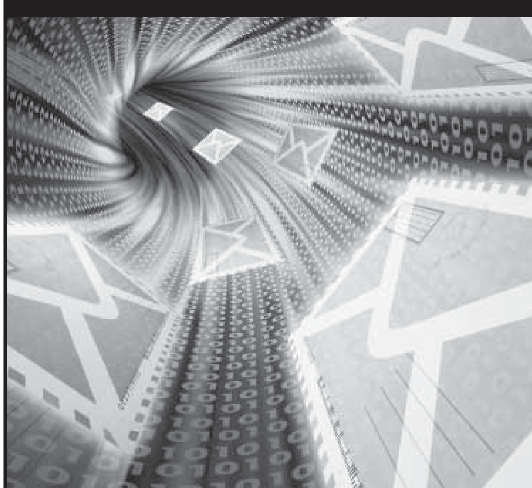
It is my hope that this new feature will encourage greater camaraderie, participation, and usefulness for you and all the other members of our Corporate Counsel Section.

And just remember, "You don't have to be young to learn about technology. You have to feel young."—Vint Cerf.

Happy Spring and Summer! And if you have any thoughts or ideas, please do not hesitate to let me know.

Jeffrey P. Laner

Request for Topics



If you would like to have an article considered for publication in *Inside*, please send your topic idea to either of its editors:

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Inside Inside

This issue is dedicated to the memory of Rachelle Stern. Rachelle Stern was a long-standing Corporate Counsel Section Executive Committee member, an admired corporate generalist having spent over 40 years with Macy's, and most importantly, a beloved friend, colleague and mother. Rachelle's passing is a great loss to many and we are grateful for her generous and thoughtful contributions.

Following the tradition of our predecessors, each issue of *Inside* has been theme focused. This issue is no different; however, our future issues will cover a myriad of topics affecting, and of interest to, in-house counsel. It is our goal to have something of interest to everyone in-house whether you are a litigator, corporate generalist, compliance officer, project manager etc. We hope to include in our future issues articles about professional development, business and industry trends, hot topics, changes in the law, and government regulation.

Keeping this shift in mind, what new regulatory or compliance hurdles are you facing? What challenges have you encountered in litigation and arbitration? What new situations concerning your employees, contractors, interns and service providers have arisen? What previously considered "air tight" contract provisions have proven to be less than air tight as of late? What other suggestions do you have to make *Inside* of greater use to you? We look forward to receiving your ideas. If you are interested in submitting a topic for consideration, please send us a paragraph description of the topic. We are already hard at work on our fall issue. Accordingly, we would appreciate your ideas by June 30th.

Now to our last themed issue which is focused on intellectual property. The proliferation of technology and access to information has spawned significant interest and increased challenges in protecting intellectual property. From licensing, advertising, brand management and social media to protecting trade secrets and trademarks, intellectual property owners have much to consider. This issue of *Inside* covers these topics and more to provide practical guidance for in-house counsel in connection with the creation, use and protection of intellectual property.

In keeping with our intellectual property theme, we continue with our series of interviews of in-house practitioners highlighting two prominent leaders in the field: Ayala Deutsch, Executive Vice President and Deputy General Counsel of NBA, Inc. and Naomi Waltman, Senior Vice President and Associate General Counsel of CBS Corporation.

We also have included, and hope you enjoy, the book review of *Saving Gotham*, a "thriller" describing the trials and tribulations of former Mayor Michael Bloomberg and his health commissioners while battling for the health and welfare of those in the city of New York.

Lastly, we want to extend a special thank you to our authors as well as those who assisted with editing and citations, particularly Matthew N. Bobrow, Vito Marzano, and Kurt Sohn. Matthew Bobrow graduated law school in 2015 and is currently consulting at Morgan Stanley until October. He advises on how regulations impact policies and procedures through research of Basel, Federal Reserve, and the Office of the Comptroller rules. He is also involved in drafting policies and procedures. Vito Marzano is a 2L at Pace Law School and the Productions Editor for the *Pace International Law Review*. He is interested in practicing international, civil rights and/or business law. Kurt Sohn is attending Benjamin N. Cardozo School of Law and expects to graduate in 2018. After graduation, he would like to work in-house for a record label or fashion company.

Thank you for reading *Inside*. We look forward to your feedback, topic ideas, and author suggestions!

Jessica Thaler-Parker
Elizabeth J. Shampnoi

Jessica Thaler-Parker is a Regulatory Project Manager for Credit Suisse. Prior to engaging with Bliss, she spent a year acting as the Chief Legal Officer of My Sisters' Place, a not-for-profit organization working for the benefit of domestic violence and human trafficking victims throughout Westchester County. Jessica has rich experience as a corporate-transactional generalist, gained through her work at NYC law firms and her solo practice. She is an active member of NYSBA, acting as immediate past chair of the Committee on Lawyers in Transition, on the executive committees for the Corporate Counsel Section, a long-standing member of the Membership Committee and the Committee on Law Practice Management and, now, as a co-editor of *Inside*. She also serves on the Nominating Committee and as a delegate to the House of Delegates.

Elizabeth J. Shampnoi is an Attorney and Director in the Dispute Advisory & Forensic Services Group of Stout Risius Ross, Inc. ("SRR"). She regularly provides litigators, in-house counsel and senior executives with a broad range of business and legal advice concerning cost-effective and timely alternative dispute resolution. Many times this involves identifying which cases are appropriate for mediation or arbitration, proper forum selection, drafting clauses pre-dispute and post-dispute, selecting the arbitrator or mediator, rule interpretation/enforcement and best practices in advocacy. Prior to joining SRR, Ms. Shampnoi was a Litigation Associate at the law firm of Storch, Amini & Munves, PC. Ms. Shampnoi is an active member of NYSBA and serves on the executive committees for the Dispute Resolution and Corporate Counsel Sections as well as a delegate to the House of Delegates.

Inside Interview

Ayala Deutsch, Esq.

Executive Vice President and Deputy General Counsel, NBA, Inc., the marketing and licensing arm of the National Basketball Association

Conducted by Georgia Tsismenakis

Ayala Deutsch was raised in Queens, New York. She attended Queens College and New York University School of Law. Ms. Deutsch previously served as Senior Vice President & Chief Intellectual Property Counsel at the NBA. Prior to joining the NBA, Ms. Deutsch practiced intellectual property litigation and arbitration as an associate at Cleary Gottlieb Steen & Hamilton LLP, and was a summer associate at Cravath, Swaine & Moore LLP. Ms. Deutsch is on the Board of Directors for the Susan G. Komen Greater New York Affiliate, and in her free time enjoys cooking, reading and spending time with her 12 nieces and nephews.

Ayala Deutsch

Interest in Intellectual Property Law

Ms. Deutsch knew she wanted to be a lawyer at a very young age. She started law school at the age of 19—skipping several grades in school—against the advice of her father, who told her to put off law school until she got more experience in the "real world." Ms. Deutsch, who planned to become a litigator, did not take any IP courses in law school and did not work on her first trademark case until almost a year after she became a litigation associate at Cleary Gottlieb Steen & Hamilton LLP. "I just found the concepts and ideas of IP to be extremely interesting: What was a brand? Who owned these intangible assets? How could these things drive value? How could they be protected?"

Ms. Deutsch is a self-proclaimed geek at heart, as reflected by the fact that her first trademark case, the case that fueled her interest in IP law, revolved around whether the design of a radiator was protectable trade dress. It has been over twenty years and she still continues to be very interested in the subject matter.

Ms. Deutsch is also intrigued by the notion of what contributes to building and maintaining a successful brand. "The most successful brands are genuinely iconic in a way that is transferrable across the world, across generations [and] across time." She referenced an article that demonstrated this proposition, illustrating the value of the Coca-Cola brand, which said, "if all the physical property that Coca-Cola owned went up in smoke, the company could walk into any financial institution in the world and get a massive line of credit based just on the ownership of the brand."

Upcoming Considerations in Intellectual Property Law

While Ms. Deutsch does not have any one specific concern, she does believe that the upcoming challenges in IP law "all lie in the digital realm. It is very hard to know what the next challenge is going to be because that [digital] platform has allowed things to evolve so exponentially."

While business clients are using these new technology platforms to advance brands and engage consumers, the flip side of this opportunity is the challenge of enforcement; and that is where the NBA's IP department will continue to focus its energy.

Important Skills in the Legal Industry

As in-house counsel, Ms. Deutsch does not spend as much time litigating, but notes that she still has a litigator "mind-set" and believes that many of the skills that successful litigators display are transferrable to all types of lawyers. These transferrable skills include "good strategic and analytical thinking, creative problem-solving and extremely strong communication skills." Ms. Deutsch believes that "there is no function a lawyer is asked to fulfill where strong communication isn't important."

These skills have enabled Ms. Deutsch's role to change over the years—opening up the opportunity for her to oversee the NBA's business and legal affairs, which include commercial matters and transactional work across a variety of businesses and to build expertise in areas other than IP.

While Ms. Deutsch admits to being "Type A," she is ultimately driven by helping people and the constant intellectual exercise required to solve problems. Ms. Deutsch's father taught her that there is a great value to being out in the real world. "It's not only about being experienced as a lawyer or knowledgeable as an IP specialist, you really have to devote some time to understanding people and how they relate to each other and the dynamic of life as you begin managing people and projects and try to influence results. The emotional quotient (EQ) is important."

She further notes that as an in-house lawyer, "I love counseling clients and I am motivated by how I can help clients and the organization achieve their goals." She also enjoys being involved on the business side and believes that she is able to best engage these interests working in a law department.

Building Your Brand to Go In-House

Her advice to attorneys is to "be more aware of your career. At the end of the day, when you get hired, you are getting hired for your skills and experience." Ms. Deutsch notes that networking is generally important and can get your resume on the hiring manager's desk, but that alone will not get you hired. "You have to build subject-matter expertise that you can demonstrate in interviews, with references, and ultimately when you get hired."

Of course, in order to get experience, you need to find opportunities that will help you build your resume. Ms. Deutsch notes that "it is usually not enough to say give me a chance because I'm interested and a hard worker." You have to be proactive and make sure that you raise your hand and volunteer; but "make sure that what you're volunteering for is linking up to something that you want to develop" based on your future plans. She adds, "volunteering in bar committees or not-for-profits may not deepen your expertise in a certain IP area, but it could give you leadership experience." Further, "volunteering to work on substantive projects may build up your substantive knowledge in the area you are seeking to develop."

Ms. Deutsch worked at a firm that was not known for its IP practice, but once she realized that IP work was what she wanted, she asked one of the partners in the IP litigation practice group to put her on everything he had, regardless of what was already on her desk. She understood that while this may have increased her workload in the short term, the opportunity to help her develop substantive subject matter expertise would benefit her in the long term. Ms. Deutsch adds, "You can't just sit around and wait for the opportunity; you have to build a resume that will resonate with people."

Ms. Deutsch credits her willingness to take on additional projects for creating the opportunity for her to expand her practice at the NBA to include responsibilities beyond IP.

Self-Awareness and Taking Risks

Ms. Deutsch believes that the best way to succeed is to stay true to yourself. You must listen and be "aware of the culture and business you work in and what will get you to the next level of success." This must, however, be accomplished within the framework of being yourself.

Ms. Deutsch also encourages self-awareness; "ask yourself what it is that you want" and if you are afraid of risks, get past the fear. "There is no change without fear and everyone is at least a little afraid of change. Be honest with yourself about what you want and how badly you want it. If you don't push through it, then maybe you don't want it enough." Your goal will not "land in your lap in a neatly wrapped package;" you have to be prepared to push for change.

She further notes, "The more appetite you have for proactive change and taking some risk, the more you establish a resiliency and a mindset to take another step and [make] another change," even if a situation does not work out. It is far more common to have "long-standing regret about what you didn't pursue, rather than taking a risk, finding it didn't work and re-calibrating."

Work-life Balance

Ms. Deutsch believes that every professional needs to find the right balance for himself or herself. That means understanding why you are doing extra work and "how it is going to help you get to those professional achievements that are important to you."

Ultimately, it is "a constant assessment of the moving pieces of your life and where they fit in—there is no one recipe that is going to work for everyone." There is an ongoing balance between "those things that fall a little lower on the board at one point in time and then come back up at a later time." She gives women with families as an example: "There are women for whom family time is a higher priority when their children are younger;" then, when their children are older, some women are able to spend more time away from their children.

When Ms. Deutsch graduated from NYU in 1989, her entering class was the first class with a student body consisting of over 50% female students. Twenty years later, however, there are still disproportionately fewer women attorneys moving into senior leader roles. Ms. Deutsch understands that the issue is still ongoing and while she has not found gender to be an obstacle to her success, she asks, "Why are women going to law school and getting degrees in such high numbers, and then 20 years later there are so few of them still actively engaged in their profession and moving to senior leadership roles?" It is hard to know why women leave the legal profession—to take care of their family, because the work-life balance does not meet their needs or expectations, or for some other reason—but Ms. Deutsch hopes to see more women advance into senior leadership roles within the legal profession.

Mentorship

Ms. Deutsch's view on mentorship is based on a "board of directors" concept. She explains, "There may be someone who can counsel you on navigating in-house politics, and there may be someone else who can give you advice on issues regarding gender or external reputation." She believes that it is important to both give and take in each of these relationships and that there is an "organic" component to successful mentoring; the relationship has to form naturally.

This interview was conducted by Georgia Tsismenakis, a New York-based attorney. She currently works as a Director of Operations for a legal education company. She was previously an Associate Attorney at a litigation firm located in Manhattan. She is interested in practicing within the corporate and business law sector and would like to represent start-ups and small businesses.

Brand Licensing Strategies to Maintain Value and Goodwill

By Marc A. Lieberstein and Amit D. Kumar

Introduction

Laws in the United States limit and, practically speaking, prohibit brand owners from fixing prices or taking other anti-competitive steps that would ordinarily help them to maintain brand value and goodwill, not to mention increase revenue. This article addresses practical licensing and distribution strategies that transactional parties can use, under U.S. law, to maintain brand value and goodwill without crossing the line into illegal price fixing or unfair competition.

Generally, a brand licensor cannot simply dictate resale prices. But it can take other steps to maintain brand value and reduce the likelihood that a licensee will engage levels of discounting that will harm the brand.

> *"To rub salt into that wound, since royalty is often tied to 'net sales,' discounts that exceed what the parties initially contemplated deprive the licensor of the financial return it anticipated when entering into the license."*

Resale price has long been a touchy subject when it comes to license agreements. A well-crafted license agreement affords a licensor control over many aspects of a licensee's manufacturing, marketing and sales of licensed products, but license agreements are typically silent about resale prices (or, if they say anything, they may say simply that the licensee is free to set the resale prices).

The problem is this—deep discounting can hurt the licensor's brand. When a licensed product shows up online with conflicting Suggested Retail Prices (SRP), or is heavily discounted, consumers associate the behavior with the brand itself. To rub salt into that wound, since royalty is often tied to "net sales," discounts that exceed what the parties initially contemplated deprive the licensor of the financial return it anticipated when entering into the license.[1]

Under federal law, for many years vertical price restraints were a *per se* violation of Section 1 of the Sherman Antitrust Act (a "vertical" restraint refers to a restraint between parties that have a "vertical" relationship in the supply or distribution chain, like sellers and buyers).[2] That changed in *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*,[3] where the Supreme Court ruled that vertical price restraints are legal if the restraints satisfied the "rule of reason." Notwithstanding *Leegin*, in states such as California and New York vertical price restraints may still be considered *per se* illegal.[4] A brand licensor has a vertical relationship with its licensee, and as such, restraints on the licensee's ability to set its own resale prices for licensed goods are likely to lead to liability for the licensor in California and New York.

Therefore, it is customary—and advisable—to expressly state that the licensee is free to determine the prices at which it resells licensed products.

Nonetheless, even though a brand licensor cannot dictate the resale price for licensed products, there are strategies available to the brand licensor to protect itself. These strategies include: (1) imposing reasonable controls over inventory levels of licensed products; (2) employing a royalty structure that reduces incentives to discount and also ensures that the brand licensor gets the benefit of the bargain; (3) restricting distribution to selected and approved distribution channels; and (4) requiring an established SRP and that it be communicated to consumers.

Strategy 1: Include Restrictions on Inventory Levels

Manage Forecasts and Inventory

One common reason a licensee may opt to sell licensed products at low prices or to unauthorized resellers or customers is that the licensee has too much inventory. The licensee needs to pay the factory for the goods, and it needs to turn its inventory into cash to do so. If the licensee finds itself with a relatively large amount of inventory, it may have an incentive to try to move it more quickly by discounting or selling through unauthorized channels.

To mitigate against this incentive, brand licensors can employ a set of clauses to require that a licensee provide advance forecasting information to the brand licensor and also provide visibility to the licensee's inventory levels to ensure that such inventory levels are indeed consistent with the forecasts.

Here is a sample forecast provision:

> Within thirty (30) days of the date hereof, Licensee shall provide to Licensor a twelve (12) month rolling forecast of sales of Licensed Products by [month/quarter] (the "Rolling Forecast"). Licensee shall provide an updated Rolling Forecast by the fifth (5th) day of each calendar [month/quarter].

Here is a sample inventory provision:

> Licensee shall provide Licensor with a [monthly/quarterly] stock report of Licensed Products in Licensee's inventory (the "Monthly Stock Report"). The Monthly Stock Report must reflect actual inventory levels on the first (1st) day of each calendar [month/quarter] and be provided to Licensor by the fifth (5th) day of each calendar [month/quarter]. Licensee shall cease production of new units of Licensed Products if and when the inventory of Licensed Products exceeds the anticipated sales of Licensed Products for the next three (3) months as reflected in the Rolling Forecast.[5]

Even with proper inventory management, the licensee may still have some inventory of licensed product left at the end of the term. It is important for brand owners to have the option to take control of this inventory. Brand licensors should include a "sell-off" or "wind-down" provision that gives a brand licensor the option, but not the obligation, to purchase the inventory at prices which are predetermined in the license agreement. Here are two sample terms that can be used together or separately:

> Licensee shall not manufacture Licensed Products during the last six (6) months of any Term that is not being renewed in excess of the amount Licensee reasonably anticipates will be sold prior to the expiration of the applicable Term based on the Rolling Forecast.
>
> Within five (5) business days after expiration or termination, Licensee shall provide to Licensor a list of all inventory of Licensed Products, together with the landed cost and standard wholesale price for such inventory. Licensor shall have the right, but not the obligation, to purchase any or all of such inventory at the lower of Licensee's landed cost or ____ percent (__%) off of the standard wholesale price of the inventory. Licensor shall provide Licensee with written notice of Licensor's election to purchase any such Licensed Products within five (5) business days after receipt of the list of inventory. If Licensor fails to provide Licensee with such notice within such five (5) business day period, Licensee may sell any or all Licensed Products to any Authorized Customer for a period of three (3) months. All sales of Licensed Products to any Authorized Customer during such three (3) month period shall be Royalty-bearing and subject to the terms of this Agreement.

These provisions should effectively allow the brand licensor to control the inventory from its old licensee and maintain brand value for its new licensee in the marketplace.

> *"Pertaining to the issue of pricing and distribution, licensors need to be aware that the minimum guaranteed royalty can itself become an incentive for licensees to engage in expanded, unauthorized distribution and excessive discounting."*

Strategy 2: Ensure That the Brand Licensor Actually Receives Its Anticipated Financial and Goodwill Benefits

Use a Minimum Guaranteed Royalty Structure That Only Counts Authorized, Goodwill Enhancing Sales

Minimum guaranteed royalties are common in brand license agreements. Often, licensors reserve the right to terminate a license agreement for failure of the licensee to achieve the minimum guaranteed royalty amount (and the license agreement may also provide that the licensee is financially liable for the shortfall).

Accordingly, in order to achieve the minimum guaranteed royalty level, the licensee will feel pressure to generate sufficient sales volume. Pertaining to the issue of pricing and distribution, licensors need to be aware that the minimum guaranteed royalty can itself become an incentive for licensees to engage in expanded, unauthorized distribution and excessive discounting.

To combat the risks of expanded, unauthorized distribution, the license agreement should expressly provide that sales in violation of the agreement shall still be royalty-bearing, but shall not count toward the minimum guaranteed royalty. As such, a licensee's sales to unauthorized customers will not help it make progress toward jumping the minimum guaranteed royalty hurdle.

Here is a sample clause:

> Licensee shall not offset against any Minimum Guaranteed Royalty any Royalties accruing on sales of Licensed Products to customers other than Authorized Customers or any Royalties accruing on sales of Licensed Products which are otherwise in violation of the terms of this Agreement. Sales of Licensed Products in violation of this Agreement shall be Royalty-bearing, and Licensor's acceptance of Royalties on such sales shall not be deemed to be a waiver of any right or remedy of Licensor hereunder relating to such unauthorized sales.

Use a Minimum Guaranteed Royalty Structure That Only Credits a Specified Amount of Deeply Discounted Sales

To combat the risk of excessive discounting, brand licensors should consider requiring that the minimum guaranteed royalty be primarily comprised of healthy sales which are goodwill enhancing for the licensed brand. This can be achieved by excluding unhealthy, overly discounted sales from counting toward the minimum guaranteed royalty if those sales exceed a certain threshold. Here is a sample clause:

> Licensee shall not engage in excessive discounting as a means to meet the Minimum Guaranteed Royalty requirement. "Deeply Discounted Net Sales" means Net Sales of licensed product where the discounts and allowances equal or exceed thirty percent (30%) or more off of the [standard wholesale price]. "Deeply Discounted MGR Cap" shall mean twenty (20%) of the Minimum Guaranteed Royalty. Royalties shall accrue on all Deeply Discounted Net Sales, although Royalties on Deeply Discounted Net Sales shall not count toward the Minimum Guaranteed Royalty requirement for any Contract Year after such Royalties on Deeply Discounted Net Sales reach the Deeply Discounted MGR Cap.

Limit the Amount of Discounts That Count When Calculating Royalties

In royalty structures that are based off a percentage of net sales, the brand licensor is actually subsidizing the licensee's discounts. One simple strategy to counteract this is to limit the amount of discounts that are allowed for the purposes of calculating royalties. Essentially, the licensee may discount further beyond the cap, but deeper discounting will not come at the licensor's expense.

Here is a sample clause:

> For the purposes of calculating the Royalty only, the total of all discounts or allowances of any kind which can be deducted from gross sales of Licensed Products shall be capped at ____% of the total gross sales. All sales of Licensed Products with discounts or allowances that exceed such cap shall be treated for Royalty purposes as sales made at the [standard wholesale price] of such Licensed Products prior to any discounts or allowances.[6]

One issue to be cognizant of is that excluding certain deeply discounted sales from the minimum guaranteed royalty and also using a discount cap can create a tight vice around the licensee. The discount cap effectively escalates the royalty for the deeply discounted sale, and then that royalty might still excluded from the minimum guaranteed royalty requirement. This increases the chance that there will be a shortfall. In light of this, brand licensors should expect pushback, and ultimately may have to settle for one method, but not both.[7]

Fixed Dollar-Per-Unit Versus Percentage Royalties; Royalty Increases

Another strategy to offset the economic and goodwill damage of deep discounting is to employ a royalty structure that increases as a percentage of sales when the discount level is increased.

This can be accomplished by using a fixed dollar-per-unit royalty instead of a percentage based royalty. If a brand licensor has a good understanding of the marketplace for licensed products, it may be worth eschewing the more common percentage of gross/net sales based approach in favor of a fixed dollar-per-unit approach. As the licensed product's selling price goes down, the fixed dollar-per-unit royalty represents a greater percentage of the selling price.[8]

The key, as with all of these strategies, is that the licensee can sell at whatever prices it chooses. But the licensor is no longer subsidizing the discount, and the licensor is hopefully incentivizing the licensee to sell at prices that will enhance goodwill and brand value.

Strategy 3: Include Terms Restricting Distribution to Specified Channels

Discount Resellers

Just about every license agreement has a definition of a geographic territory. But within that territory, there are various relevant markets and different channels by which one can access those markets. Brands may limit distribution of their own products to certain markets and specific channels within those markets which the brand believes are complimentary to its brand image. For example, a luxury fashion brand may opt to sell directly to upscale retailers like Barney's, but may choose not to sell directly to Walmart. And, barring unusual situations such as dominant market power, that same brand may elect not to sell directly to a competitor of Barney's, such as Bergdorf Goodman.

In structuring a license agreement where the licensee distributes products to resellers (as opposed to selling directly to consumers), a brand licensor should take care to define "Authorized Customers" to whom the licensee may distribute licensed products as those customers that the brand itself would chose to associate itself with. A restriction on "Authorized Customers" should be reasonable.[9] Therefore, the brand licensor should not merely state that any "Authorized Customer" needs to be approved by the licensor. Rather, the agreement should list the "Authorized Customers" on a schedule, and ideally include language setting forth criteria for approval of any new "Authorized Customers."

Here is a sample of such language:

> The "Authorized Customers" as of the date hereof are those customers listed in Exhibit __. Exhibit __ may be updated with additional Authorized Customers upon Licensor's reasonable approval. For the avoidance of doubt, it shall be reasonable for Licensor to withhold its consent if it believes the proposed customer does not deal primarily in products similar in quality and prestige to products bearing the Licensed Trademark(s) or whose quality of operations, including without limitation, delivery of retail services and presentation of products are not consistent with the quality and prestige of products bearing the Licensed Trademark(s).

In structuring a license agreement where the licensee sells direct to consumers, then the license agreement should expressly state that sales are limited to end using customers.

The brand licensor should also include language that prohibits the licensee from distributing products to customers that the licensee knows or reasonably should know would redistribute the licensed products to anyone other than the intended end-users:

> Licensee agrees that it will not sell or distribute Licensed Products to any entity that has in the past or that Licensee knows will, or has any reason to believe intends to, resell or redistribute Licensed Products to unauthorized customers.

Coupled with an audit provision that allows the brand licensor to review sales and shipping information, this clause prevents the licensee from making an end run around the Authorized Customer restriction.

These clauses cannot completely prevent licensed products from ending up at retailers other than those identified as "Authorized Customers." Pursuant to the first sale doctrine, if a bona fide purchaser (either from the licensee or the licensee's customers) purchases the product without having agreed to this restriction, such purchaser generally will be able to resell the licensed product where it wishes.[10] But, presumably the licensor and its authorized customer will have received the benefit of their deal, provided the licensee's authorized customer sold licensed products in accordance with the license agreement. If not, the brand licensor's remedy could be against the licensee for potentially violating the "Authorized Customer" definition or for failing to require or enforce the "Authorized Customers" clauses.[11]

As a final note on the topic of "Authorized Customers," in an effort to maintain brand value even after the licensed products are outdated or no longer in-season, some brand licensors include a provision that permits sales of discontinued or prior generation licensed products, seconds or irregulars to specified customers other than authorized customers outside of the territory of the license agreement. Another option to consider is permitting the donation of such licensed products to a mutually agreeable charitable organization. These alternate means for regulating the distribution of branded products that are arguably no longer valuable to the brand helps maintain the brand value for current and new products.

e-Commerce

It may not be realistic for a brand to prevent internet sales altogether. Even luxury retailers have their own e-commerce sites. That being said, a brand licensor should strongly consider requiring the licensee to limit the licensee's customers' sales to websites which are in fact owned or controlled by the customer (or, if the licensee is selling direct-to-consumer, then limiting sales to licensee's own website, the URL of which should be specified in the agreement itself).

The license agreement (in situations where the licensee is selling to authorized retailer customers) would state:

> Licensee shall require each Authorized Customer to enter into an agreement with Licensee providing that such Authorized Customer shall only advertise and/or sell Licensed Products on the website(s) that are owned or controlled by the Authorized Customer. Such agreement shall provide that Licensor is a third party beneficiary of this provision.

The same caveat noted above with respect to bona fide purchasers, which generally allows such purchasers to resell in any manner they want, applies in this context as well. If an online reseller is a bona fide purchaser of the licensed products, the brand licensor might not be able to prevent the resale of licensed products on that reseller's website, although the brand licensor should have remedies for breach and/or damages against the licensee.

Strategy 4: Require a Suggested Retail Price (SRP), and Require It to Be Printed and/or Published

Even though a brand licensor cannot set the ultimate resale price for the licensed products in the market, a brand licensor can insist that there exist a suggested retail price (SRP) for the licensed products. The brand licensor has an interest in ensuring price integrity, and inconsistent SRPs for the same licensed product erode consumer confidence and dilute brand value and goodwill.[12]

Here is a sample clause:

> To avoid the publication of inconsistent SRPs for the Licensed Product(s), which has a detrimental effect on the perceived quality of Licensor's brand and undermines consumer confidence in the integrity of the pricing for all products bearing the Licensed Trademark(s), Licensee shall ensure that the correct SRP for a particular Licensed Product is displayed on the package, unless prohibited by applicable law. Licensee shall also ensure that its Authorized Customers display the correct SRP for a particular Licensed Product on the package, unless prohibited by applicable law. To the extent Licensee and/or its Authorized Customers desire to include a sales price in print or in online offers or advertisements, such parties are entitled to determine the sales price in their sole discretion; provided however, that such advertisements shall also include a reference to the correct SRP as well.

By requiring the publication of the SRP, the consumers become informed that even if the current licensed products are being sold at a lower price, the products are usually sold at higher prices. This should effectively maintain brand value for future sales of similar/newer licensed products at higher prices, although brand licensors should always be aware that if such discounting becomes commonplace consumers may come to expect the discounting to continue later in the life cycle of the newer branded products.

Other Options

If the strategies discussed above do not do enough to satisfy a brand licensor's concerns about potential damage to goodwill, the brand licensor may be forced to evaluate different deal structures to the extent it still wants to do a deal.

Use of Sub-Brands

One such structure would be to create a sub-brand to be used in connection with the license. Sub-brands provide a layer of differentiation from the primary brand, and while still affiliated with the primary brand, discounted sales of products under the sub-brand through discounted channels should not necessarily detract from the primary brand's value or goodwill. The brand licensor could still consider the terms described in this article above, although arguably the risks to the primary brand from unauthorized distribution or deep discounts would be mitigated by use of the sub-brand.

Direct-to-Retail Business Models

Some brand licensors are cutting out the middleman between themselves and retailers through a "direct to retail" licensing model. In this scenario, the brand licensor grants the retailer a direct license to manufacture and sell the licensed product in that retailer's own stores and (in some cases) on that retailer's own website. The retailer still has the right to set the consumer resale price. But, instead of relying on an "Authorized Customer" definition, the brand licensor is directly selecting the retail seller(s) of the licensed product. Generally, this model results in far less unauthorized distribution. Where the licensed product is specifically designed for the retailer's stores only, or the packaging for the licensed product is specific to the retailer's stores, it will be obvious that the retailer or its supplier breached the agreement if that same product appears in different channels or stores.

Distributor Business Models

When having more control over price is essential to a brand owner, the brand owner may want to consider other business models altogether. For example, a brand owner could take on the cost and risk of developing, manufacturing and inventorying the product, and then find third party distributors (instead of licensees) to resell the product. As such, the brand could establish a "Minimum Advertised Price" and/or "Minimum Resale Price" policy.[13] Under these policies, the brand owner pre-announces that it may choose to discontinue supply of products if the reseller advertises or sells below the minimum price. Even in California and New York, these policies are legal to the extent they are truly unilateral, although brands should consult with antitrust counsel in connection with the establishment and continued compliance of such unilateral policy. Brands should also carefully consider the advantages and disadvantages of such policies.

Conclusion

Even though brand licensors cannot dictate or control resale prices for their licensed products *per se*, they should understand that a licensee's decision to price a licensed product at a certain price is influenced by many factors and incentives. The strategies discussed in this article are designed to properly align the incentives of both brand owner and its licensee. This alignment allows brand licensors to deploy the afore-described strategies to ensure protection for the brand's value and goodwill. And the maintenance of such brand value and goodwill will likely serve both parties interests in a successful business venture.

Endnotes

1. Depending on the circumstances, a licensee may be wholesaling to retailers or selling direct to consumers. In the wholesale scenario, if royalties are based on the "net sales" to these wholesalers, and these sales are discounted, then the base upon which the royalty is calculated is diminished. In the direct-to-consumer scenario, if royalties are based on "net sales" to consumers, again discounts cut into the base upon which royalties are calculated, and deep discounting directly to consumers can hurt brand value.
2. *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373 (1911).
3. 551 U.S. 877 (2007).
4. *See Alan Darush MD APC v. Revision LP*, No. CV 12-10296 GAF AGRX, 2013 WL 1749539, at *6 (C.D. Cal. Apr. 10, 2013) (noting that "[u]nder current California Supreme Court precedent, vertical price restraints are per se unlawful under the Cartwright Act. There is no indication that precedent is changing") (internal citation omitted); Attorney General Eric T. Schneiderman, *Antitrust Enforcement*, http://www.ag.ny.gov/antitrust/antitrust-enforcement ("Resale price maintenance violates New York law.").
5. The number of months of supply of licensed products permitted to be held could be greater or lesser than three (3) months depending on the lead time for manufacturing.
6. To the extent a licensee will be introducing new models of the licensed product during the term, the licensee may want to see the discount cap raised for older models when new models are introduced. Generally, from the brand licensor's perspective, this may be agreeable as the brand licensor also has an incentive to make sure inventory of older models do not build up.
7. There are creative solutions to this problem, but such solutions are outside the scope of this overview.
8. Take this example:

	Target Sales Price of $100	Actual Sales Price of $50 After Discounting
Royalty Payable, where Royalty Equals 10% of Net Sales	$10	$5
Royalty as a Percent of Sales Price	10%	10%
Royalty Payable, where Royalty Equals $10 Per Unit	$10	$10
Royalty as a Percent of Sales Price	10%	**20%**

There are other ways to accomplish similar results with a percentage-based royalty that increases as the discount is increased.

9. An "Authorized Customer" provision would generally (but not necessarily always) be construed as a non-price vertical restriction which is subject to the rule of reason. *See O.S.C. Corp. v. Apple Computer, Inc.*, 601 F. Supp. 1274 (C.D. Cal. 1985) (holding that a prohibition against mail-order sales of products by authorized dealers was lawful under the rule of reason).
10. *See, e.g., Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995) (noting the "basic limitation on the right of a trademark owner under the Lanham Act to control the distribution of its own products" and that "courts have consistently held that, with certain well-defined exceptions, the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product").
11. Internet marketplaces themselves will often refuse to take down listings unless the article is counterfeit or the seller is making use of the brand licensor's trademarks or copyrighted materials beyond what would be considered "fair use" to describe the goods being offered for sale.
12. SRPs should not be used in a deceptive manner to suggest that the selling price represents a large discount. *See* Guides Against Deceptive Advertising, 16 CFR Part 233.
13. These policies are almost universally unilateral despite *Leegin* due to state law concerns. *See* footnote 4, above. A deeper discussion of these policies is outside the scope of this article.

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Opening the Door to Racier Marks? *In re Tam* and Its Impact on Trademark Registration and Business Marketing

By Theodore K. Cheng and Amit Shertzer

On December 22, 2015, the U.S. Court of Appeals for the Federal Circuit issued its long-anticipated *en banc* decision in *In re Tam*,[1] ruling that the portion of § 2(a) of the Lanham Act permitting the U.S. Patent and Trademark Office ("PTO") to refuse registration of any trademark it finds "disparaging"[2] violates the First Amendment and is facially unconstitutional. While seemingly definitive, this decision raises more questions for trademark protection and prosecution than it purports to answer and may impact business marketing strategies.

> *"[In* Tam, *the Federal Court] concluded that trademarks are often more than mere commercial speech. Because they are a form of 'private speech' that contains 'expressive aspects,' they are protected by the core of the First Amendment."*

A. The *In re Tam* Decision

The *In re Tam* case first arose in 2011 when Simon Tam, described as the front man for the Asian American dance-rock band The Slants, filed an application to register the mark THE SLANTS for "Entertainment in the nature of live performances by a musical band." Tam, himself of Asian descent, stated that his band was so named to "reclaim" and "take ownership" of Asian stereotypes. Nevertheless, the PTO, explaining that the term "slants" had "a long history of being used to deride and mock a physical feature" of people of Asian descent, refused to register Tam's mark because it is disparaging to persons of Asian descent and, thus, violates § 2(a), which prohibits registration of a mark that "consists of or comprises immoral, deceptive, or scandalous matter; or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute." Specifically, the Examiner found that Tam's mark disparaged people of Asian descent because "a substantial composite of persons of Asian descent would find the term offensive." The Trademark Trial and Appeal Board ("TTAB") affirmed the PTO's decision, and Tam appealed.

A unanimous panel of the Federal Circuit affirmed the TTAB's determination, concluding that there was substantial evidence to support the Examiner's finding that the mark was disparaging and rejecting the argument that the statute was unconstitutional based upon the binding and seminal *McGinley* decision.[3] *In re McGinley*[4] involved a trademark that comprised "a photograph of a nude man and woman kissing and embracing in a manner appearing to expose the male genitalia." The mark was to be featured in a newsletter that, as the court gingerly described, had to do with "discussions of sexual topics," including "sponsoring and arranging parties for 'swinging,' which appears to be a form of group sex." The *McGinley* court held that the PTO's refusal to register a mark under § 2(a) did not bar the applicant from using the mark and, therefore, did not implicate the First Amendment to the U.S. Constitution.[5] The Federal Circuit adopted this same rationale as to Tam's trademark, THE SLANTS.

However, based upon "additional views" expressed by the author of the panel opinion,[6] the Federal Circuit *sua sponte* reheard the case *en banc*, with a new focus on whether the PTO's refusal to register disparaging marks, such as THE SLANTS, violates the First Amendment. Noting that Tam had adopted THE SLANTS to "make a statement about racial and cultural issues in this country," through which he "conveys more about our society than many volumes of undisputedly protected speech," the *en banc* court, in a 9-3 decision, overruled *McGinley* and held that the anti-disparagement clause was unconstitutional.

B. The Federal Circuit's Reasoning

The Federal Circuit's decision was based on two principal reasons. First, the court concluded that trademarks are often more than mere commercial speech. Because they are a form of "private speech" that contains "expressive aspects," they are protected by the core of the First Amendment. That is, they are more than just components of product branding or simple source identifiers. In the court's view, such speech cannot be burdened by regulation if the government does not meet the highest standard of judicial review, also known as "strict scrutiny." Under this standard, the court held that the government had failed to set forth any "compelling state interests" to justify withholding registration from trademarks of which the government disapproved under the rationale that they were "disparaging."

Consistent with this analysis, the Federal Circuit also rejected the government's contention that, under the rationale of *McGinley*, First Amendment protection was unnecessary because an applicant could still *use* its mark even if the PTO refused to *register* the mark. The court explained that the First Amendment protects against more than outright prohibitions on speech; it also protects against excessive *burdening* of speech. The benefits of federal trademark registration are so great, the court reasoned, that refusing to let an applicant partake in such benefits creates "a serious disincentive to adopt a mark which the government may deem offensive or disparaging" and, thus, has a "chilling effect" on the applicant's private speech.

Second, the court went a step further and articulated another rationale for its decision. It held that, even if trademarks should be considered mere "commercial speech," which is evaluated under the lower judicial standard of "intermediate scrutiny," the anti-disparagement clause still would not survive because the government does not have a "substantial government interest" to justify it. The court found that the "entire interest of the government in § 2(a) depends on disapproval of the message"—conveyed by the rejected trademark—which is "an insufficient interest to pass the test of intermediate scrutiny."

The court also rejected the government's argument that a federally registered mark constitutes "government speech," and that the benefits of a federal registration constitute a "government subsidy" that the government can refuse when it disapproves of the message a mark conveys. Drawing upon an analogy to copyrights, the court reasoned that, if trademark registration was a government subsidy that allowed the government to refuse registration of disparaging marks, then copyright registration would also be a government subsidy that would allow the government to "pass a law prohibiting the copyrighting of works containing 'racial slurs,' 'religious insults,' 'ethnic caricatures,' and 'misogynistic images.'" Thus, in the court's view, "[t]rademark registration is not a subsidy," but, rather, is more akin to "a regulatory regime" because "[t]he benefits of trademark registration… are not monetary."

Thus, the Federal Circuit vacated the PTO's decision and remanded the case for further proceedings. For Tam, the prospects for registering THE SLANTS look promising, and, more generally, the decision appears to open the door to register (or re-register prior rejected) "colorful" marks that previously would have been refused or canceled.

C. Unresolved Questions

Tam is notable not only for the issues it addressed, but also for the ones it left open. For instance, the *en banc* court noted in a footnote that it would "leave to future panels" to determine whether § 2(a)'s other restrictions—such as those applying to immoral or scandalous trademarks—still pass constitutional muster.[7] The decision also created the potential for an ultimate resolution of this issue by the U.S. Supreme Court: the Fourth Circuit is currently considering *Pro-Football, Inc. v. Blackhorse*,[8] in which Washington, D.C.'s professional football team is appealing the same constitutional issue presented in *Tam* in connection with the PTO's decision to cancel six trademark registrations owned by the National Football League's Washington Redskins on the ground that they disparage Native Americans. The Fourth Circuit is not bound by the Federal Circuit's decision in *Tam*. Thus, irrespective of which way the Fourth Circuit comes out on the constitutional issue—but most notably if it decides to uphold the cancellations under the anti-disparagement clause—the Supreme Court may need to step in to make a final determination on the constitutionality of this clause.

D. *In re Tam*'s Potential Effects on Business Marketing Strategies

The *Tam* decision may also carry implications in other, even unexpected, aspects of everyday business. For example, take the advertising approach known as "ethnic marketing." Ethnic marketing involves devising product campaigns or strategies that may appeal to certain racial, ethnic or cultural consumer groups. By doing so, companies can segment the marketplace and identify specific groups who are either underserved or not actively targeted by an industry's product or service offerings.[9] While ethnic marketing certainly can be a successful advertising strategy to tap into the buying potential of such groups, it can also be misused to perpetuate negative stereotypes and promote undesirable images or behavior. For instance, the targeting by alcohol and tobacco companies of African American, Latino, and Native American groups has often resulted in controversy.[10] Some companies also transform general stereotypes into marketing campaigns that can be perceived as offensive.[11] The Frito-Lay Corporation once used a caricature of an overweight, "sneaky" Mexican thief called the "Frito Bandito"—depicted complete with a thick Spanish accent, a long handlebar mustache, an oversized sombrero (with a bullet hole in it) and a pair of six-shooters—to promote sales of its "cronchy" Fritos corn chips, which garnered protests from the Mexican American community.[12] Similarly, African Americans have objected to stereotypical portrayals such as Aunt Jemima (for pancake mix, syrup and other breakfast foods), Uncle Ben (for rice and related food products) and the Cream of Wheat chef Rastus.

With the anti-disparagement clause preventing registration of such potentially disparaging marks, companies likely could not seek the additional brand protection afforded by federal registration. *Tam* now suggests that controversial, even offensive, marketing campaigns targeted at racial, ethnic, and cultural groups will not encounter any impediments to registration. The benefits of registration can enhance and possibly legitimize negative advertising and perpetuate stereotypes that these groups have fought hard to overcome. However, it is unlikely that those concerns will fall on deaf ears, as the marketplace has repeatedly demonstrated that it will provide the necessary feedback to correct any advertising missteps. Thus, for companies intent on engaging in potentially offensive advertising, *Tam* should not be viewed as a license to freely engage in such conduct. Rather, as was the case before *Tam*, a prudent course of action is to begin by better understanding the target groups through solicitation and analysis of quantitative and anecdotal evidence from focus groups, surveys and other sources of market data so as to minimize the possibility that a campaign will be perceived negatively.[13]

Another intriguing implication of *Tam* is its application to the style of advertising known as "guerrilla marketing." Unlike traditional marketing, guerrilla marketing is less concerned with how to spend money to put together a big budget, high-profile campaign for a product or service, and more focused with investing time, energy, imagination, knowledge and information about a product or service in order to promote it in an unconventional way and, often, with limited resources.[14]

Tracing its roots to guerrilla warfare tactics that rely on raids and ambush attacks, guerrilla marketing exemplifies innovative advertising that involves "small budget, big results."[15] Guerrilla marketers often rely on three major techniques: amazement (a "wow factor"), content (valuing substance over form) and involvement (making consumers feel like they are part of the marketing experience).[16] Of course, guerrilla marketing has become especially powerful in the Internet age, where companies can obtain instant information about their consumers and competitors, operate cost-effective technologies for their products and services, have unprecedented global reach, and provide their products and services at exceptional speed.[17]

When done effectively, guerrilla marketing can be memorable, perhaps even unforgettable:

- Audi, the German automobile maker, painted selected streets in metropolitan areas with the slogan "Di*sel is no longer a dirty word" in order to promote its clean diesel engine.[18]
- Iglo Foods, a producer of frozen food products, took cash and coins and froze them into a sculpture shaped like a giant fish, which it placed on a bridge in central London. As the fish melted, passersby could take the money. The display was intended to highlight to consumers in the United Kingdom that they were wasting money by throwing away significant amounts of food every year.[19]
- Activate, a beverage producer, arranged a fake protest in New York City in which protesters rallied to "stop vitamin cruelty." The "protesters" cried that vitamins lose their potency when they "sit" in water.[20] Activate's products then came to the rescue: the company stated on its website that its "unique, patented cap" separates water from other ingredients and, thus, allows vitamins to "stay fresh."[21]

As the above examples demonstrate, effective guerrilla marketing may sometimes push the boundaries of what is considered traditional "marketing." But what would happen if a company wished to use its trademark as part of a guerrilla marketing campaign? And furthermore, what if that trademark was controversial in itself, such as the image of the kissing couple in *McGinley* or a text mark like THE SLANTS in *Tam*?

Before *Tam*, trademark owners may not have sought registration for marks used in the underground, unconventional world of guerrilla marketing—and doubly so if the mark would be seen as disparaging or controversial. Yet *Tam* suggests that even provocative marketing campaigns, highlighted by disparaging marks, may enjoy the benefits of trademark registration. These benefits may be more important than ever, as consumers continue to veer away from "traditional" media (newspapers, radio and television) towards new-age media (smart phones, personal tablets and laptops) where guerrilla marketing can be especially effective.

At the same time, trademark owners may believe that it is the underground, unexpected nature of guerrilla marketing that makes such marketing valuable, and that its value would be diluted by "broadcasting" the marks to the world via trademark registration. In addition, due to its sometimes controversial nature, it may be worthwhile to keep guerrilla marketing as a low risk tactic in case it backfires. As an example, consider the backlash experienced by a TV network in Belgium for its campaign to advertise the TV series "24." The network put together a poster that featured pictures of men with masks and special uniforms distributing flyers stating the presence of a deadly virus and instructing people to go home and turn on their televisions, presumably to watch "24," which caused concerns among Antwerp's citizens.[22]

Thus, whether trademark registration aids or hampers a controversial trademark used as part of a guerrilla marketing campaign may depend, at least in part, on the reputation that a company wishes to cultivate; those companies that seek to develop a brand based on a "hit-and-run" kind of marketing may not benefit from registration, while those that intend to continue to use the same mark in different, guerrilla-style settings may benefit from the added protection conferred by *Tam*.

While we await the final word on the constitutionality of the anti-disparagement clause, the bottom line seems to be that just because companies may now have the ability to seek registration of potentially disparaging marks does not necessarily mean that it is a wise business or marketing decision to do so.

Endnotes

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3. *In re Tam*, 785 F.3d 567 (Fed. Cir. 2015) *rev'd* 808 F.3d 1321.
4. 660 F.2d 481 (C.C.P.A. 1981).
5. *Id.* at 482.
6. *See Tam*, 785 F.3d at 573-85 (Moore, J., expressing additional views).
7. *Tam*, 808 F.3d at 1330 n.1 (en banc).
8. *See* No. 15-1874 (4th Cir.).
9. *See generally* Lisa A. Guion, *et al.*, Strengthening Programs to Reach Diverse Audiences (2003); Marye C. Tharp, Marketing and Consumer Identity in Multicultural America (2001).
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The Importance of a Comprehensive Trademark Enforcement Program: The Changing Tides of Trademark Infringement

By Alana M. Fuierer and David P. Miranda

In recent years, online trademark infringement and counterfeiting have grown exponentially in both the United States and worldwide, posing a significant threat to authentic businesses and trademark owners, both large and small, and the global economy.

The global reach of the Internet, along with its easy access and anonymity, has allowed the Internet to become a breeding ground for trademark infringers and counterfeiters. Indeed, counterfeit goods are a global, multi-billion dollar business. For example:

- According to various reports, online counterfeiting costs the U.S. economy anywhere between $135—$250 billion annually.
- According to FBI, Interpol, World Customs Organization (WCO) and International Chamber of Commerce (ICC) estimates, roughly 7-8% of world trade every year is in counterfeit goods. The equivalent of about $512 billion in global lost sales.[1]
- Internet sales have seen rapid growth over the past decade. In 2014, overall U.S. retail e-commerce sales were 237 billion USD,[2] accounting for almost 7% of all retail sales.
- According to United Nations report, the value of counterfeit goods sold online was expected to top $1.7 trillion by 2015.[3]

Given these statistics, it is clear how significant an economic impact online piracy and counterfeiting can have on U.S. businesses, and the challenges a trademark owner faces when confronted with counterfeit goods or unauthorized use of its trademarks.

In addition to the loss of revenue a business can suffer, trademark rights can become abandoned under the Lanham Act[4] if third party infringement is tolerated and allowed to run rampant. It therefore is critical for a trademark owner to engage in vigilant policing against misuse of its marks to preserve the value of its trademarks.

Current Trends in Trademark Infringement/ Counterfeiting

As new technology and online platforms emerge, e-commerce has grown in leaps and bounds since the advent of Amazon (1994), eBay (1995) and Alibaba (1999). Technology has been a blessing and a curse for brand owners. The market for knock-off goods has kept pace and, in some cases, has spearheaded technological advances. Indeed, counterfeiters continue to create and exploit new techniques and opportunities for selling unauthentic or pirated goods and misusing trademarks online.

It is well known that online auction sites, such as eBay, Alibaba and TaoBao, make up the primary distribution point for counterfeit products. According to one 2014 report, Chinese company Alibaba.com ranked first in market penetration, with a 23.7% global reach as of May 2014. Amazon.com, the most popular retailer in the U.S., ranked second with a 22% global reach. As of August 2015, 188 million users visited Amazon's websites per month. eBay, ranked second, had 98 million visitors during the same period.[5,6] According to the International Anti-Counterfeiting Coalition (IACC) report in 2013, 29% of online counterfeit sales occur through eBay.[7]

By eliminating the need for brick and mortar warehouses and complex distribution channels, these sites have opened the door for individuals and sham companies to misuse valuable trademarks and make lots of money doing so. A consumer can find and buy practically anything from anywhere while sitting on his or her couch, and an online e-commerce site can exploit and feed off of a legitimate trademark owner's goodwill with impunity. Long gone are the days when Rolex is only concerned with counterfeit Rolex® watches being sold on the market streets of New York City or Big Box outlet centers. No longer can Coach only focus its efforts on knockoff Coach® purses being sold at flea markets. With the explosion of e-commerce and effective elimination of national borders via online auction sites, the barriers to widespread distribution have fallen. Born out of the rapid development of new Internet applications and platforms, increasing use of mobile devices and worldwide access to Internet bandwidth, business owners must now be prepared to face the shifting sands of e-commerce instead of street vendors and clandestine warehouses.

Faced with this reality, the following tools will help businesses and trademark owners in two important ways: (1) by minimizing online trademark infringement and counterfeits, and cutting off such misuse before it spreads and results in significant economic loss; and (2) by establishing a trademark owner who is vigilant in policing its marks against misuse, thereby protecting its mark from abandonment.

Toolkit for Policing Against Trademark Infringement, Counterfeiting and Piracy

1. Frequent and Consistent Internet Monitoring—Early Detection

While monitoring the wide variety of online sites may seem daunting, it is imperative to do so. Consistent and proactive monitoring will allow a trademark owner to stop new infringements in their tracks, before they spread. The longer an infringement has been present (and making money), the harder it is to stop without expensive litigation. Furthermore, once a new infringing item starts to spread from the original source to the hundreds, if not thousands, of third party online retail sites, it is virtually impossible to plug up all holes and you will waste valuable resources trying to do so.

Trademark infringement typically occurs *via* the hidden use of metatags, AdWords or "pay-per-click" advertising, and banner advertising. There are several ways to monitor, including manual searches on the primary search engine sites (e.g., Google®, Bing®, Dogpile®, etc.) and online auction sites (e.g., eBay®). Depending on the nature of your goods and your resources, daily, weekly or monthly monitoring may be required. Some of these sites offer no-cost, automatic search mechanisms. For example, Google offers a free service called Google Alerts, which allows you to monitor your trademarks or company's name online. Google will send you instant results each time a specific word or phrase is used. eBay allows you to set up "Searches You Follow" and receive periodic email notifications with the search results.

Other sites have similar capabilities, free of cost. Take the time to research and use them. This information will allow you to act quickly if there is infringement or if there is an unauthorized use of your company's trademark. You may also want to consider paying for a Trademark Watch Service.

Best Practice Tip: Early detection is always best and a good offense is the best defense. Engaging in frequent, continuous online monitoring is a best practice for every trademark owner.

2. Website Take Down Procedures

Many of the most popular online marketplaces and auction sites have comprehensive and, for the most part, user-friendly reporting mechanisms for reporting trademark and copyright infringement. These tools were put in place by the sites to avoid, or at least mitigate, liability for secondary trademark infringement and, more frequently, to comply with the Digital Millennium Copyright Act (DMCA). Secondary trademark infringement is when an online marketplace is held liable for the infringing activities of one or more of its sellers.[8] Unfortunately for brand owners, the federal courts rarely allow a claim of secondary liability for trademark infringement to survive a motion to dismiss. Instead, the courts have made it clear that brand owners must take some responsibility for monitoring online marketplaces and utilize the tools available.

The DMCA, passed in 1998, increases the penalties for online copyright infringement but also provides a safe harbor for Internet Service Providers (ISPs) who comply with certain "take down" procedures. As a result, these DMCA take down procedures, found on most e-commerce sites, are an important enforcement tool for intellectual property owners.

Over the past few years, online marketplace and auction sites also have initiated an increasing number of trademark infringement online reporting tools, frequently available with the DMCA tools. Examples include, Amazon, eBay, Alibaba, Etsy, Pinterest, Tublr, Houzz and Facebook. Each have their own rules, policies and oddities, and some are more complicated than others.

Perhaps one of the more exciting advancements in online trademark enforcement has been the monitoring and take-down tools provided by Alibaba®, a well-known source of counterfeit goods from China. Up until a few years ago, reporting trademark infringement or counterfeit goods through Alibaba was a frustrating waste of time and resources. Recently, Alibaba's program for infringing content review (AliProtect) is more proactive and friendly to the trademark holder. Although AliProtect involves very specific and intricate steps an Intellectual Property Rights (IPR) holder must follow, once the IPR holder jumps through these hoops, the process can prove to be a very useful tool in stopping counterfeit products from entering the United States.

Some websites, like Amazon® and eBay®, are more conservative when it comes to taking down reported listings, while others would rather take down a listing than face the potential for secondary liability. Regardless of the success rate, these reporting mechanisms are an invaluable tool in a company's trademark enforcement tool kit and, while not perfect, are far less expensive than filing a lawsuit.

Best Practice Tip: DMCA take down procedures must be used carefully, as the specific procedures set forth under the Copyright Act of 1976[9] are for copyrights only. Many times, trademark owners attempt to use the DMCA procedures for alleged trademark infringements. Copyright infringement and trademark infringement are not the same. Be aware, the improper use of a DMCA takedown notice for enforcing trademarks, rather than copyrights, may constitute a violation of the DMCA (Section 512(f)) and result in monetary liability for the trademark owner.[10]

3. Government Programs

Trademark owners with registered trademarks on the Principal Register may record these marks with the U.S. Customs & Border Protection (CBP). Once registered, the

CBP officers can monitor imports and seize counterfeit goods that bear infringing marks at each of the ports of entry. The process for recording a registered trademark has been streamlined by the Intellectual Property Rights e-Recordation (IPRR) system, which allows trademark owners to electronically file IPR applications.[11]

According to the CBP, in Fiscal Year 2014, there were 23,140 intellectual property rights seizures with a manufacturer's suggested retail value of $1.2 billion.[12]

4. Other Enforcement Tools

Despite best efforts, online enforcement tools are sometimes not good enough. In those situations, a business may need to escalate to more traditional enforcement tools. This includes cease and desist letters, federal litigation (or possibly state litigation, in certain limited situations) or U.S. Patent and Trademark Office (USPTO) trademark proceedings.

For counterfeit or grey goods imported from overseas, a business can consider bringing an International Trade Commission (ITC) proceeding, which allows a trademark owner to obtain a general exclusion order preventing any and all counterfeit or infringing goods from entering the United States.

Finally, educate yourself and your employees, sales representatives, agents, customers, friends and relatives about trademark infringement, and encourage others to report infringing activity.

Best Practice Tip: One less traditional, but often times effective, tool is raising public awareness of the wrongdoing. Bad PR, or the potential for bad PR, often times will be the best form of enforcement against an entity misusing another's trademark. Do not dismiss this as a viable approach, particularly against companies who are concerned with their own brand, reputation and goodwill. However, be mindful of avoiding disparaging or disingenuous conduct that could result in liability to the trademark owner.

5. Prioritize: Identify Proper Targets and Action

While it is well settled that failure to enforce your trademark could result in abandonment or weakening of your mark, it is also impracticable to require trademark owners to prosecute each and every minor infringement.[13] The courts do not require a business to go bankrupt policing its trademarks. As such, a strategic and tailored enforcement strategy is essential to maintaining your trademarks and it is important to prioritize your targets. Consider whether some infringements are *de minimis*, in favor of more strategic enforcement against larger, more problematic infringers. Where will you get the most bang for your enforcement dollar? Is it easier to go after the individual online retailers, or the source?

Finally, carefully consider which tool to use from the enforcement tool box. The Internet and social media not only have changed how trademark infringers infringe, they have greatly affected how trademark owners should react. Traditionally, when trademark owners discovered a perceived infringement, they would have their attorney send out a very serious and threatening cease and desist letter. With the advent of social media, this traditional method of enforcement must be used wisely and with caution, taking into account the risk of social media backlash in each and every case, along with other factors (amount the case is worth, other ways to approach enforcement, etc.).

One more recent example of how social media can impact trademark enforcement strategies is *Lagunitas Brewing Company v. Sierra Nevada Brewing Co.* (N.D. Cal. 3:15-cv-00153). Lagunitas filed a lawsuit against Sierra Nevada on a Monday, alleging the label on Sierra Nevada's new Hop Hunter IPA was substantially similar to the design on Lagunitas's iconic IPA. Within 24 hours of Lagunitas' court filing, a social media backlash campaign spread like wildfire. By Wednesday, a mere two (2) days later, Lagunitas voluntarily dismissed the lawsuit, stating it lost its trademark case in the "Court of Public Opinion."

Best Practice Tip: There are many examples like the Lagunitas case. Once the social media train pulls out of the station, it is virtually impossible to stop or recover from the fallout. One can assume that an aggressive infringer might sometimes defiantly and publicly share a cease and desist letter from a trademark owner. It therefore is imperative that a trademark owner and its counsel be wary of the risks involved, not only with failure to enforce its trademarks, but also with overly aggressive enforcement. Think creatively. Depending on the infringer, there are various strategies and ways of protecting your marks, without necessarily resorting to threats and litigation.[14]

Conclusion

Absent a comprehensive, online enforcement program, trademark infringement and counterfeiting can result in significant injury to your brand, products and/or services, as well as a significant loss in revenue. The easy access to counterfeit goods out of countries like China and Russia makes it even more important to have a strategic and targeted online enforcement program in place. Early and continuous monitoring is critical to any enforcement program, as is retaining intellectual property counsel to aggressively, yet efficiently, assist with a strategic and targeted enforcement policy.

Finally, given the far reach of the Internet and fast-paced advancements in technology, it is critical for business owners to stay educated regarding new infringement methods and solutions. E-commerce and the Internet are an ever-changing and evolving platform. A trademark owner must not remain stagnant in its enforcement strategies, but must be creative, flexible and willing to change with the "piracy" tides.

Endnotes

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10. *See* CrossFit, Inc. v. Alvies, No. 13–3771, 2014 WL 251760 (N.D. Cal. Jan. 22, 2014).
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12. *Intellectual Property Rights Fact Sheet,* U.S. Customs and Border Protection, http://www.cbp.gov/sites/default/files/documents/IPR%20Fact%20Sheet%202014%20UPDATE%20FINAL.pdf (last visited Mar. 20, 2016).
13. *See* Engineered Mech. Servs. v. Applied Mech. Tech., 584 F.Supp. 1149 (1984) ("The owner of a mark is not required to constantly monitor every nook and cranny of the entire nation and to fire both barrels of his shotgun instantly upon spotting a possible infringer. Lawyers and lawsuits come high and a financial decision must be made in every case as to whether the gain of prosecution is worth the candle.")
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Native Advertising: FTC Guides Brands to Avoid Deceptive Commercial Speech

By Kyle-Beth Hilfer

I. Introduction

Masquer-ads. Advertorials. Infomercials. Paid search engine results. Advertising that feels and looks like editorial platform content has existed for decades. In the age of social media, however, "native advertising," as it is now often called, has become more confusing. Brands have become more sophisticated at disguising their advertising messages within the editorial content, making it more difficult to differentiate commercial speech. The transition from editorial to sponsored content may be so seamless that consumers may not realize that they are perusing advertising. The Federal Trade Commission ("FTC") remains consistently concerned about native advertising's potential to deceive consumers.[1]

> *"The FTC starts with the presumption that the commercial nature of speech is of material concern to consumers since it is more likely to be biased."*

II. History of FTC Activity on Native Advertising

The FTC first started monitoring this form of advertising in 1917, scrutinizing vacuum cleaner reviews that failed to disclose that the author was an agent of the vacuum cleaner company.[2] Fast-forwarding to 1967, the agency took action when a newspaper article seemed to be a restaurant review column, but in fact was advertising for the restaurant.[3]

After years of consistent enforcement against commercial speech disguised as editorial content,[4] in December 2013 the FTC conducted its first workshop on native advertising. The FTC's goal was to examine the increasingly "blurred lines" between advertising and digital content.[5] While *Ad Age* editor Bob Garfield condemned the trend as a "hustle, a racket, [and] a grift,"[6] other attendees questioned whether today's tech-savvy consumers are more astute than their parents had been. They also pointed out that in the digital age much of the native content feels more editorial in nature than a product review. Native content may speak to a brand's philosophy, values and community connections, engaging consumers without even mentioning products or services.[7] Workshop speakers also discussed the ameliorating factors of transparency and disclosure that have always been standards for ethical advertising.

After the workshop, the advertising industry relied on guidance from the American Society of Magazine Editors[8] and the Interactive Advertising Bureau.[9] These organizations urged brands to use disclosures and label commercial speech clearly. Two years later, in December 2015, the FTC finally issued two new guidance documents: "Enforcement Policy Statement on Deceptively Formatted Advertisements"[10] and "Native Advertising: A Guide for Businesses."[11] These documents confirm that transparency and disclosures are crucial to ensuring that native advertising is not deceptive.

III. Current FTC Guidance

In announcing its new guidance, the FTC took pains to root its advice in long-standing principles interpreting Section 5 of the FTC Act. This statute governs unfair or deceptive practices that affect consumers.[12] The FTC starts with the presumption that the commercial nature of speech is of material concern to consumers since it is more likely to be biased: "Knowing the source of an advertisement or promotional message typically affects the weight or credibility consumers give it. Such knowledge also may influence whether and to what extent consumers choose to interact with content containing a promotional message."[13] To determine if the advertising is unfair or deceptive, the FTC considers the overall "net impression" on the reasonable consumer. Many factors influence "net impression" of advertising, including format, delivery method, audience, and content.[14]

Even if advertising content were truthful, the FTC would still view the speech as deceptive if consumers do not appreciate that it is commercial speech right from the outset. The Enforcement Policy discusses the FTC's history of enforcement action against misleading "door openers."[15] At one time, this concept referred to door-to-door salesmen who tricked consumers into letting them into their homes without conveying that they were selling products. In today's climate, the "door opener" can be a click-through ad, a headline that looks like news, or a social media post. The FTC clearly wants consumers to know they are looking at commercial speech before they click or tap to content. While industry members have questioned what harm comes from clicking, the FTC draws its current guidance from well-established law. The CAN-SPAM law requires that email subject lines convey clearly that the email is commercial content.[16] The Telemarketing Sales Rules requires telemarketers to let people know upfront that they are selling goods or services.[17]

In determining if the native advertising is deceptive or uses a "misleading door opener," the FTC considers, among other things, "the similarity of [the ad's] written, spoken, or visual style to non-advertising content offered on the publisher's site," "the degree to which [the ad] is distinguishable from other content," "expectations based on consumers' prior experience [with the editorial medium]" and disclosures or qualifiers in the advertisement.[18]

Together, the Enforcement Statement and Business Guide provide direction to marketers. The Business Guide, in particular, provides a number of specific examples that provide insight into how the FTC may enforce the law. Legal counsel should ponder the questions listed below while reading these documents and advising the marketing team what disclosures may be necessary in advertising.

A. Does the Content Require a Disclosure?

A threshold question is whether the content is advertising or editorial. Digital media has brought about the proliferation of many different types of native advertising: advertising provided exclusively and directly from the brand; branded content that is relevant to and funded by the brand, but coming from a third party; or content that the advertiser and publisher jointly produce with advertiser approval. Not all native advertising requires a disclosure.[19]

The FTC permits some native content to be seen as editorial in nature. For instance, Example 2 in the Business Guide cites an article about vacation spots "presented by" a running-shoe company. The article was accompanied by the company's logo, but it did not mention any company products.[20] The FTC would not require a disclosure in this instance because the article, itself, is editorial and the "presented by" tag and logo are self-explanatory clearly commercial advertising. In contrast, in Example 6, an article in a news magazine sponsored by an advertiser and mentioning its products requires a disclosure when it resembles a news article.[21] Laura Sullivan of the FTC's Division of Advertising Practices has indicated that content that is related solely to "brand integrity, brand equity, or improv[ing] the brand image, it [may not be considered] advertising."[22]

The Business Guide also analyzes re-purposed content. Example 8, for example, features an advertiser who republishes an unsolicited third-party favorable review.[23] The review itself would not constitute advertising, but if the advertiser places it into third party media, that placement is an "ad" requiring disclosure. More nuanced examples in the Business Guide revolve around shares and their context. What are the reasonable expectations of the viewer in these circumstances? If the share comes directly from a company, a disclosure is likely necessary as opposed to a share coming through a different independent site.[24] The Business Guide examples make it clear that if the advertiser's content facilitates sharing (with social media buttons, for example), the share link must contain a disclosure.

Paid content that appears in non-paid search results are also problematic. The FTC opines in the Enforcement Policy that consumers expect non-paid search results to be impartial. Consequently, such content requires a disclosure.[25] The Business Guide provides some examples of paid content: "any link or other visual elements, for example, webpage snippets, images, or graphics, intended to appear in non-paid search results."[26] Laura Sullivan explained: "If the search results would appear like any other article housed on a publisher site, then within the headline link there should be a disclosure."[27]

The FTC's guidance makes it clear that identifying commercial speech is a nuanced, fact-specific inquiry. If the brand and its counsel are uncertain of how to proceed, the Business Guide's examples are a starting point for analysis.

B. What Should the Disclosures Say?

Having identified native content as potentially deceptive, counsel should direct marketers to make transparent disclosures that limit the risk of deception. The FTC prefers clear, no-nonsense disclosures in "simple, unequivocal" language.[28] It has previously endorsed disclosures like "Ad," "Advertisement," "Sponsored Advertising Content," etc. On the other hand, the FTC views as ambiguous labels like "Promoted," "Sponsored," "Presented by," "Promoted/Sponsored Story" or "More Content for You."[29] Undoubtedly, inside counsel will have some negotiating to do with the marketing team in following the FTC's advice.

Similarly, just branding the content with a company logo is most likely an inadequate disclosure. While the logo may convey that an advertiser funded the content, it is inadequate to convey that the advertiser influenced the content.[30] Another consideration in forming a disclosure is the common language of the editorial platform. Counsel for brands should consider how other advertising material is labeled on the platform and adopt similar language. Ultimately, the FTC has made it clear that the "effectiveness of any [disclosure] is context driven."[31]

C. How Should Brands Make Their Disclosures?

Disclosures are not a cure-all, even if they use unambiguous language. Per the FTC's guidance, a disclosure must be clearly and conspicuously placed in relation to the native advertisement. Again, the FTC relies on standards it has enforced consistently with print or television advertising to delineate what "clear and conspicuous means." The disclosure should be as close as possible to the content, in font and color that is easy to read and contrasts with the background. In some instances, borders to offset the advertising from editorial text may be appropriate. In videos, the disclosures should be on screen long enough to be noticed, read and understood. Audio disclosures should be read at a cadence and volume that allows consumers to understand their meaning.[32] Notably, the FTC refers businesses to another business guidance document for more details on disclosures,*".com Disclosures:*

How to Make Effective Disclosures in Digital Advertising."[33] That guide states that disclosures in digital media should be "unavoidable" to the consumer, and this principle should inform all of counsel's advice to its brand marketing team.[34]

D. Where Should the Disclosure Go?

Disclosures should be located to match consumers' normal viewing predilections. They should be near headlines or the top of the content. If text flows from left to right, disclosures should be placed on the left side of the copy. If a focal point of the ad is graphic, however, the disclosure might need to be placed near that focal image. In addition, the ad's disclosures need to be platform responsive, even in the mobile context. Finally, the disclosure likely will be necessary multiple times, first at the originating link before the consumer views the native content, and then again on the click-through material.[35]

> *"When working with brand marketers on native advertising concepts, in-house attorneys should keep them focused on the guiding principles of transparency and disclosure."*

IV. FTC's First Enforcement Action on Native Advertising

Industry members were surprised to see swift enforcement of the FTC's Enforcement Policy. On March 15, 2016, the FTC announced its first consent order dealing with the Enforcement Policy. Retailer Lord & Taylor ("L&T") had run a highly successful social media "product bomb" campaign in March 2015 to launch its apparel line Design Lab. The campaign focused on one paisley, asymmetrical dress. L&T contracted with *Nylon*, an online fashion magazine, to run an article about the collection and feature the paisley dress. L&T also required *Nylon* to post a photo of the dress on its Instagram page. L&T reviewed both the article and the Instagram post before publication but failed to require a disclosure that they were paid advertising. Instead, the FTC alleged that L&T falsely and deceptively presented *Nylon*'s content as independent opinion about the Design Lab line.

The FTC also focused on the significant lapses pursuant to the FTC's Endorsement & Testimonial Guides.[36] L&T paid fifty independent influencers between $1,000-$4,000 and gave them all the dress. In return, the influencers posted photos of themselves wearing the dress on Instagram on the "product bomb" weekend, identifying their posts with L&T and Design Lab tags. Again, while L&T preapproved the posts, even editing some of them, the retailer failed to require a disclosure of the material connection between the influencers and L&T.

The L&T case represents a step forward in the FTC's enforcement activity as it is closing the case with a consent order rather than a closing letter (as it had in previous E&T Guides' cases). The final consent order, approved just two months after its initial release, prohibits L&T from "misrepresent[ing], in any manner, expressly or by implication, that paid commercial advertising is a statement or opinion from an independent or objective publisher or source."[37] In addition, the consent contained prohibitions regarding misleading endorsements and required disclosures. Finally, the consent order picks up the comprehensive monitoring requirements established pursuant to case law interpreting the E&T Guides.[38] L&T must have procedures to monitor influencer posts, obtain separate signed acknowledgements regarding disclosure requirements, and terminate social influencers after two violations. These monitoring requirements, while closely tied to the E&T Guides, should also guide inside counsel when determining how to set up internal procedures on native advertising cases.

In addition, the Lord & Taylor case demonstrates the close intersection between testimonial and endorsements and native advertising campaigns. In-house counsel should be particularly careful when reviewing influencer-marketing campaigns that have native advertising components. The FTC has clearly left the education phase on the E&T Guides, and if a campaign has native advertising components, attorneys may find themselves defending charges under both the E&T Guides and the Enforcement Policy.

V. Practice Tips

When working with brand marketers on native advertising concepts, in-house attorneys should keep them focused on the guiding principles of transparency and disclosure. In deciding whether advertising requires disclosures, counsel can coach clients with the following practice tips:

- Err on side of transparency.
- Consumers must know content is commercial speech before they interact with it.[39]
- Disclosures should change or clarify the meaning of the advertising message, making it crystal clear that the advertising message is commercial speech.
- Disclosures should be in simple language and placed in a clear and conspicuous location.
- In-text disclosures may not be sufficient. They should be proximate to the headline on the left side.
- Click-through ads require disclosures on both the originating page, even if it is a newsfeed, and the click-through itself.

- If reproducing an independent article as recommended content, the brand likely needs to include a disclosure if it is not clear that the recommendation came from the brand.
- When a customer shares an independent article with its originating link coming from the brand, the link likely requires a disclosure.
- Sponsored videos that look like non-sponsored content require disclosures.
- Paid content that appears in non-paid search results typically requires a disclosure.
- Product placements or clear advertising (e.g., billboard graphic) in entertainment formats, such as video games, may not require disclosures, but click-throughs that look like gaming content would require a disclosure before the consumer clicks.[40]
- Remember that brands are responsible for the veracity of any product/service claims in the native content and the activity of their agencies.
- Counsel should design monitoring policies that require disclosures and encourage brands to enforce these policies as a way of protecting the company.

VI. Conclusion

Many brands truly do not see their native advertising as commercial content, but rather as an additional value for their customers. The marketing team may be resistant to labeling this content as advertising due to concerns about decreased consumer engagement and conversion rates. On the other hand, astute marketers realize that they must remain transparent to ensure customer loyalty, and counsel should highlight this fact when trying to mitigate legal risk. Furthermore, counsel will want to underscore the risk of coming to the FTC's attention. Consent orders can remain in place for 20 years or more and damage the corporate reputation.

FTC representatives have indicated that they are in a phase of education and clarification for businesses.[41] The agency welcomes questions from industry and may eventually issue a FAQ document, just as it did with its Endorsement & Testimonial Guides.[42] In September 2016, the FTC will hold a workshop "Putting Disclosures to the Test" to evaluate the effectiveness of consumer disclosures, perhaps to create additional guidelines.[43] On the other hand, the L&T case shows that native advertising may be part of enforcement activity right away, particularly if the fact pattern overlaps with other deceptive practices.

Typically, the FTC looks at the most aggressive proliferators of deceptive practices or brands that have a broad reach in the marketplace. With regard to native advertising and the Enforcement Policy, the FTC has indicated that it is likely to be most concerned with native content that takes the form of news/feature stories, product reviews, investigative or scientific reports, or phony government or business endorsements.[44] Counsel should look to implement monitoring programs with teeth, modeled after the L&T case, that demonstrate a strong commitment to transparency. Such programs may be the best safe harbor available against enforcement.

It is also crucial to remember that the FTC's guidance does not only apply to advertisers but also to their agencies. The Business Guide states, "In appropriate circumstances, the FTC has taken action against other parties who helped create deceptive advertising content—for example, ad agencies and operators of affiliate advertising networks."[45]

Going forward, counsel for brands and their agencies should immediately implement internal reviews of their advertising practices to reach philosophical and practical conclusions about their native advertising programs.

Endnotes

1. This article is current as of May 15, 2016, when it was submitted for publication.
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The Secret's in the Sauce: The Defend Trade Secrets Act and the Ideal Recipe for Federal Trade Secrets Legislation

By Cynthia Arato and Erin Millender

Introduction

The Defend Trade Secrets Act ("DTSA") is here. The United States Congress' latest effort to pass federal trade secret legislation finally succeeded on May 11, 2016. The Defend Trade Secrets Act of 2015 (now 2016)[1] passed the Senate and the House by overwhelming majorities on April 4th and April 26, 2016 (respectively) and President Obama's swiftness in signing the bill into law evidences the "high priority" his administration has placed on mitigating and combating the theft of trade secrets.[2] Industry representatives have lauded the DTSA as a step forward in "improving the efficiency and predictability of litigation and allowing companies to create one set of best practices to protect their intellectual property in every jurisdiction."[3] Others, including a broad coalition of legal scholars, claim that it will create greater ambiguity, cause procedural delays, and potentially stymie competition and innovation.[4] Prior to its passage, the Senate bill was amended to respond to some of these critiques.

The DTSA will co-exist alongside the Uniform Trade Secrets Act ("UTSA"), as that Act has been adopted (and, at times, modified) by 48 of 50 states in this country and common law.[5] New York State is one of the holdouts, having opted to rely on a body of common law that diverges from the UTSA in certain ways, and New York law thus differs from the DTSA in its own unique ways.

The DTSA will provide litigants with a new avenue to redress trade secret misappropriation, and new worries for defendants in trade secret actions.

Provisions of the DTSA

The DTSA amends the existing Economic Espionage Act of 1996 ("EEA"), which criminalizes the theft of trade secrets, to establish a private, civil cause of action for trade secret misappropriation. Most of the provisions of the DTSA mirror the UTSA, including the definitions of trade secrets and misappropriation. The DTSA borrows the definition of trade secrets set forth in the EEA, namely commercial information that the owner has taken reasonable measures to keep secret and that derives independent economic value from being unknown to the public. The definition covers "all forms and types" of information, including financial, business, scientific, technical and intangible information, as well as information stored electronically. The DTSA provides for civil action for "misappropriation" of a trade secret by "improper means" and for the improper disclosure or use of the secret. "Improper means" include theft, bribery, espionage and other tortious or illegal conduct. Legal means such as reverse engineering are explicitly carved out.

As with UTSA, a trade secrets owner under the DTSA is entitled to recover his actual damages, including the loss of value of a trade secret due to its dissemination, as well as damages for unjust enrichment and reasonable royalties. Additionally, like the UTSA, under the DTSA courts may award exemplary damages up to double the amount of the actual loss and/or attorneys' fees if the violation is deemed to be willful and malicious.

The DTSA includes a carve-out to protect whistleblowers. Individuals who disclose trade secrets to attorneys or government officials for the purpose of reporting illegal activity are immune from liability under the Act. Employers must provide employees, including independent contractors and consultants, with notice of this immunity in any contract or agreement concerning confidential information. An employer who fails to provide that notice will be barred from recovering exemplary damages and attorneys' fees from any employee to whom such notice was not given.

The most extensive and controversial provision of the DTSA grants federal courts the authority to issue an *ex parte* seizure order over any property used to commit or facilitate a violation. Although this provision is similar to seizures available under the Lanham Act, the initial draft of this provision kicked off a fire-storm of controversy, and S. 1890 now makes this remedy available only in extraordinary circumstances upon a showing of: (i) immediate and irreparable harm to the applicant that would outweigh harm caused to other parties if the order were granted, (ii) the inadequacy of other equitable remedies, (iii) a likelihood of success on the merits and (iv) a likelihood that notice would lead to destruction or concealment of the matter sought. Under this new law, a hearing on *ex parte* seizures must be held within seven days after the order is granted. In addition, seizures are not allowed where they might put undue constraints on employment or when disclosures are made in court filings. Finally, the law also provides a cause of action to defendants who have been wrongfully subjected to *ex parte* seizure of information assets so that they may be compensated for any resulting injury. The *ex parte* application may extend only to material that is in the actual possession of the wrongdoer and must describe that material with reasonable particularity. The requested seizure may not be publicized. While TROs are available under state procedures, it would be highly unusual for a state court to take custody over property in the manner envisioned by the DTSA.

Under the DTSA, trade secrets owners will have three years from the date on which the misappropriation was discovered, or should have been discovered by the exercise of reasonable diligence, to initiate claims. The law will not preempt existing state law claims, but will provide trade secret owners with a choice of pursuing claims under either state or federal law. The DTSA will not cover theft implicating purely intrastate commerce.

Critique of the DTSA

Critics of the DTSA have challenged various aspects of the law itself (though some of the criticisms were addressed by the amendments to the 2015 bill) and the concept of federal trade secrets protection generally. First, they argue that federal legislation is not necessary to achieve uniformity in trade secrets law. Despite differences in the states' enactments of the UTSA, they contend that the laws are substantially similar. They cite a record of success in combating trade secret theft by both employees and non-employees and insist there is no evidence that state causes of action are insufficient to protect the interests of legitimate trade secret owners. Rather than encouraging greater uniformity, they believe that a federal law which does not preempt state law will add ambiguity and confusion to a system that already benefits from high predictability for businesses and their attorneys.

Second, they contend that the DTSA raises complex questions of jurisprudence that will undermine the certainty and consistency that already exist. Although the DTSA is intended to combat international theft, the critics argue that the DTSA does not provide for jurisdiction over, or enforcing judgments against, foreign entities. Thus, for multinational corporations and others doing business in foreign markets, the promise of greater efficacy in pursuing wrongdoers may be illusory. Even in interstate commerce, they note that the jurisdictional clause purporting to authorize the DTSA under the Commerce Clause of the United States Constitution is untested and that trade secrets that do not move in interstate commerce, such as customer lists, may not be covered.

The remaining objections concern behavior in the marketplace. Critics argue that opportunists—so-called trade secret trolls—could use the Act to stifle competition and/or prohibit public and regulatory access to information. Start-ups and small businesses especially could be vulnerable to larger competitors with deep pockets engaging in costly legal gamesmanship to force them out of contention.

The Law of Trade Secrets in New York

Companies doing business in New York will likely have more adjustments to make than most to adapt to the new regime. Unlike the 48 states that have been operating under some version of the UTSA, New York is governed by common law rules developed by the state's courts.

While both the UTSA and New York common law are grounded in the Restatement (First) of Torts § 757 (1939), New York law allows trade secrets claims to be brought under contract and breach of fiduciary duty theories. Thus, a party seeking to initiate a claim for theft of trade secrets in New York must first identify which cause of action is most appropriate.

The UTSA sets forth a standard three-year statute of limitations on all trade secrets claims. In New York, timing will turn on the gravamen of the cause of action, with a three-year limit being applicable to actions concerning injury to property under CPLR § 214(4) and a six-year limit applicable to contract claims under N.Y. CPLR § 213(2). Under the UTSA, the limitations period accrues upon the discovery of the misappropriation, giving a plaintiff access to the full benefit of the statutory period. Under New York law, the claim accrues when the defendant first discloses or makes use of the information (although the date of accrual may be extended where the "defendant has kept a secret confidential but continued to use it for commercial advantage.")[6] Thus, by the time a trade secret owner discovers the misappropriation she may find herself having run out of time to assert her preferred theory.

The laws differ in how a trade secret is defined. The UTSA defines trade secrets broadly as economically valuable information subject to reasonable efforts to maintain secrecy. New York looks to the Restatement, which sets forth the following six-factor test:

(1) the extent to which the information is known outside the business;

(2) the extent to which those involved with the business know the information;

(3) the extent to which measures are taken to protect the information's secrecy;

(4) how valuable the information is;

(5) the expense and/or difficulty involved in developing the information; and

(6) the difficulty with which others could develop the information.

New York courts have varied in which of these they choose to emphasize. Some courts apply the test in full. Others focus on the third factor and interpret it more strictly than under the UTSA. Under the UTSA, in general, a party must take precautionary measures to prevent disclosure that are "reasonable under the circumstances." Trade secret status is not lost until the information becomes common knowledge within the community or industry in which it is profitable. Under New York law, trade secret status may be lost once the information passes to any person who does not owe the owner a duty to protect the confidentiality of the information. This makes the development and use of confidentiality agreements with employees, investors, vendors and other business partners vital to maintaining trade secret protection in New York (although a duty may be inferred from the relationship of the parties). Additionally, under New York law the trade secret must be in continuous use in the business as opposed to a single event.

New York courts and the UTSA define "misappropriation" and "improper use" consistently with one exception. New York characterizes as "improper use" the acquisition of trade secrets in a manner that offends standards of commercial ethics, even where no independent wrongful conduct was involved. The UTSA does not include that violation.

Finally, the UTSA provides for the recovery of attorney fees and one of its comments states that patent law is followed in allowing a judge to award fees even in a jury trial. Awards of fees under the UTSA may start tracking the recent patent case, in which the U.S. Supreme Court ruled that fees could be warranted where a case "stands out from other with respect to the substantive strength of a party's litigating position…or the unreasonable manner in which the case was litigated."[7] Fees are not available under New York common law. The UTSA also provides for exemplary damages of up to two times actual damages, and such damages are difficult to obtain under New York law.

Conclusion

Information assets, increasingly in intangible or electronic form and developed at significant cost, have come to form the core of our modern economy. Variations in state laws can pose a challenge for companies seeking to establish a robust and comprehensive plan to protect those assets from sophisticated threats both internal and external. This new federal trade secrets legislation will hopefully offer an optimal mix of rights and remedies for misappropriation of trade secrets, resulting in more efficient, less costly litigation. Companies and their counsel would do well to carefully consider the differences among the existing laws in jurisdictions where they transact business given the changed landscape.

Endnotes

1. Similar bills were introduced in the 113th Congress—the Defend Trade Secrets Act of 2014 (S. 2267) and the Trade Secrets Protection Act of 2014 (H.R. 5233)—but were never enacted. The recently enacted bill is S. 1890.
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6. *Andrew Greenberg, Inc. v. Svane, Inc.*, 36 AD3d 1094, 1096 (3d Dep't 2007).
7. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

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Teachable Moments: A Year-in-Review of Best Practices in DMCA Compliance

By Scott J. Sholder

This past year, three U.S. federal courts issued rulings concerning the safe harbor provisions of the Digital Millennium Copyright Act of 1998 (DMCA) dealing with user-generated content (UGC), and provided some useful guidance both to internet service providers (ISPs) and content owners. A district court in New York emphasized the necessity for ISPs to properly register a DMCA agent with the Copyright Office for purposes of receiving "takedown notices"; a district court in Colorado opined on who constitutes a "user" in connection with the UGC safe harbor; and the Ninth Circuit court of appeals shed light on content owners' obligation to consider fair use before issuing takedown notices to ISPs. This article will briefly discuss each of these cases and will distill the practical takeaways that in-house legal departments should understand and integrate into their DMCA compliance practices and procedures.

I. DMCA § 512(c) Summary

The DMCA added to the Copyright Act of 1976, among other provisions, the Online Copyright Infringement Liability Limitation Act,[1] which provides ISPs with liability "safe harbors" in exchange for compliance with certain rules. Of most import to this article is DMCA § 512(c), which applies to infringement claims arising "by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for" the ISP.[2] In other words, this section provides protection for ISPs (YouTube, for example) against claims of secondary copyright infringement for their storage of UGC.

To secure DMCA § 512(c) protection, ISPs must satisfy a number of requirements including, among other things, expeditious removal of content after receiving a takedown notification from a copyright holder, and establishment of procedures to handle repeat infringers. For copyright holders, DMCA § 512(c) also dictates the requirements for a proper DMCA takedown notification, which must, among other things, identify the allegedly infringing material, and state that the copyright holder has a good faith belief that the material is not authorized by the copyright holder or by the law.

II. DMCA Lessons for ISPs

A. Proper Registration of a DMCA Agent

BWP Media USA Inc. v. Hollywood Fan Sites LLC[3] teaches a valuable lesson in administrative compliance with the DMCA. The case addressed what may seem like a mundane formality but clearly is an important threshold to DMCA safe harbor protection in the eyes of the courts.

Plaintiffs owned the copyrights in various paparazzi photographs and sued the owner/operator of over 4,500 celebrity "fan sites" for direct and secondary copyright infringement of their photographs. Even though defendants listed their DMCA agents on their websites, plaintiffs challenged defendants' DMCA § 512(c) eligibility, citing defendants' failure to properly designate an agent "to receive notifications of claimed infringement[s]."[4]

> *"[E]ach ISP that is a distinct legal entity must* individually *file its own agent designation, and should not rely on another related corporate entity to file a designation on its behalf or assume that it is encompassed by a parent company's designation."*

One of the defendants—a subsidiary of defendant Hollywood.com LLC—had filed its own agent designation in late 2013, but attempted to rely on the 2008 agent designation filed by its parent company to insulate itself from infringement liability for those five additional years.[5] But a New York federal district court held that nothing in the 2008 agent designation indicated that it was intended to cover subsidiaries, and noted that Copyright Office regulations did not allow for a single designation to cover multiple legal entities.[6] The court held that the subsidiary was ineligible for DMCA safe harbor protection against any infringements occurring prior to its independent 2013 designation, explaining that ISPs "cannot retroactively qualify for the [DMCA] safe harbor for infringements occurring before the proper designation of an agent."[7]

The key takeaways from this case for ISPs are: (1) ISPs *must* register contact information for their designated DMCA agents with the Copyright Office as well as list that agent's contact information on the ISP's website; and (2) each ISP that is a distinct legal entity must *individually* file its own agent designation, and should not rely on another related corporate entity to file a designation on its behalf or assume that it is encompassed by a parent company's designation. The court did not address whether unincorporated corporate divisions or "DBAs" must register agents separately, but given that the official agent registration form allows the filer to list multiple DBAs for a single legal entity, the answer appears to be in the negative.

B. Who Is a "User" Under DMCA § 512(c)?

Assuming an ISP satisfies its DMCA threshold requirements, it might then wonder whether its particular situation is embraced by the DMCA. Enter *BWP Media USA Inc. v. Clarity Digital Group, LLC*.[8] There, plaintiffs sued the owners and operators of Examiner.com—a news website featuring stories posted by independent-contractor authors—for unauthorized use of photographs in celebrity gossip stories. Plaintiffs challenged Examiner's eligibility for DMCA § 512(c) protection, arguing that "users" should exclude an ISP's owners, employees and agents, and that the site's authors were akin to employees because Examiner minimally vetted them, provided guidance on article content and compensated authors based on web traffic.[9]

Examiner argued its authors were "users" as opposed to employees or agents because Examiner was not involved in the authors' selection or posting of the photographs, and did not control or influence the authors' actions.[10] A federal district court in Colorado agreed with Examiner and upheld its defense, giving the term "user" its plain and natural meaning: "a person or entity who avails itself of the [ISP's] system or network to store material."[11] The court noted that Congress could have more specifically defined "user" to exclude owners, employees and agents if it had wanted to, but nonetheless such a definition was unnecessary because other sections of the DMCA exclude from safe harbor protection ISPs that, themselves, are closely involved with the infringing conduct (e.g., ISPs that knew or should have known about the infringements).[12]

The key takeaways from this case are: (1) ISPs may still be able to utilize DMCA § 512(c)'s safe harbor even when their own employees or agents uploaded the infringing UGC on the ISP's website; and (2) ISPs or their counsel should take care to educate employees and agents concerning copyright infringement and take prompt remedial action upon learning of (or even suspecting) purported infringing activities within the company's ranks.

III. DMCA Lesson for Content Owners: Pre-Takedown Fair Use Inquiry

Content owners also have obligations under the DMCA. When sending a takedown notification, the DMCA requires that a copyright holder state that it has a good-faith belief that use of the material is not authorized by the holder or by the copyright law.[13] *Lenz v. Universal Music Corp.*[14] explored the good-faith-belief requirement and set some guideposts—albeit vague ones—for copyright holders to comply with the DMCA.

The plaintiff in *Lenz* uploaded to YouTube a 29-second home video showing her toddler dancing to Prince's 1984 hit "Let's Go Crazy." Universal, Prince's publishing administrator, discovered the video through an employee tasked with monitoring YouTube for Prince content, and sent a takedown notification. The employee had recognized the Prince song, and believed it to be prominently featured in the video, but he had not been explicitly instructed to consider fair use.[15] Lenz attempted to restore the video by sending YouTube a counter-notification, which Universal protested; YouTube ultimately reinstated the video, and Lenz sued Universal under DMCA § 512(f), which provides content users with recourse against copyright holders for making misrepresentations in takedown notifications.[16]

In analyzing whether a content owner must consider fair use prior to sending a takedown notification, the court had to determine whether fair use constitutes an *authorization* to use copyrighted content or merely an infringement *defense*. The U.S. Court of Appeals for the Ninth Circuit held that the law clearly states fair use is an authorized non-infringing use of copyrighted materials; while it may be pled as an affirmative defense, the label "defense" is actually a legal misnomer.[17]

Accordingly, the court held the DMCA requires that prior to sending a takedown notification, copyright holders must "consider fair use" and that failure to do so raises a question of fact as to whether the copyright holder "formed a subjective good faith belief that the use was not authorized by law."[18] A copyright holder will therefore be liable under DMCA § 512(f) if it ignores the fair use inquiry or merely "pays [it] lip service," but the court explained that "a copyright holder's consideration of fair use need not be searching or intensive."[19] The court, "mindful of the pressing crush of voluminous infringing content" online, emphasized that formation of a subjective good faith belief as to fair use "does not require investigation of the allegedly infringing conduct."[20]

The key takeaways from this case are: (1) copyright holders must engage in at least a minimal fair use inquiry before sending a DMCA takedown notification; (2) copyright holders would be wise to provide their enforcement teams with at least rudimentary instructions on how to conduct a fair use analysis, and should encourage enforcement personnel to document their processes and their findings; and (3) as the court noted, certain types of "computer algorithms" may be "a valid and good faith middle ground" for making fair use determinations in the face of "a plethora of content,"[21] so copyright holders should stay abreast of developments in enforcement-related software and confer with counsel to determine whether such programs may suffice under the law.

IV. Conclusion

These three cases highlight several practical realities of the DMCA on both sides of the Internet divide. ISPs' failure to comply with the letter of the law could result in the loss of a significant defense against secondary copyright infringement claims, but assuming compliance with the statute's prerequisites, the scope of protection is broad. Copyright holders must also take care to adhere to the DMCA's requirements, including considering fair use, or otherwise risk exposure to civil liability. When in doubt, ISPs and copyright holders alike should consult with copyright counsel to ensure that their rights under the DMCA are preserved.

Endnotes

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5. *Hollywood Fan Sites*, 2015 WL 3971750, at *4-5.
6. *Id.* at *5.
7. *Id.* at *3.
8. No. 14-CV-00467-PAB-KMT, 2015 WL 1538366 (D. Colo. Mar. 31, 2015).
9. *Id.* at *6-8.
10. *Id.* at *8-9.
11. *Id.* at *8.
12. *Id.* at *6-7.
13. 17 U.S.C. § 512(c)(3)(A)(v).
14. 801 F.3d 1126 (9th Cir. 2015).
15. *Id.* at 1129.
16. 17 U.S.C. §§ 512(g)(3), (g)(2)(B).
17. *Lenz*, 801 F.3d at 1131-33.
18. *Id.* at 1129.
19. *Id.* at 1134-35.
20. *Id.* at 1135.
21. *Id.*

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Highlights from Today's Game: Trademark Coverage on the Offensive

By Christopher Psihoules and Jennette Wiser

Pre-Game Warm-ups

Over time, many sports teams and franchises have developed distinctive brands, logos, slogans and other trademarks identifiable to fans around the globe. This article examines the lengths sports teams have gone to protect their right to the exclusive use of those marks. The ability of a sports team to prevent someone else from using a similar or identical logo or slogan is largely dependent on the reputation and goodwill connected to the mark. As such, teams began to treat their marks as property rights, and now often require licensing agreements for their marks to be used. In 2014, according to the International Licensing Industry Merchandisers' Association,[1] the sports and collegiate licensing category of the number of registered trademarks grew for the fourth consecutive year with $907 million in royalty revenue on retail sales of $16.6 billion.[2]

A trademark or service mark includes any word, name, symbol or device, or any combination thereof, used by a person, or which a person has a bona fide intention to use, in commerce to identify and distinguish his or her goods from others and to indicate the source of such goods.[3] In the United States, trademark protection afforded to sports teams can include anything from logos and slogans, to mascots and colors, and even sounds.[4] In order to gain protection as a trademark, a mark must be distinctive and capable of identifying the source of a particular good. Arbitrary or fanciful marks and suggestive marks are considered inherently distinctive and are given a high degree of protection.[5] Descriptive marks require "secondary meaning" for protection, which is acquired when consumers primarily associate the mark with a particular source, rather than the underlying product or service.[6] Generic marks (marks that describe the general category to which the underlying product or service belongs) are not protected under trademark law.[7] Registered ownership of valid trademarks gives sports teams the ability to police and enforce such marks and sue for trademark infringement.[8] The standard for trademark infringement is "likelihood of confusion," i.e., the use of a trademark in connection with the sale of a good or service constitutes infringement, if it is likely to cause consumer confusion as to the source of those goods or services or as to the sponsorship or approval of such goods or services.[9]

The Lineup

Trademark protection was not a part of the sports world until 1975, when the Fifth Circuit Court of Appeals discussed protection of professional hockey teams' symbols or logos in *Boston Prof'l Hockey Ass'n v. Dall. Cap & Emblem Mfg., Inc.*[10] In *Boston Prof'l Hockey Ass'n*, Plaintiffs brought an action to enjoin defendant from manufacturing and selling embroidered emblems that depicted their teams' symbols.[11] Plaintiffs asserted a cause of action for common law unfair competition and sought relief under 15 U.S.C.S. §§ 1114 and 1125 of the Lanham Act.[12] The district court denied Lanham Act relief and granted limited relief for unfair competition, requiring only that defendant place on the emblems or the packaging a notice that they were not authorized by plaintiffs.[13] The issue on appeal was whether the unauthorized, intentional duplication of a professional hockey team's symbol on an embroidered emblem, to be sold to the public as a patch for attachment to clothing, violated any legal right of the team to the exclusive use of that symbol.[14] The court reversed and remanded the district court's decision, holding that the likelihood of confusion requirement was met when a manufacturer other than the team used the mark because the public was likely to identify the mark as being associated with the team.[15]

Since *Boston Prof'l Hockey Ass'n*, other courts have considered the protection of various types of trademarks for sports teams. This article discusses some of these cases and comments on the importance and benefits of trademark protection in the sports industry.

The Game

First Quarter—Slogans, Cheers and Chants

As discussed, *Boston Prof'l Hockey Ass'n* established trademark protection in team logos and symbols. Since that case, teams have broadened the protection and enforcement of their trademark rights to include slogans and cheers or chants distinctly recognizable with the team. One widely talked about dispute involved the protection of the New Orleans Saints ("Saints") "Who Dat?" cheer. "Who dat say dey gonna beat dem Saints?" generally shortened to "Who Dat?" has been a traditional chant at the Saints' Superdome since the 1980s. The National Football League ("NFL") alleged that the sale of unlicensed shirts featuring the cheer by local t-shirt vendors led fans to believe that the Saints endorsed the products. The origin of the chant is unclear, with some suggesting that it has been around for over 150 years, appearing first in minstrel and vaudeville shows and later performed in a Marx Brothers number and a 1938 MGM cartoon called "Swing Wedding."[16] Spectators believed that the saying belongs to the city and the people of New Orleans and public officials proclaimed that "Who Dat?" is in the public domain.[17] The t-shirt vendors ultimately settled with the NFL, but the dispute raised a question of how far sports teams will go to protect and enforce their trademark rights.[18]

More recently, Texas A&M University ("Texas A&M") sued the Indianapolis Colts ("Colts") for trademark infringement over the "12th Man" slogan.[19] The "12th Man" refers to the fans at a football game as the league allows only eleven players (per team) on the field at one time. The slogan suggests that the fans are a part of and contribute to the game. Texas A&M alleged in its complaint that it has used the mark "12th Man" since 1922 and has "expended considerable effort and resources in offering a wide range of quality products and services under the [mark]."[20] In furtherance of its efforts, Texas A&M filed for and obtained U.S. trademark registrations in the mark, i.e., U.S. Trademark Registration Nos. 1,612,053; 1,948,306; and 3,354,769.[21]

According to the complaint, the Colts began using the "12th Man" mark in 2006 but stopped its use in 2008 after receiving a cease and desist letter from and engaging in communications with Texas A&M.[22] However, in 2012, Texas A&M became aware that the Colts had started using the mark again.[23] Subsequently, Texas A&M sent another cease and desist letter to which the Colts never responded.[24] The Colts continued to use the mark in 2015 in connection with the advertising and promotion of single-game tickets, as well as merchandise made available through the Colts' website and authorized licensees.[25]

This is not the first time that Texas A&M has asserted its rights to the "12th Man" against another sports team. In 2006, as a result of a dispute, Texas A&M granted a license to Football Northwest, LLC for the Seattle Seahawks ("Seahawks") use of the mark.[26] It is worth noting that the Seahawks have registered a number of variations of the mark "12th Man," including but not limited to "12," "The 12's" and "Bring on the 12," and recently brought a lawsuit against an apparel company for infringement.[27]

Apart from team emblems and logos, slogans and cheers have become synonymous with certain sports teams. Actions like *Texas A&M University* are likely to continue as teams realize the potential benefits and profits to be gained by protecting and enforcing such slogans and cheers or chants.

Second Quarter—Mascots

Courts have also held team mascots protectable under trademark law. In *Univ. of Ga. Ath. Ass'n v. Laite*,[28] the Court affirmed the district court's finding of a likelihood of confusion between the University of Georgia Bulldog ("Georgia Bulldog") and the portrayal of an English bulldog wearing a red sweater emblazoned with a black "G" on a red-and-black can of beer called "Battlin' Bulldog."[29] University of Georgia Athletic Association ("UGAA") brought an action for the unauthorized use of the Georgia Bulldog against the beer wholesaler, Bill Laite Distributing Co. ("Laite"), for trademark infringement and false designation of origin under the Lanham Act and other related state law claims.[30] The district court ruled in favor of UGAA granting a permanent injunction against the beer distributor.[31] Laite argued on appeal that the Georgia Bulldog is not a valid trademark or service mark because it is a descriptive mark and lacks secondary meaning.[32] The Appellate Court found that the Georgia Bulldog was not a descriptive mark and was, at best, suggestive, if not arbitrary and therefore, UGAA was not required to prove secondary meaning.[33] Further, the Appellate Court found that the sale of products depicting the "Battlin' Bulldog" created a likelihood of confusion.[34] The combination of similar design elements on the "Battlin' Bulldog," such as the colors and the monogram on the sweater, led the Appellate Court to find the marks to be alike.[35] The Eleventh Circuit concluded that while "Laite devised a clever entrepreneurial 'game plan,' [it] failed to take into account the strength of UGAA's mark and the tenacity with which UGAA was willing to defend that mark. Like the University of Georgia's famed 'Junkyard Dog' defense, UGAA was able to hold its opponent to little or no gain."[36]

In a similar case also involving a Bulldog mascot, Corporation of Gonzaga University ("Gonzaga") brought an action against Pendleton Enterprises, LLC ("Pendleton") alleging trademark infringement and unfair competition under the Lanham Act,[37] in connection with its Bulldog mascot wearing a Gonzaga jersey and spike collar used in conjunction with the identification of Pendleton's radio station and bar services.[38] In its decision, the Court discussed Gonzaga's well-known basketball team, noting that "[i]n producing and promoting the sport of NCAA basketball, Gonzaga adopted and widely publicized [its name and nickname] and team symbol, Spike, a bulldog who wears a Gonzaga jersey."[39] Gonzaga argued that Pendleton's use of its marks (including its mascot) in connection with its business and services was intended to cause the consuming public to recognize the marks as symbols of Gonzaga and even cited to specific instances of actual consumer confusion.[40] The Court agreed with Gonzaga and held that a rational factfinder could conclude that Pendleton's use of the Gonzaga mascot, along with the other Gonzaga marks, is likely to cause confusion, mistake or to deceive as to the affiliation or association of Gonzaga with Pendleton's business.[41]

As demonstrated in *Univ. of Ga. Ath. Ass'n* and *Corp. of Gonzaga Univ,* while mascots are not traditionally thought of as trademarks, in some instances their association with a team and distinctiveness will afford them trademark protection.

Third Quarter—Colors

Perhaps as unconventional is when a distinct set of colors is associated with a team and afforded protection by the courts.[42] In *Bd. of Supervisors for La. State Univ. v. Smack Apparel Co.*,[43] the Fifth Circuit upheld the district court's finding that a t-shirt maker who used school color schemes in combination with specific facts and indicia about the school infringed on the schools' trademark rights to those color schemes, even if neither the school logo nor other marks appeared on the t-shirt.[44] *Smack Apparel Co.*, marked the first time a court had analyzed the trademark rights of a color scheme separate and apart from an accompanying word mark or logo.

In *Smack Apparel Co.*, Louisiana State University, the University of Oklahoma, Ohio State University, the University of Southern California, and the schools' licensing agent brought a trademark infringement action against Smack Apparel Company ("Smack").[45] The suit alleged that Smack's t-shirts, bearing the distinctive color schemes of various universities and professional sports teams together with sarcastic phrases related to the team, created a likelihood of confusion among customers.[46] All of Smack's products were unlicensed.[47]

Plaintiffs alleged that Smack's products were identical to, and competed directly with, Plaintiffs' officially licensed products. The Eastern District of Louisiana agreed, granting summary judgment to the Plaintiffs.[48] On appeal, the Fifth Circuit noted that for an unregistered mark to obtain protectability, the mark must be "capable of distinguishing the applicant's goods from those of others."[49] The court applied the multi-factor test set forth in *Pebble Beach Co. Tour 18 I Ltd.*[50] to determine that the combination of color scheme and school indicia had developed a secondary meaning.[51] Having found secondary meaning, the Court turned to the likelihood of confusion analysis, and held that the Smack products essentially created a link in the consumer's mind between the apparel and the universities and thus created a likelihood of confusion.[52]

Bd. of Supervisors for La. State Univ. set a precedent, which supports a team's exclusive right to license its distinct and respective colors for the production and sale of merchandise. As a result, teams and schools have taken steps to protect their associated colors. For example, Boise State University registered the color blue as applied to artificial turf in a stadium with the U.S. Trademark Office.[53]

Fourth Quarter—Sounds

Even sounds, like the NBC chimes, the MGM roaring lion, and the Harlem Globetrotter's "Sweet Georgia Brown" can be afforded trademark protection.[54] Registration of a sound mark is rare and requires a high level of distinction and recognition with its source. The Trademark Trial and Appeal Board has commented that "a sound mark depends upon aural perception of the listener which may be as fleeting as the sound itself unless, of course, the sound is so inherently different or distinctive that it attaches to the subliminal mind of the listener to be awakened when heard and to be associated with the source or event with which it is struck. Thus, a distinction must be made between unique, different, or distinctive sounds and those that resemble or imitate 'commonplace' sounds or those to which listeners have been exposed under different circumstances."[55]

University of Arkansas successfully registered a sound mark for the "Hog Call" Razorback chant in connection with "providing collegiate athletic and sporting events."[56] Arkansas described its mark as "a collegiate cheer which consists of the following words: Woooooooo. Pig. Sooie! Woooooooo. Pig. Sooie! Woooooooo. Pig. Sooie! Razorbacks!"[57] While the registrations of sound marks remain uncommon, Arkansas' success may lead to other universities and teams seeking protection for, and enforcing, their sensory marks.

Post-Game Report

As evidenced by the above cases, sports teams and franchises have taken, and continue to take, aggressive measures to insure their marks are protected. Teams have capitalized on their trademarks by charging considerable fees to use such marks. Licensing revenue, income earned by a company for allowing its intellectual property to be used by another company, is a significant source of revenue for many sports teams, as teams grant permission to third parties to use their marks on things such as apparel, bags, accessories, video games and a number of other products. Even though the sports licensing business is a $16-plus billion industry, many believe the business has been mature for quite some time.[58] As is the case with sports business in today's world, evolution is inevitable. One such transformation came in 2015, when the NFL made a seven-figure equity investment in Outerstuff, one of its largest apparel licensees, creating one of the first vertical business models for the league.[59]

Whether the future of sports licensing lies in leagues making direct investments into the companies that license their marks, or the next revenue-generating idea, it is evident that licensing will continue to progress. "The industry is changing and leagues are looking for new ways to do business," said Outerstuff CEO Sol Werdiger.[60] As the licensing market continues to find ways to expand, so too will teams continue to look for further legal protection in their marks from the courts.

Endnotes

1. The Int'l Licensing Indus. Merchandisers' Assoc., www.licensing.org (last visited Mar. 20, 2016).
2. Darren Heitner, *Sports Licensing Soars to $698 Million in Royalty Revenue*, Forbes (June 17, 2014, 5:00 PM), http://www.forbes.com/sites/darrenheitner/2014/06/17/sports-licensing-soars-to-698-million-in-royalty-revenue/#67d66ece41b7.
3. 15 U.S.C. § 1127 (2006).
4. *See Sport and Branding*, World Intellectual Prop. Org., http://www.wipo.int/ip-sport/en/branding.html (last visited Mar. 20, 2016).
5. *See* Zatarains, Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786, 791 (5th Cir. 1983).
6. *Id.* at 790-91.
7. *Id.*
8. *See* 15 U.S.C. §§ 1114-1125 (2005).
9. *See* 1-800 Contacts, Inc. v. WhenU.com, Inc., 414 F.3d 400, 406-407 (2d Cir. 2005).
10. 510 F.2d 1004 (5th Cir. 1975).

11. Bos. Prof'l Hockey Ass'n v. Dall. Cap & Emblem Mfg., Inc., 510 F.2d 1004, 1008 (5th Cir. 1975).
12. *Id.* at 1009.
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14. *Id.* at 1008.
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16. *NFL Claims Trademark Infringement*, Associated Press (Jan. 30, 2010), available at http://espn.go.com/nfl/playoffs/2009/news/story?id=4871697.
17. *Id.*
18. *Deals resolve 'Who Dat?' battle*, Associated Press (Oct. 29, 2012), available at http://espn.go.com/nfl/story/_/id/8569838/who-dat-trademark-claims-settled-louisiana; *see* also, Who Dat Yat Chat, LLC v. Who Dat, Inc., Civ. A. Nos. 10–1333, 10–2296, 2012 U.S. Dist. LEXIS 46733, at *2-3 (E.D. La. 2012) ("The [] lawsuit primarily concerns the claim of trademark rights in the phrase 'Who Dat.' The phrase is in popular usage in Louisiana as an expression of community pride, sports enthusiasm, and other notions of social significance. The subject of this lawsuit is well-known. In early 2010, in conjunction with New Orleans Saints Superbowl mania, sales of merchandise with the phrase 'Who Dat' exploded in Louisiana. Big business took notice. The NFL sent cease-and-desist letters to local retailers, although it eventually backed off its position. However, the NFL has settled, leaving the case in a somewhat uncertain procedural posture that merits a brief review before turning to the merits.")
19. Texas A&M Univ. v. Indianapolis Colts Inc., case no. 4:15-cv-03331, Dkt. 1 (S.D. Texas 2015).
20. *Id.* at ¶¶7-8.
21. *Id.* at ¶10.
22. *Id.* at ¶¶13-14.
23. *Id.* at ¶15.
24. *Id.*
25. *Id.* at ¶¶16-17.
26. *Id.* at ¶9.
27. *See* NFL Properties LLC, et al v. Ace Lineup Athletics, LLC, Opposition No. 91222972 (TTAB 2015).
28. 756 F.2d 1535, 1536 (11th Cir. 1985).
29. Univ. of Ga. Ath. Ass'n v. Laite, 756 F.2d 1535, 1536 (11th Cir. 1985).
30. *Id.* at 1538.
31. *Id.* at 1539.
32. *Id.* at 1540.
33. *Id.* at 1541.
34. *Id.* at 1544.
35. *Id.*
36. *Id.* at 1547.
37. Corp. of Gonzaga Univ. v. Pendleton Enters., LLC, 55 F. Supp. 3d 1319, 1321 (E.D. Wash. 2014).
38. *Id.* at 1322-23.
39. *Id.* at 1323.
40. *Id.* at 1323-24.
41. *Id.* at 1330.
42. *See* Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 161, 163, 165 (1995) (holding that color alone may be protected as a trademark, "when that color has attained secondary meaning and therefore identifies and distinguishes a particular brand (and thus indicates its 'source')," and that a color may not be protected when it is functional).
43. 550 F.3d 465 (5th Cir. 2008).
44. Bd. of Supervisors for La. State Univ. v. Smack Apparel Co., 550 F.3d 465 (5th Cir. 2008).
45. *Id.* at 473.
46. *Id.*
47. *Id.*
48. *Id.*
49. *Id.* at 475.
50. 115 F.3d 525, 541 (5th Cir. 1998).
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52. *Id.* at 483-484.
53. *See* U.S. Trademark Registration No. 3,707,623.
54. *Trademark "Sound Mark" Examples*, United States Patent and Trademark Office, http://www.uspto.gov/trademark/soundmarks/trademark-sound-mark-examples (last visited Mar. 20, 2016); *see generally*, Oliveira v. Frito-Lay, et al., 251 F.3d 56, 61 (2d Cir. 2001) ("For many decades it has been commonplace for merchandising companies to adopt songs, tunes and ditties as marks for their goods or services…").
55. Ride the Ducks, LLC v. Duck Boat Tours, Inc., Civ. A. No. 04-CV-5595, 2005 U.S. Dist. LEXIS 4422, at *21 (E.D. Pa. Mar. 21, 2005) (quoting In re General Electric Broadcasting Company, Inc., 199 U.S.P.Q. 560, 563 (Tr. Tr. & App. Bd., Apr. 12, 1978)).
56. *See* SENSORY MARK, Registration No. 4,558,864.
57. *Id.*
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60. *Id.*

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Is Social Media Changing the Way We Think of Trade Secrets…and How We Protect Them?

By Stephen B. Stern and Andrew M. Kerner

Introduction

It is generally considered an axiom of American business that employees are not allowed to take the company's customer list when their employment with the company terminates. Ask any business executive, whether from a multi-billion dollar company with thousands of employees or a small company with less than 50 employees, and most will tell you that taking the customer list is absolutely forbidden. Indeed, case law has long held that a customer list may constitute a trade secret,[1] and trade secrets can be valuable assets.[2] To constitute a trade secret, the information must: "(1) derive[] independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (2) [be] the subject of efforts that are reasonable under the circumstances to maintain its secrecy."[3]

Social media, however, may present challenges to the conventional wisdom about customer lists being trade secrets. So far, the challenges generally have manifested themselves in two ways: (1) information found in many customer lists may be publicly available through social media; and (2) information found in many customer lists is now portable through the use of social media, which in turn raises questions about the ownership of social media accounts or the content in such accounts. This article examines court decisions that raise concerns about the extent to which social media may undermine the notion that a customer list can be protected as a trade secret. This article also examines how social media may affect the enforcement of non-solicitation agreements, a common tool companies include in employment agreements to protect trade secrets and other protectable business interests.

Case Analyses

One case that illustrates concerns arising from the public availability of information through the use of social media is *Sasqua Group, Inc. v. Courtney*.[4] Sasqua Group, a company that specialized in the recruitment and placement of professionals in the financial services industry, maintained "a central database of client information that include[d] client contact information, individual profiles, contact hiring preferences, employment backgrounds, descriptions of previous interactions with clients, resumes and other information." This information was placed on the company's server over a number of years by the founder and other employees whenever they interacted with a client of the company. Lori Courtney had been employed by Sasqua Group for more than nine years, became a Managing Director, and was given access to the company's highly confidential information. She eventually resigned to start her own executive recruiting firm.

Sasqua Group sued Courtney and her new company claiming Courtney misappropriated trade secrets in the form of "confidential proprietary and competitively sensitive information about Sasqua's client contacts, their individual profiles, their hiring preferences, their employment backgrounds, and descriptions of previous interactions with client contacts." Courtney denied misappropriating trade secrets or other confidential information, contending, among other things, that "virtually all personnel in the capital markets industry that Sasqua serves have their contact information on Bloomberg, LinkedIn, Facebook or other publicly available databases." At a hearing for a temporary restraining order, Courtney testified that information about the individuals who headed the practice groups of the departments on which she focused was available in these databases, and that many people who were found in Bloomberg had their titles or specialties listed, as well as their resumes, job responsibilities, past work experience, education, personal cell phone numbers, and email addresses. During the hearing, Courtney even demonstrated on her computer how she could pull up the LinkedIn profile of an individual that included the individual's prior employers and positions, current title, undergraduate school and dates of attendance, email address, and interests. Similar information was obtained from a search of Google and Bloomberg.

The court concluded that Sasqua Group's client information did not constitute a trade secret for several reasons, including Sasqua Group "failed to prove that the general contact information for Sasqua clients is not readily ascertainable through outside sources, such as the Internet or telephone books, or directories of firms in the financial services industry, like the ones demonstrated by the Defendants at the hearing." The court also offered important commentary about social media and how it might affect a company's ability to claim trade secret protection for its customer list. The court noted that "in the early years of Sasqua's existence[,]…greater time, energy and resources may have been necessary to acquire the level of detailed information to build and retain the business relationships at issue here[,]" but "the exponential proliferation of information made available through full-blown use of the Internet and the powerful tools it provides to access such information…is [now] a very different story."

Another case that illustrates concerns regarding the public availability of information is *CDM Media USA, Inc. v. Simms*.[5] In *CDM*, the plaintiff company sued its former employee, Robert Simms, for, among other things, refusing to transfer control over a LinkedIn group the company claimed it owned. The company alleged that "[a] crucial part of [its] business lies in its contacts and the channels and methods for communicating with its clients and prospective clients and developing products and services for those clients and prospective clients." The company claimed it "constantly develop[ed] new and innovative ways to market itself and its services and communicate with its customers and its potential customers." During Simms' employment with CDM, the company launched a LinkedIn group called the "CIO Speaker Bureau," which was a private online community consisting of chief information officers and other senior information technology executives who were interested in participating in or speaking at CDM events. The company named Simms the point person for the group, but the group was controlled by CDM. By the time Simms resigned from employment with CDM, the group had grown to approximately 679 members and the names of those members allegedly were not known to the public. At the time of his resignation, CDM asked Simms to provide information about each of the accounts he managed for the company so that it could continue to manage those accounts. Simms provided the requested information except for the LinkedIn CIO Speaker Bureau group. He refused to return the membership list or communications with the Bureau, and he allegedly used the membership list to solicit members for his new job. CDM sued, claiming trade secret protection with respect to the CIO Speaker Bureau LinkedIn group, among other things.

Simms filed a motion to dismiss CDM's trade secret claim and other claims, arguing that the LinkedIn group was not a trade secret because CDM announced its formation to the public. The court rejected this argument, explaining that CDM did not contend that the group's existence was secret, only its contents. The court ultimately ruled, however, that it could not determine at the motion to dismiss stage whether the group's membership list constituted a trade secret, as the court needed to know more information about the contents, configuration, and function of the group. To this end, the court noted that CDM alleged not only that the group provided value by identifying potential customers, but it also alleged that the privacy settings permitted the company to limit access to the LinkedIn group members. On the other hand, the court dismissed the trade secret claim with respect to communications within the group, finding that, although "a private communication can contain a trade secret, it is not itself a trade secret."[6]

Cellular Accessories for Less, Inc. v. Trinitas, LLC,[7] raises concerns about the public availability and portability of information through social media. In *Cellular Accessories*, David Oakes signed an employment agreement stating Cellular Accessories' "customer base" constituted "proprietary information" that was subject to certain confidentiality and non-disclosure obligations. Oakes was later terminated from employment and he started a company, Trinitas, which competed with Cellular Accessories in the corporate mobile phone accessory market. Prior to his termination, Oakes emailed himself a digital file that contained contact information for over 900 business and personal contacts. After leaving Cellular Accessories, Oakes maintained his LinkedIn account, which included contacts he developed while employed by Cellular Accessories. Cellular Accessories sued Trinitas and Oakes, claiming breach of contract, unfair competition, misappropriation of trade secrets, and tortious interference, among other claims. Oakes argued that the LinkedIn connections did not constitute a trade secret, claiming Cellular Accessories encouraged employees to create and use LinkedIn accounts and any of his LinkedIn connections could have viewed other connections on his LinkedIn profile. Cellular Accessories countered that the contact information of a LinkedIn member's connections is available only to the extent that the member chooses to share it. The court denied summary judgment after concluding that disputes of material fact existed as to whether the LinkedIn connections constituted a trade secret.

On its face, the court's analysis in *Cellular Accessories* is not particularly newsworthy, but consideration should be given to issues that the court did not address, such as: (1) what restrictions, if any, the company placed on Oakes' use of his LinkedIn account or the content of the account;[8] (2) whether the company sought to assert control over the LinkedIn account other than a broad statement in Oakes' employment agreement regarding confidentiality and non-disclosure obligations; (3) the extent to which Oakes' LinkedIn account was used for business purposes or whether it contained the contact information of existing and potential clients; and (4) the company's prior handling of LinkedIn accounts when other employees left the company.

These and other related issues raise concerns over the ownership of social media accounts or at least the content of those accounts when they are opened by individual employees and used in whole or in part for business purposes. If those social media accounts and their content belong to individual employees, then purportedly confidential company information can become mobile and leave the company's possession and control.

The court's decision in *Eagle v. Morgan*[9] provides insight on the issue of account ownership. In *Eagle*, Linda Eagle co-founded a company called Edcomm, Inc., which was a banking education company that provided in-person and online services to the banking industry. Edcomm urged its employees to create LinkedIn accounts and actively post content on the accounts, but the company did not require employees to have LinkedIn accounts, offer to pay for such accounts, or assert an ownership interest in the accounts. Eagle created a LinkedIn account, which she used for business purposes. She used her Edcomm email address and shared her password with certain Edcomm employees so that they could update her account and respond to certain matters on her behalf, such as invitations. The LinkedIn user agreement stated that the account belonged only to Eagle and she was bound by the terms of the agreement.

After Edcomm terminated Eagle's employment, the employees who had access to Eagle's LinkedIn account changed the password and locked her out of the account. LinkedIn took control of the account after a few weeks and Eagle resumed control about four months after her employment was terminated. While Edcomm exclusively controlled the account, the account information was changed to include the name, picture, education, and experience of Sandi Morgan, Edcomm's Interim CEO, as well as some information about Eagle, such as her honors and awards. Eagle filed suit against Morgan, Edcomm, and other individuals, alleging various statutory and common law violations, including misappropriation of identity and publicity, as well as tortious interference with contract. The court found that Eagle "had the benefit of reputation, prestige, and commercial value within the banking education industry" and she "had a privacy interest not just in her picture and resume, but in her name." The court acknowledged that Edcomm updated the home page for Eagle's account to reflect mostly information about Morgan, although some of the content related to Eagle. This concerned the court in multiple respects, including the fact that someone searching for Eagle on LinkedIn would unknowingly be directed to a page with information about Morgan and Edcomm and this was a misappropriation of Eagle's "reputation, prestige, social and commercial standing, public interest [and] other values of [Eagle's] name." The court concluded that the same evidence supported Eagle's misappropriation of publicity claim, while further noting that Edcomm could have created a new LinkedIn account for Morgan, rather than block Eagle from accessing her account, excluding Eagle from her own account, and depriving Eagle of the commercial benefit of her own name. Although the court ultimately found that the tortious interference claim was not viable, it was due to Eagle's inability to prove damages. When analyzing the other elements of the tortious interference claim, the court relied in part on the LinkedIn user agreement, which indicated that the account belonged to Eagle, and Edcomm's actions prevented Eagle from using her account. The court also rejected Edcomm's contention that it owned employee LinkedIn accounts because Edcomm did not implement any policies or agreements indicating such ownership or access was contemplated.[10]

Although of limited precedential value, a decision by the Superior Court of Connecticut provides additional guidance for companies when analyzing ownership interests in social media accounts. In *BTS USA, Inc. v. Executive Perspectives, LLC*,[11] BTS filed suit against a former employee, Marshall Bergmann, and his new company, Executive Perspectives, LLC, which was a direct competitor of BTS. BTS alleged misappropriation of trade secrets, breach of a non-compete and non-solicitation agreement, tortious interference, and other claims. Some of Bergmann's LinkedIn connections were clients and contacts he developed while employed by BTS. After Bergmann left BTS, he posted on LinkedIn his new job and an invitation to "check out" his new company's website. Although the court addressed the trade secret claim, the court's analysis when finding that Bergmann did not breach the non-solicitation provision of his contract appears more pertinent to a company's ability to claim trade secret protection for its customer list, as well as a company's ability to enforce a non-solicitation agreement, when social media is involved.

First, the court noted that announcing one's new job is a "common occurrence on LinkedIn." Downplaying the significance of such an announcement seems noteworthy, particularly where LinkedIn is a business networking platform and such an announcement often is an implied, if not explicit, invitation to existing and potential customers to locate and conduct business with that member. Second, the court found no evidence that any BTS clients actually received Bergmann's posts, let alone viewed the Executive Perspectives website or did business with Executive Perspectives. Third, even if anyone received the posts, the court noted that only the individuals whose settings alerted them would view such posts since individuals receive updates from their LinkedIn connections based on their individual settings and it "would be difficult…to find liability for such incidental contacts, when the parties to whom the[posts] are directed can choose to receive them or not." Fourth, and perhaps most noteworthy, was the court's finding that "BTS had no policies or procedures regarding employee use of social media; did not request or require ex-employees to delete BTS clients or customers from LinkedIn accounts; did not discuss with Bergmann his LinkedIn account in any fashion, and to this day allows employees to maintain LinkedIn accounts without monitoring or restriction from BTS." "The court [further] note[d] that the use of social media, whether it is Facebook, LinkedIn, Twitter, or some other forum, has become embedded in our social fabric. Absent an explicit provision in an employment contract which governs, restricts or addresses an ex-employee's use of such media, the court would be hard pressed to read the types of restrictions urged here, under these circumstances, into the agreement. Indeed, such an expansive interpretation of the employment contract would likely render it unenforceable as overly broad." In other words, according to this court, if a company intends to claim any protection in the contents of a social media account, it needs to assert an interest in the account through its policies, practices, and employment agreements.

One court looked at the social media dynamic differently and recognized social media may be a tool that could bolster a company's trade secret argument regarding its customer list. In *Christou v. Beatport, LLC*,[12] several nightclubs and their founder sued a former employee and his new company for misappropriating trade secrets in the form of login information for profiles on MySpace, lists of MySpace "friends," and confidential lists of personal cell phone numbers and email addresses for DJs, agents, promoters, and customers. The defendants argued that a list of MySpace "friends" could not be a trade secret because the list was "broadcast to the public via the Internet," but the court found the plaintiffs sufficiently alleged that the MySpace profiles were customer lists that could constitute a trade secret. The court also found the plaintiffs alleged that they secured and safeguarded the profiles to prevent access or use by anyone other than "limited personnel requiring access," which was accomplished in part by securing profile logins and passwords. The court recognized that the functionality of social media could support, rather than hinder, the companies' argument that its customer list was a trade secret. The customer list was not just a list of customers where employees learned the names from general experience. Rather, because it was a social networking site, the company could acquire hundreds and thousands of "friends" and those "friends" provided access to personal information of customers and potential customers, including contact information, interests, and preferences. According to the plaintiffs, the social media profiles were akin to a database with names and contact information and, although it was possible that the former employee could know the names of each of the MySpace "friends" from "general experience," the court concluded it was highly unlikely that the former employee knew all the contact information and preferences of those "friends" from general experience or that it could be obtained from public directories or other outside sources. For these and other reasons, the court denied the motion to dismiss and ruled these issues would need factual development in discovery.

Social media also may affect how companies protect legitimate business interests through the use of non-compete and non-solicitation agreements.[13] The limited number of cases to address this issue is somewhat surprising.

One such case is *Invidia, LLC v. DiFonzo*,[14] where the defendant, Maren DiFonzo, was a hair dresser at a salon named Invidia. DiFonzo signed an employment agreement that included non-compete and non-solicitation provisions. She resigned from her employment with Invidia to work for a competing salon. The owner of the new salon posted a "public announcement" on DiFonzo's Facebook page that DiFonzo had joined the salon. One of the clients that DiFonzo served at Invidia replied to the post by stating, "See you tomorrow Maren." The client then canceled her appointment at Invidia. The court found that the Facebook post by DiFonzo's new salon did not constitute a solicitation in violation of her employment agreement with Invidia, but commented that "[i]t would be a very different matter if Ms. DiFonzo had contacted [the client] to tell her that she was moving to [the new salon], but [there] is no such evidence of any such contact." The court further found that, although DiFonzo had become Facebook "friends" with at least eight Invidia clients, those invitations to become "friends" did not necessarily involve solicitations to change salons.

Without much analysis, the court in *Invidia* appears to have concluded that a post on a Facebook user's "wall," regardless of the author, is not a solicitation in violation of a restrictive covenant. If that is the case, the court's decision seems to downplay the ways people use social media and its reach. Indeed, social media can be a highly effective and efficient forum to solicit many existing and potential clients with a single post, as the court in *Christou* suggested. The court's opinion in *Invidia* on its face also appears to allow an employee to circumvent a restrictive covenant by having someone other than the employee subject to the agreement engage in the prohibited conduct. To avoid this problem, many restrictive covenants include language that states the employee may not "directly or indirectly" engage in the prohibited conduct. Although the court did not provide much detail in its analysis, it may have held DiFonzo was not responsible for the salon owner's post because, unlike the non-compete provision in *Invidia*, the non-solicitation provision appears to have omitted the "directly or indirectly" language in the description of the prohibited conduct.

Similar to the court's finding in *Invidia* that an invitation to become Facebook "friends" was not a solicitation, another court found that "general invitations to join Twitter" did not constitute solicitations in violation of an employee's non-solicitation agreement.[15] The court in *Pre-Paid Legal Services, Inc. v. Cahill*, distinguished "general invitations to join" from invitations to "follow" a particular Twitter feed or that contain information about a particular company or product. The court's distinction is potentially significant, as it suggests that communications that contain content beyond the invitation to connect itself could constitute solicitations, depending on the specific content of the communication. If that is the case, many posts on LinkedIn, Facebook, and other social media outlets that contain substantive content may constitute solicitations and could be a powerful weapon for companies to rely on when pursuing former employees for alleged breaches of their non-solicitation agreements. Yet, in response to an argument by Cahill's former employer that some of Cahill's Facebook "friends" presumably saw some of Cahill's Facebook posts on his public, personal account "that tout generally the benefits of…a product and [Cahill's] professional satisfaction with [the product,]" the court found that the Facebook posts "are less explicitly inviting professional interest in [the product] than the act of posting a job opportunity on a social networking page." As with the court in *Invidia*, the court in *Cahill* appears to have narrowly interpreted what constitutes a solicitation when using social media, but it is not entirely clear how to reconcile the court's analysis of the different "solicitations" in this case.

Another case involving a non-solicitation provision involved two companies that entered into a subcontract where the parties agreed not to solicit or induce any employee of the other company to end his or her current employment.[16] While the subcontract was in effect, one of the parties, Hypersonic Technologies, posted a vacant outside sales position on a LinkedIn group. One of the individuals who saw the post was Robert Dobson, an employee of Enhanced Network Solutions Group, the other party to the subcontract. Dobson met with individuals from Hypersonic Technologies and he was offered the job. Enhanced Network Solutions Group filed a lawsuit alleging that Hypersonic Technologies violated the parties' non-solicitation agreement. The court, however, found that no solicitation occurred by virtue of the fact that Hypersonic Technologies simply posted the job on a public LinkedIn group after which Dobson solicited Hypersonic Technologies. The court's decision is not surprising, as it appears it was mere fortuity that Dobson was a member of the LinkedIn group where Hypersonic Technologies posted the job. On the other hand, if Hypersonic Technologies knew that Dobson was a member of the LinkedIn group where it posted the job and used the LinkedIn group as a cover to solicit Dobson for the job, a different outcome might have been reached.

Conclusion

These cases raise numerous concerns about the protection of trade secrets in the era of social media, but they offer some important guidance as well. First, social media may be challenging the conventional wisdom that a customer list, in the strictest sense of the term, may constitute a trade secret. As the court in *Sasqua Group* explained, "the exponential proliferation of information made available through…the Internet[,]" in particular social media, may lead other courts to conclude that a customer list containing names, job titles, and contact information may no longer constitute a trade secret. Second, as illustrated by numerous court decisions discussed in this article, client names and contact information may now be shared with a social media account holder's connections and that information may now be "mobile" in that it can follow an employee in his or her individual social media account when he or she leaves the company. Despite these concerns, a number of the court decisions in this article offer some guidance to companies, as a customer list may potentially be protected as a trade secret if the company proactively protects its interests by implementing appropriate policies, procedures, and employment agreements that specifically address the company's rights and interests regarding information contained in individual employee social media accounts. In addition or in the alternative, companies may want to reevaluate what type of information they include in a customer list to maintain trade secret protection, as the content of a protectable customer list may be evolving in this digital age. In this regard, including information beyond names, titles, and contact information may increase a company's likelihood of success of protecting a customer list as a trade secret. Lastly, social media also seems to be affecting the way courts view the enforcement of non-solicitation agreements, as communications through social media that are arguably solicitous in nature so far have not been found to be solicitations that violate a non-solicitation agreement. Of course, these conclusions are based only on a limited number of court decisions with limited precedential value in a limited number of jurisdictions, and these issues will continue to evolve with greater clarity as more and more courts tackle these issues in time.

Endnotes

1. *See, e.g.*, *Welenco, Inc. v. Corbell*, __ F. Supp. 3d __, No. 2:13-CV-0287 KJM CKD, 2015 WL 5026190, at *13 (E.D. Cal. Aug. 25, 2015) ("A customer list may qualify as a trade secret…when its disclosure would allow a competitor to direct its sales efforts to those customers who have already shown a willingness to use a unique type of service or product as opposed to a list of people who only might be interested and [plaintiff] took reasonable steps to protect this information.") (internal quotations omitted); *First Fin. Bank, N.A. v. Bauknecht*, 71 F. Supp. 3d 819, 839-40 (C.D. Ill. 2014) (explaining that "a list of actual or potential customers may qualify as a trade secret," but cautioning that "Illinois courts…sometimes require[e] that plaintiffs show they have developed the information over a number of years, at great expense, and kept the information under lock and key") (internal quotations omitted); *Friedman v. Wahrsager*, 848 F. Supp. 2d 278, 302 (E.D.N.Y. 2012) ("A customer list developed by a business through substantial effort and kept in confidence may be treated as a trade secret[,]…provided the information it contains is not otherwise readily ascertainable. However, the owner is entitled to such protection only as long as he maintains the list in secrecy."); *NaturaLawn of Am., Inc. v. W. Grp., LLC*, 484 F. Supp. 2d 392, 399 (D. Md. 2007) (granting motion for preliminary injunction, finding that the "relevant intellectual property, customer lists,…[was] misappropriated[,]" and reasoning that "the identity of NLA's customer is not widely known outside NLA"); *Lamorte Burns & Co. v. Walters*, 167 N.J. 285, 298-301, 770 A.2d 1158, 1166-67 (2001) (explaining that "customer lists of service businesses have been afforded protection as trade secrets").
2. Misappropriation of a company's trade secrets can result in large verdicts against the offending company. *See, e.g.,* Nate Raymond, Caterpillar Hit with $73.6 Million Trade Secrets Verdict in U.S., http://www.reuters.com/article/us-caterpillar-lawsuit-idUSKBN0U424I20151221 (Dec. 21, 2015, 12:14 P.M.); Vin Gurrieri, *Power Services Co. Lands $30M Trade Secrets Jury Verdict*, http://www.law360.com/articles/699750/power-services-co-lands-30m-trade-secrets-jury-verdict (Sept. 4, 2015, 9:26 P.M.).
3. *See, e.g.*, D.C. Code Ann. § 36-401 *et seq.* (West); 765 Ill. Comp. Stat. Ann. 1065/1 *et seq.* (West); Md. Code Ann., Com. Law § 11-1201 *et seq.* (West); N.J. Stat. Ann. § 56:15-1 *et seq.* (West); 12 Pa. Stat. &

CONS. STAT. ANN. § 5302 *et seq.* (West); VA. CODE ANN. § 59.1-336 *et seq.* (West). New York courts follow the common law definition of trade secrets. *See Sarkissian Mason, Inc. v. Enter. Holdings, Inc.*, 955 F. Supp. 2d 247, 253 (S.D.N.Y. 2013), *aff'd*, 572 F. App'x 19 (2d Cir. 2014) (explaining that "New York applies a common law test" to pursue a "misappropriation of trade secret claim"); *see also TNS Media Research, LLC v. TRA Glob., Inc.*, 977 F. Supp. 2d 281, 312 (S.D.N.Y. 2013) ("The Court of Appeals of New York has adopted The Restatement of Torts' definition of a trade secret as any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.") (internal quotations omitted) (*quoting Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407, 624 N.E.2d 1007, 1013 (1993)).

4. *Sasqua Group, Inc. v. Courtney*, No. CV 10-528 (ADS) (AKT), 2010 WL 3613855 (E.D.N.Y. Aug. 2, 2010).
5. *CDM Media USA, Inc. v. Simms*, No. 14 CV 9111, 2015 WL 1399050 (N.D. Ill. Mar. 25, 2015).
6. In a similar case where the companies claimed that they controlled the account and used the account to develop an online presence that included advertising the businesses, the court granted injunctive relief to compel the former employee to provide account passwords and other access information. *See Ardis Health, LLC v. Nankivell*, Case No. 11 Civ. 5013 (NRB), 2011 WL 4965172 (S.D.N.Y. Oct. 19, 2011). The court concluded the accounts belonged to the companies, but the court did not analyze the account information as a potential trade secret.
7. *Cellular Accessories for Less, Inc. v. Trinitas, LLC*, Case No. CV 12-06736 DDP, 2014 WL 4627090 (C.D. Cal. Sept. 16, 2014).
8. *See, e.g.*, *Alpha Pro Tech, Inc. v. VWR Int'l LLC*, 984 F. Supp. 2d 425, 437-38 (E.D. Pa. 2013) (explaining "'what is required to maintain a trade secret action is not absolute secrecy'…'but rather substantial secrecy'…[a]nd ascertaining 'whether a plaintiff took sufficient steps to maintain substantial secrecy of its proprietary information' requires consideration of, but not entire reliance on, confidentiality agreements, which are but one factor of the analysis"); *Geritrex Corp. v. Dermarite Indus., LLC*, 910 F. Supp. 955, 961-62 (S.D.N.Y. 1996) (denying Geritrex's request for a preliminary injunction, explaining that "[a]lthough New York courts have identified a number of factors that courts may look to in determining whether information constitutes a trade secret, the most important consideration is whether the information was kept secret" and finding Geritrex "did not take substantial measures to keep [its manufacturing processes and product formulas] secret," including marking such information as confidential, requiring "the employees involved in production… [to] sign[] confidentiality agreements," and limiting access to confidential information only to those employees that required access) (internal citation omitted).
9. *Eagle v. Morgan*, Civil Action No. 11-4303, 2013 WL 943350 (E.D. Pa. Mar. 12, 2013).
10. Another case involving the alleged theft of a social media account is *Phonedog v. Kravitz*, No. C 11-03474 MEJ, 2011 WL 5415612 (N.D. Cal. Nov. 8, 2011). PhoneDog established a Twitter account for Noah Kravitz (@PhoneDog_Noah) to disseminate content for the company. After four and a half years with the company, Kravitz developed approximately 17,000 followers on the Twitter account, but, when he resigned, he changed the handle on the Twitter account to @noahkravitz so that he could continue to use the account for his own purposes. PhoneDog filed suit claiming, among other things, the Twitter account password and followers constituted trade secrets that Kravitz misappropriated. Kravitz filed a motion to dismiss, arguing that the account followers and account password could not constitute trade secrets. The court denied the motion with minimal explanation. Thus, this case does not provide much meaningful guidance regarding the ownership of social media accounts and their effect on trade secrets.
11. *BTS USA, Inc. v. Executive Perspectives, LLC*, No. X10CV116010685, 2014 WL 6804545 (Conn. Super. Ct. Oct. 16, 2014).
12. *Christou v. Beatport, LLC*, 849 F. Supp. 2d 1055 (D. Colo. 2012).
13. One reason a company enters into non-compete and/or non-solicitation agreement with an employee is to protect the company's goodwill. *See, e.g.*, *Deutsche Post Global Mail, Ltd. v. Conrad*, 116 F. App'x 435, 438 (4th Cir. 2004) (explaining that "[e]mployers have a legally protected interest in preventing departing employees from taking with them the customer goodwill they helped to create for the employer"); *Veramark Techs., Inc. v. Bouk*, 10 F. Supp. 3d 395, 406 (W.D.N.Y. 2014) (explaining that "New York law limits the cognizable employer interests… [to the] prevention of the exploitation or appropriation of the goodwill of a client or customer served by a former employee during employment"); *Advanced Marine Enters., Inc. v. PRC Inc.*, 256 Va. 106, 501 S.E.2d 148 (1998) (finding that engineering service sustained $925,123 in goodwill damages stemming from former employees' breach of non-disclosure, non-competition, and non-solicitation agreements and their new employer's violation of Virginia's Uniform Trade Secret Act). In an effort to protect that goodwill, some companies have gone on the offensive by bringing lawsuits against former employees when the former employees listed their prior work experience with their former employer on their biographical profile in a social media account, such as LinkedIn, or the former employees continued to identify themselves as being affiliated with their former employer on their social media profile. *See, e.g.*, *Robert Half Int'l, Inc. v. Ainsworth*, 68 F.Supp.3d 1178 (S.D. Cal. 2014); *Jefferson Audio Visual Sys., Inc. v. Light*, Civil Action No. 3:12-CV-00019-H, 2013 WL 1947625 (W.D. Ky. May 9, 2013). The claims in *Robert Half* and *Jefferson Audio* were dismissed at the motion to dismiss stage, but that does not mean future attempts in other jurisdictions will not be successful under similar or different legal theories.
14. *Invidia, LLC v. DiFonzo*, 30 Mass. L. Rptr. 390, 2012 WL 5576406 (Mass. Super. Ct. Oct. 22, 2012).
15. *See Pre-Paid Legal Servs., Inc. v. Cahill*, 924 F. Supp. 2d 1281 (E.D. Ok. 2013).
16. *Enhanced Network Solutions Group, Inc. v. Hypersonic Tech. Corp.*, 951 N.E.2d 265 (Ind. Ct. App. 2011).

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Fair Use in the Workplace

By Cheryl Davis

Regardless of the nature of the industry, intellectual property and "fair use" issues can arise in any company. Even if your company does not make a practice of creating its own intellectual property, odds are that it makes use of images and/or text created by others. Do your employees incorporate materials from external sources into their research, which research can then end up in client hands? Do your company websites or marketing materials incorporate externally generated images or textual material? If so, and the company has not expressly licensed each and every such item, it may be infringing someone else's copyright.

It is advisable to have a system in place so that: (i) your employees are aware of when using externally generated materials may create potential legal issues; and (ii) you can evaluate the risk when your employees end up using externally generated intellectual property without the copyright owner's permission. Depending upon the circumstances, use of this intellectual property may be "fair use" under the law. But take care—"fair use" is by no means a "Get-Out-Of-Litigation-Free" card. At best, for a defendant, it is an affirmative defense to a claim of copyright infringement, for which you have the burden of proof. The outcome of any litigation is never certain, even in the best of circumstances. At worst, for a plaintiff, it may mean that someone gets to use your hard-earned intellectual property without your permission.

The U.S. Copyright Office generally describes fair use as "a legal doctrine that promotes freedom of expression by permitting the unlicensed use of copyright-protected works in certain circumstances. Section 107 of the Copyright Act provides the statutory framework for determining whether something is a fair use and identifies certain types of uses—such as criticism, comment, news reporting, teaching, scholarship, and research—as examples of activities that may qualify as fair use."[1] The statute lists four factors to be considered in determining whether "the use made of a work in any particular case is a fair use":

> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.[2]

Needless to say, the courts' analysis of these factors–along with the different weight different courts award each element—makes answering the question, "Is this fair use?" far from simple.

"What is a fair use of copyrighted work?" has been repeatedly litigated in recent years, and the answer has been expanding—along with the technology used to exploit the work. In *Authors Guild v. Google*,[3] the Second Circuit found that Google's digitization of books without the authors' express consent was a "public benefit" and enough of a "transformative use" that it did not infringe the authors' copyright interest. In *Lenz v. Universal Music*,[4] defendant Universal claimed that a mother posting a video of her baby dancing to Prince's "Let's Go Crazy" was a copyright infringement and ordered Youtube to take down the video pursuant to the Digital Millennium Copyright Act ("DMCA"). The Ninth Circuit not only disagreed with Universal, it found that Universal, as well as other companies, now must consider whether the use in question may be a fair use *before* ordering that a potentially infringing work be taken down under the DMCA. By broadening the public's rights to use copyrighted material, the courts have apparently narrowed the artist's rights, and compelled artists, and quite often, their publishers,[5] to pick their copyright battles. There are still standards, however, and it is best for a company to engage in some analysis of the fair use question and institute some procedures around using externally generated intellectual property before using it.

If your employees regularly need to do external research and circulate images, articles, or any other type of intellectual property, you will want to: (i) educate them about what use of this material is permissible; and (ii) monitor their use of the intellectual property to make sure it stays within acceptable limits.

Step 1. Educate Your Employees

There are those individuals who think in all sincerity that if they found it on the Internet, "that means it's in the public domain, right?" In these situations, an employee's ignorance can put your company at copyright risk. Some companies make a practice of educating their managers about when and how to use externally generated intellectual property.

Step 2. Monitor Employee Use of External Intellectual Property

How do employees do their research, and how do they use it? Do they simply cut and paste from external sources at will, or do they use agreed-upon sources, paraphrase information and give proper attribution? The latter is a better practice, and will look more like the external intellectual property is being properly and "fairly" used for scholarly purposes. Moreover, knowing the source of the external images and text allows you to better keep track of whether they are being properly used, and make arrangements to license them, if it becomes necessary.

How is the information used, and is it used purely internally for research and development or submitted directly to clients? If the latter, there is a risk that the client may view the external intellectual property as part of your company's work product, and feel free to exploit and use it accordingly. For example, an employee might cut and paste an image from a website without getting a license, thinking the image will only be used to give the client an "idea" of what the ultimate product might look like. But if the client considers that "idea" image as an end product and incorporates it into publicly disseminated marketing materials, your company might end up being accused of infringement. Some companies therefore include disclaimers on materials that are distributed to the client, advising the client that such materials are not to be publicly distributed or used for marketing purposes.

Do employees purchase one subscription to an industry newsletter and then re-circulate that one subscription through an entire department (or even the entire company) in the name of "research"? The "taking" of the entire document (rather than excerpts) and the fact that such a use eliminates the need for the company to purchase another copy of the newsletter definitely impacts the potential market for the work, and would argue firmly against this being a fair use. It is wise to have a policy against such re-distribution of intellectual property, which is often expressly prohibited by the terms of the subscription or license.

Step 3: Be Clear in Your Communications with Clients

Make sure your client knows what can be used and circulated externally, and what is purely for research purposes. Some companies take the added step of asking clients to provide their own source images and materials to be used during the product development process. In those situations, the client is responsible for getting any necessary permissions.

Some Best Practices

Educate your employees and establish policies for how to use externally generated intellectual property.

Employees should learn to note and keep track of the source of the intellectual property used. Many websites and newsletters expressly limit how their contents may be distributed and used. Employees should also be aware that additional review may be required if materials are to be externally distributed, including to the client.

Have disclaimers on distributed materials stating, "FOR INTERNAL/NON MARKETING USE ONLY." The client should be advised about the fact that external (and potentially protected images) have been used, and cautioned about re-distributing them without your company's permission.

Endnotes

1. *More Information on Fair Use*, COPYRIGHT.GOV, http://copyright.gov/fair-use/more-info.html (last visited Mar. 18, 2016).
2. 17 U.S.C.A. § 107 (1992).
3. 804 F.3d 202 (2d Cir. 2015). The Authors Guild filed a petition for a writ of certiorari on December 31, 2015 asking, *inter alia*, "Whether the Second Circuit's approach to fair use improperly makes 'transformative purpose' the decisive factor, replacing the statutory four-factor test, as the Seventh Circuit has charged."
4. 801 F.3d 1126 (9th Cir. 2015).
5. It should be noted that fair use does not only benefit corporations the size of Google. In cases such as Cariou v. Prince, 714 F.3d 694 (2d Cir. 2013), and Adjmi v. DLT Entertainment Ltd, 97 F.Supp. 3d 512 (S.D.N.Y. 2015), the work of individual artists was found to have been sufficiently "transformative" not to constitute copyright infringement. A new copyright infringement case was filed against Richard Prince on December 30, 2015 in the Southern District, (Graham v. Prince et al., Case 1:15-cv-10160-SAS); another sign that the "fair use" battle continues.

Cheryl Davis is a litigator who concentrates in intellectual property matters (particularly copyright and trademark cases), employment and real estate/construction related matters. She has counseled clients on how to protect their intellectual property and has also represented theater clients in connection with a variety of contract and corporate issues. A published playwright whose work has been frequently performed, Cheryl won the Kleban Award for her works as a musical theater librettist and her show *Barnstormer* has received one of the Jonathan Larson Performing Arts Foundation Awards.

Ensuring Enforceability of Online E-Commerce Agreements

By Barry Werbin

Online terms of service, terms of use or "terms and conditions" (collectively, "TOS") are ubiquitous—rarely do we see a website without some form of TOS, typically accessed through a link at the bottom of a site's home page. This runs the gamut from sites that are purely informational and passive, having no end-user interactions and posting no third party content, to those focusing on user-generated content ("UGC") and e-commerce, be it at the consumer or business-to-business level. But merely posting TOS on a site does not make them enforceable. To ensure enforceability, an end-user must either provide clear affirmative electronic assent to the TOS or have actual or constructive notice of conspicuously posted TOS before proceeding to interact with a site. Specific provisions of TOS, particularly waivers of material rights, must also pass muster under applicable state law.

In this context, online TOS are no different than any other form of contract, which, as we all learned in our first year of law school, requires both a clear offer and acceptance under applicable state law.[1] As the Second Circuit has observed: "While new commerce on the Internet has exposed courts to many new situations, it has not fundamentally changed the principles of contract."[2] In the context of the Internet, this "meeting of the minds" must occur digitally, such that courts can unequivocally conclude that a user had at least constructive, if not actual, notice of the TOS and an opportunity to review them before taking action on a website or in connection with an online purchase.[3] Even if TOS are deemed "accepted" by end-users, they still can be challenged—and often are from the defense side—as contracts of adhesion or as being unconscionable, either in whole or as to specific terms, such as forum selection and liability limitation clauses.

For a purely passive informational site, TOS typically only need to provide basic disclosures, including notice of intellectual property rights, company contact details and site administration information. Enforceability is therefore not a major concern. But once a site becomes interactive in any way, those TOS sitting at the bottom of a web page are meaningless unless they are reasonably communicated to, and form a legally binding contract with, end-users.

Among the most critical provisions in TOS from the provider's perspective are those concerning choice of law, mandatory forum selection, arbitration and class action waivers, warranty disclaimers and limitations of liability. Where UGC, merchant or other third party content is posted on a site, additional key terms will include content license terms dictating what usage rights are ceded to the service provider in that content, and a requisite "takedown" policy and agent designation under the Digital Millennium Copyright Act ("DMCA"), which is necessary for a non-publisher service provider to take advantage of the secondary liability "safe harbor" under the DMCA.[4] From an online provider's perspective, the enforceability of these types of material terms is critical to controlling exposure to potentially substantial liabilities and the costs attendant to litigating multiple claims throughout the country in different legal jurisdictions.

> *"[M]erely posting TOS on a site does not make them enforceable. To ensure enforceability, an end-user must either provide clear affirmative electronic assent to the TOS or have actual or constructive notice of conspicuously posted TOS before proceeding to interact with a site."*

Where such terms are material to a provider's business model, existing TOS and the applicable website interface should be reviewed carefully and revised as necessary to insure enforceability on an ongoing basis. TOS should also incorporate by reference, and hyperlink to, a website's applicable privacy policy, which then becomes part of the overall contract with an end-user.

Browsewrap vs. Clickwrap TOS

Online TOS generally fall into one of two categories: "browsewrap" or "clickwrap" agreements, although there are nuances within each category. "Browsewrap" refers to TOS that typically are posted on a site and do not require any affirmative assent by an end-user to use the site or its services.[5] Browsewrap TOS often sit passively as a hyperlink at the bottom of a website home page, but may also be brought to a user's attention and accessed through one or more links on a site, without requiring an end-user to affirmatively accept or read them. Browsewrap TOS that are merely posted on a site with no conspicuous notice to end-users of their existence are not enforceable because there is no evidence that an end-user consented to the TOS or even had actual knowledge of them.[6] Tell-tale signs of unenforceability include burying a TOS hyperlink in an inconspicuous location on a website so as not to provide reasonable notice of their existence to a user; making sure the TOS link itself is no more, and perhaps even less, prominent in terms of font size and color than other non-material links on a site; and a failure to direct users to the TOS when they are subscribing for services, opening an account or making a purchase.[7]

Modified browsewraps have, however, been enforced on a case by case basis. This has occurred where a user was expressly notified that his or her continued activity on the site was subject to specified TOS and a conspicuous link was provided to access those TOS one or two clicks away. In these instances, legally sufficient constructive notice of the TOS was deemed provided to the end-user. For example, in dismissing a class action complaint, the Eastern District of New York recently enforced arbitration and class action waiver clauses in Amazon.com's TOS, a hybrid browsewrap/clickwrap agreement, as characterized by the court.[8] Amazon end-users were prominently notified at final checkout that by placing an order "you agree to Amazon's privacy notice and conditions of use." The words "conditions of use" were a colored hyperlink that took users to Amazon's TOS. To confirm a purchase, the user had to then click "Place your order," which was positioned just below the TOS notification. Although users were not required to specifically accept the TOS, the court held that the TOS notification and hyperlink were sufficiently conspicuous on the checkout page so as to notify an end-user each time a purchase was made that purchases were subject to the TOS and that this placed end-users at least on "inquiry" notice.

On the heels of its Amazon decision, however, Senior Judge Jack B. Weinstein of the Eastern District of New York refused to enforce hybrid browsewrap TOS and an arbitration clause contained therein in a class action involving in-flight WiFi service fees, where an end-user was not required to click through to TOS which were posted eight pages down after a sign-in screen.[9] The court assessed an average Internet user's "capacity and understanding" and concluded that average end-users would not have been informed that they were binding themselves to any TOS. As a result, forum selection and arbitration clauses in the TOS were not enforceable. As an evidentiary matter, the court placed the burden on the defendant to show "special circumstances indicating that the plaintiffs were aware, or should have been aware, of such clauses because of their special knowledge."

"Clickwrap" agreements, on the other hand, require users to affirmatively "accept" TOS as an express condition to initially engage with a website, whether to purchase or sell goods online, post videos, subscribe to video-on-demand services or download games. Clickwraps are generally enforced because end-users must affirmatively accept the TOS that are conspicuously posted on or linked to directly from the same page as the acceptance mechanism (such an "I accept" icon), even if they chose not to read the TOS.[10] In some cases, the site will require an end-user to scroll through the TOS before acknowledging acceptance (sometimes referred to as a "scrollwrap" agreement), a procedure that ensures enforceability.[11] The more direct the end-user's interaction is with the TOS and the acceptance procedure, the most secure the website owner will be in enforcing its TOS.

Formation of a Valid TOS Agreement

The starting point is whether a valid and enforceable online contract is formed. As the Second Circuit made clear in an early case addressing online contracts: "Mutual manifestation of assent, whether by written or spoken word or by conduct, is the touchstone of contract."[12] This manifestation of assent can be direct in the form of TOS that are clearly presented to an end-user for prior review and must be affirmatively "accepted," as in a traditional clickwrap agreement scenario. Here, state courts and federal courts applying state contract law are nearly unanimous in upholding such direct acceptance as creating a binding agreement.

New York courts have regularly upheld the validity of such clickwrap agreements. As an example, in a 2008 criminal proceeding involving alleged online deceptive advertising, the New York Supreme Court held that the TOS posted on the website of Direct Revenue, LLC, constituted a binding agreement and all end-users were bound by express disclosures in the TOS respecting the use of pop-up ads and other practices, as well as limitations on liability. This all precluded any claims of misrepresentation and deceptive business practices and required dismissal of fraud claims.[13] All website users were required to click a "Yes" button within a dialog box to confirm their assent to the TOS, which they had the opportunity to read. As the court emphasized, "[u]nder New York law, such contracts are enforced so long as the consumer is given a sufficient opportunity to read the EULA [end-user license agreement], and assents thereto after being provided with an unambiguous method of accepting or declining the offer…"[14]

Assent also can be established where a site provides prominent notice that use is subject to the posted TOS, which are accessible through one or two clearly identifiable links, and the user then must click a link acknowledging this disclosure without being compelled to read the TOS themselves. A recent example is *5381 Partners v. Sharesale.com*, involving an online merchant agreement that was enforced where there was clear and uncontroverted evidence that the user could not have become a merchant and used the site without first affirmatively agreeing to the applicable merchant terms by clicking a box confirming agreement with the TOS, even if such terms were not actually read.[15]

On the other hand, the absence of a means for a user to affirmatively accept posted TOS will preclude the formation of an enforceable online contract, unless there is unequivocal evidence that a user had actual or constructive knowledge of a website's TOS. In defending a consumer complaint tied to an online purchase, for example, Barnes & Noble recently lost a bid to enforce an arbitration clause in its browsewrap agreement TOS, which were accessible through links at the bottom of its website pages, because its site "did not provide reasonable notice of its Terms of Use" and consumers were not prompted to assent thereto.[16] In that case, the Ninth Circuit, applying both New York and California law, emphasized that even in the absence of affirmative consent, such as through an "I accept" button, the TOS would likely have been enforceable if the user had actual notice of the agreement. In the absence of actual knowledge, the enforceability of browsewrap TOS depends "on whether the website puts a reasonably prudent user on inquiry notice of the terms of the contract"—and this, in turn, "depends on the design and content of the website and the agreement's webpage."[17]

Similarly, the New Jersey Appellate Division refused to enforce a forum selection clause in TOS where the "clause was unreasonably masked from the view of the prospective purchaser because of its circuitous mode of presentation" and was not visible on the purchaser's computer without scrolling down to a submerged portion of a webpage where a disclaimer containing the clause appeared.[18] In that case, there also was no requirement before concluding a purchase that the plaintiff had to affirmatively accept the posted terms, putting a final nail in the TOS coffin.

One observation gleaned from the case law is that courts scrutinize browsewrap-type TOS more closely in matters involving consumers, rather than those concerning more sophisticated merchants and other businesses. This was recently emphasized by Senior Judge Weinstein in *Berkson v. GoGo LLC*, who wrote: "Because of the passive nature of acceptance in browsewrap agreements, courts closely examine the factual circumstances surrounding a consumer's use."[19] There, Judge Weinstein refused to enforce TOS against consumers where the "design and content of the website, including the homepage, did not make the 'terms of use' readily and obviously available.… The hyperlink to the 'terms of use' was not in large font, all caps, or in bold…Nor was it accessible from multiple locations on the webpage."[20]

Preserving Evidence of the TOS Offer and Acceptance

As with brick and mortar contracts, evidence will need to be presented to a court or arbitration forum of a valid set of TOS that were in place as of the date and time of the underlying online transaction—the "offer"—and an actual or constructive acceptance of those terms. From an evidentiary perspective, this is accomplished through the admission of such documentation as business records under Rule 803(6) of the Federal Rules of Evidence or applicable state evidentiary rules.[21]

Careful business records should be maintained of end-users' click-throughs and acceptances of a site's TOS where affirmative acceptance is required. This is typically done by maintaining logs of subscribers and their IP and email addresses. Those logs will be critical to produce in any litigation where enforceability of the TOS is being challenged. Like any business records, in a litigation context these end-user logs will need to be authenticated as valid business records to be admissible. This will require either live testimony or, in the context of motions to dismiss or for summary judgment, an affidavit or declaration from the company's custodian of such records or by an officer or employee familiar with the manner in which such end-user records are created and maintained in the ordinary course of business.

Second, because TOS are often revised on an ongoing basis, it is important to establish and maintain a history file of all TOS versions by date range and how such changes were communicated to end-users.[22] This versioning is important because the TOS that were originally accepted by an end-user may not be the same TOS in effect down the road when litigation begins. The necessity for business records validation applies here as well to the actual TOS that were in effect at the time of the user's initial assent. This too should be established with oral or written testimony that creates a foundation for admissibility of the specific TOS in issue as a business record. For example, in a recent case in the Eastern District of New York, a Declaration of Kellogg's in-house counsel was sufficient to establish the authenticity of TOS that were found to be binding on a plaintiff who had submitted an idea for a new product through Kellogg's online portal and was not compensated.[23] Whether future amendments to TOS will themselves be binding on users who originally accepted an earlier version is discussed below.

It may also be possible to obtain admissions during discovery through requests to admit, or a stipulation that these types of records qualify as business records for purposes of admissibility. In some cases, a plaintiff may admit in pleadings to opening an online account and try to use the TOS affirmatively to make a case, while maintaining, perhaps inconsistently, that certain specific provisions of the TOS should nevertheless be unenforceable because they are unconscionable or against public policy, also discussed below.

For example, in *Register.com, Inc. v. Verio, Inc.*, the Second Circuit found sufficient evidence of a binding agreement where Verio admitted it had been aware of Register.com's TOS, the TOS were clearly posted on Register.com's site and the site clearly notified users that by submitting queries to its WHOIS database users agreed to abide by the TOS, despite Verio not being required to click on an acceptance icon.[24] The Second Circuit emphasized that this admission of notice, coupled with Verio's acceptance of the benefits from using the site, created a binding acceptance of Register.com's contractual offer in the form of its TOS. And in the same Kellogg case noted above, the Second Circuit pointed to the plaintiff's fatal admission that Kellogg's TOS were a legally binding agreement, leaving only plaintiff's authenticity objection, which was belied by the declaration of Kellogg's counsel.[25]

In the absence of actual user logs, indirect evidence of acceptance of TOS can be offered through other business records evidence by showing an end-user was presented with a clear and conspicuous interface that expressly required acceptance of the TOS in effect at the time and that the mechanics of the site would have made it impossible for the user to continue without having accepted such terms.[26] In a hybrid browsewrap situation where an end-user is presented with conspicuous notice that his or her further actions on the site are governed by TOS, which in turn are accessible through an obvious hyperlink within such notice, the mechanics of that interaction and a foundation for the end-user interface in effect during the relevant time period can also be established through business records testimony.

In short, at a minimum there must be sufficient unequivocal evidence that (1) the end-user, especially a consumer, was clearly presented at the outset with prominent notice of TOS that would govern use of the site and bind the user, (2) a link to the TOS was conspicuously and proximately placed in the same context as that notice, such that it stood out from other content on the applicable website page, (3) the TOS link took the user directly to the TOS (one click) and (4) the TOS themselves were clear and unequivocal, and prominently highlighted (such as by all caps or bold type) any material rights being waived by the user, such as liability limits and exculpation, mandatory arbitration and warranty disclaimers.

Amendments to TOS

Amending TOS over time is a thorny issue and one that can get a provider into real trouble. As ubiquitous as TOS are, so are embedded clauses often giving the provider *carte blanche* to amend the TOS at any time without further notice. For fairly obvious reasons, such unilateral amendment clauses are disfavored by courts. On the other hand, a unilateral right to modify TOS will generally be upheld where that right is exercised in good faith, fairly and in a manner that does not frustrate the purpose of the contract.

A prominent example involved end-user claims made against Zappos based on a data breach by hackers, where the court refused to enforce an arbitration clause in a browsewrap TOS because end-users did not agree to it—a TOS hyperlink was buried at the bottom of pages that could not be viewed without scrolling and was in a small font, and the website never directed an end-user to the TOS—and Zappos reserved the right at any time to amend the terms without notice.[27] This unilateral right to amend was held to render the contract illusory "because Zappos can avoid the promise to arbitrate simply by amending the provision, while Zappos.com end-users are simultaneously bound to arbitration."[28] In another case, the Ninth Circuit refused to enforce amended TOS on a telecom provider's website that added an arbitration clause because end-users were neither provided direct notice of the amendment nor required to visit the site as a condition to continuing to use the provider's services.[29]

On the other hand, a California state court recently upheld amendments to Instagram's TOS where end-users who had affirmatively accepted Instagram's initial TOS received an email 30 days in advance notifying them that the TOS were being amended and that continued use of the platform thereafter would bind users to the amended terms.[30] Applying California law, the court noted that the original TOS provided that Instagram reserved the right to amend its TOS by email notification, and the plaintiff received the requisite notice and then continued to upload photos despite the "opt-out" option.

Similarly, an arbitration clause in Electronic Arts' TOS that was amended was enforced where registered users were presented with a link to the amended TOS and were required to click an "accept" button or opt out as a condition of continuing their use of the online game platform.[31]

While perhaps burdensome administratively and requiring enhanced technical resources, to insure enforceability of future amendments to TOS each update should be made clearly known to existing end-users when they log on or place an order; the end-users should be directed to an obvious link to the amended TOS without the need to scroll down; and there should be a conspicuous notice that continued use of the site binds the user to the amended terms. Alternatively, an email blast could be sent to all end-users of record, provided such users are not able to "opt-out" from receiving such important administrative notices; even still, some end-users may not receive the email if their spam filters quarantine it.

Contracts of Adhesion and Unconscionability

A common refrain in attacks on TOS enforceability is that they are contracts of adhesion, which should not be enforced as a matter of public policy. While the term "contract of adhesion" may conjure up another hazy first year law school contracts lecture, it is often a misunderstood doctrine that is far from black and white. Indeed, contracts of adhesion abound in our society in both the online and brick and mortar world. Determining whether a contract is one of adhesion is only the beginning of the analysis to determine its enforceability, as contracts of adhesion are generally valid and enforceable under applicable state law in the absence of other factors that render them otherwise. Because online TOS are not "negotiable"—not unlike a consumer finance contract, extended warranty agreement or a myriad other "form" agreements on paper—they all would be rendered meaningless if "adhesion" were the sole test of enforceability. It is only where a contract of adhesion, or specific terms therein, are deemed "unconscionable" under applicable state law that they will not be enforced.

Courts in New York, California and New Jersey, for example, examine contracts of adhesion from the perspective of unconscionability at two levels: procedural and substantive. To be deemed unenforceable, contractual provisions in these jurisdictions must be found to be *both* "procedurally" and "substantively" unconscionable, and are subject to a reasonableness standard.[32]

"Procedural" unconscionability addresses the manner in which parties enter into a contract and considers factors such as the parties' respective bargaining power, the degree of economic compulsion, sophistication (including age and literacy), any hidden or unexpected contractual provisions and any public interest affected by the contract.[33] Procedural inadequacies can include an end-user's age, literacy and lack of sophistication, whether the TOS are hidden, bargaining tactics employed and the particular setting existing during the contract formation process.[34]

"Substantive" unconscionability focuses, for example, on whether "inequality amounting to fraud [is] so strong and manifest as to shock the conscience and confound the judgment of any man of common sense."[35] The doctrine focuses on fundamental fairness as to the overall TOS or specific clause contained therein, and whether the terms of a contract are unreasonably favorable to the other party.[36]

Particular Material Terms: Forum Selection

The biggest challenges to TOS typically arise in the context of a provider seeking to enforce choice of law, forum selection, exculpation, liability limitation, warranty disclaimer and arbitration clauses. While a detailed discussion of each is beyond the scope of this article, the principles of valid contract formation and unconscionability discussed above play a key role in determining enforceability. Even where TOS as a whole might be enforceable, specific provisions may be held unconscionable and not enforced under substantive state law applicable to contracts in general. For example, waivers of claims based on gross negligence, intentional wrongdoing, fraud, malice and reckless indifference to the rights of others are not enforceable under New York law, even in commercial contracts.[37]

Keep in mind that waivers of material rights must be displayed conspicuously (using all-caps or bold lettering) to end-users to be enforced under state laws generally; even then, specific limitations may be unenforceable.[38] Drafting guidance is also provided by U.C.C. § 2-103(1)(b)—the source of pervasive ALL CAPS clauses in TOS and contracts generally—which defines "conspicuous" as including, for a person:

> (A) a heading in capitals equal to or greater in size than the surrounding text, or in contrasting type, font, or color to the surrounding text of the same or lesser size; and (B) language in the body of a record or display in larger type than the surrounding text, or in contrasting type, font, or color to the surrounding text of the same size, or set off from surrounding text of the same size by symbols or other marks that call attention to the language.

Because of the frequency of challenges to forum selection clauses involving online transactions, some additional discussion of how courts have addressed that issue in an online context is instructive. Forum selection clauses are generally presumed valid in online TOS if an enforceable contract otherwise exists.[39] Indeed, in its *M/S Bremen* decision, the Supreme Court held that mandatory forum selection clauses should be enforced "unless enforcement is shown by the resisting party to be 'unreasonable' under the circumstances."[40] Courts have since presumed the validity of forum selection clauses absent a strong showing of unreasonableness.[41] In the online context, such clauses also must be reasonably communicated to an end-user to be enforceable.[42]

Courts have recognized that in the Internet context, providers would be at risk of being sued potentially in every state because of the national reach of online commerce and therefore have a reasonable basis upon which to require centralization of litigation in a single forum. Because TOS are governed by state contract law, however, the applicable state law under which TOS should be assessed cannot be based on the choice of law expressed in the TOS themselves until the TOS are deemed enforceable under the choice of law standard in force in the state where an action is commenced. Once enforceable, however, the stated choice of law will govern.[43] Often, this issue can be avoided where the substantive laws of competing states respecting TOS enforceability are the same.

A forum selection clause contained in Microsoft Network's TOS was upheld by the New Jersey Appellate Division, where a subscriber could register for the service only after scrolling through the TOS and clicking "I Agree." The court emphasized that "no good purpose, consonant with the dictates of reasonable reliability in commerce, would be served by permitting [an end-user] to disavow particular provisions or the contracts as a whole."[44]

In a claim alleging improper removal of a posted video, YouTube's TOS were recently upheld by a California district court so as to enforce a forum selection clause.[45] In order to open an account and upload videos, YouTube presented all users with a link to its TOS and required end-users to check a box stating "I agree to the Terms of Use and Privacy Policy." Although the plaintiffs argued that the TOS and forum selection clause were unconscionable, the court found neither procedural nor substantive unconscionability, emphasizing that plaintiffs had other options for posting videos online and did not lack "any kind of meaningful choice as to whether to upload their video to the YouTube website and agree to the conditions set forth by YouTube."[46] The court further noted that a lack of "bargaining power does not render the entire contract or the forum selection clause procedurally unconscionable."[47] Procedural unconscionability also did not exist because the YouTube TOS "were not obscured or hidden, Plaintiffs had a clear opportunity to understand the terms, and they did not lack a meaningful choice."[48] Similarly, there was no substantive unconscionability because neither the TOS as a whole nor its relevant terms were "so outrageously unfair as to shock the judicial conscience."[49]

Under New York law applicable to contracts in general, forum selection clauses in otherwise enforceable agreements are presumed valid unless enforcement would "be unreasonable, unjust, in contravention of public policy, invalid due to fraud or overreaching, or it is shown that a trial in the selected forum would be so gravely difficult that the challenging party would, for all practical purposes, be deprived of its day in court."[50] In *Starkey v. G Adventures, Inc.*, under New York law, the Second Circuit enforced TOS requiring that claims be brought in Canada where three trip booking confirmation emails were sent to the plaintiff and contained prominent statements that all bookings were subject to specific TOS, following which was a hyperlink to the applicable TOS containing the clause.[51]

On the other hand, in a case involving the purchase of closeout merchandise online, a New York court refused to enforce a forum selection clause specifying Florida courts where the clause was buried or "submerged" on website pages and was not specifically brought to an end-user's attention.[52] The online seller neither provided notice to the buyer that the TOS could be found at a given website address, nor structured its site so as to place the TOS "directly up front, in a conspicuous place, for all to see."[53] The court contrasted this with other cases in New York and New Jersey that have upheld TOS forum selection clauses where the existence of such clauses was reasonably communicated to end-users.

Final Takeaways

The challenge in drafting enforceable TOS is to meet the threshold standards potentially of every state where a website provider is engaged in national commerce. Well-established case law in New York, California and New Jersey, however, provides valuable guidance and reflect a widespread trend. Courts' assessments of waivers of particular material terms involving consumers are more circumspect and such terms are more susceptible to unconscionability challenges. To best the odds, always keep in mind the need to present and display TOS in as conspicuous a way as possible and require a convenient means of affirmative consent, where end-users cannot argue they did not have reasonable notice. Amendments to TOS that affect any material rights of an end-user must also be subject to a similar validation process. Material waivers should be prominent, clearly worded and distinct from other terms, and certainly consistent with the choice of state law specified in the TOS. In drafting, always keep in mind the principle of fair and reasonable notice and the fundamentals of contract formation. And maintain good business records to provide clear evidentiary support for valid online contract formation. Following these guidelines and keeping up to date on still-evolving case law will best ensure enforceability of an online povider's TOS.

Endnotes

1. *See, e.g., Express Indus. and Term. Corp. v. New York State Dept. of Transp.*, 93 N.Y.2d 584, 589, 715 N.E.2d 1050, 1053 (1999) ("To create a binding contract, there must be a manifestation of mutual assent sufficiently definite to assure that the parties are truly in agreement with respect to all material terms.").
2. *Register.com, Inc. v. Verio, Inc.*, 356 F.3d 393, 403 (2d Cir. 2004). As this court also emphasized: "To form a valid contract under New York law, there must be an offer, acceptance, consideration, mutual assent and intent to be bound." *Id*. at 427 (internal quotations omitted).
3. *See Starke v. Gilt Groupe, Inc.*, 2014 WL 1652225 (S.D.N.Y. April 24, 2014), where the court upheld Gilt Groupe's membership sign-up process, which included a sign-up box with a hyperlink to TOS through a single "click," where a user was prominently notified that membership was governed by the posted TOS. Plaintiff was deemed to have constructive notice of the TOS and was bound thereby because he was aware the TOS existed and governed his purchases, despite not actually having viewed or read the TOS.
4. 17 U.S.C. § 512. The DMCA, which applies only to copyright claims, absolves an online service provider from secondary infringement liability if the provider fully complies with the statutory conditions, which include posting and abiding by a notice and "take-down" process, and listing and recording with the Copyright Office an agent to receive DMCA claims. Section 512 also permits users who posted challenged content to contest wrongful takedowns. A broader discussion of the DMCA is beyond the scope of this article.
5. *See, e.g., Hines v. Overstock.com, Inc.*, 668 F.Supp.2d 362, 366-67 (E.D.N.Y.2009) ("Unlike a clickwrap agreement, a browsewrap agreement does not require the user to manifest assent to the terms and conditions expressly…[a] party instead gives his assent simply by using the website."). *Hines* held that an online retailer's TOS were not enforceable because users were not prompted to review them and the TOS were not prominently displayed.
6. *See, e.g., In re Zappos.com, Inc., Customer Data Security Breach Litigation*, 893 F.Supp.2d 1058 (D. Nev. 2012) (browsewrap agreement was unenforceable where users were not required to take affirmative action to assent to the terms and there was no evidence that users consented to such terms or were even aware of the terms.).
7. *Id*. at 1064.
8. *Nicosia v. Amazon*, 84 F.Supp.3d 142 (E.D.N.Y. Feb. 4, 2015) (Second Circuit appeal pending as of the writing of this article). Note the Supreme Court held in *AT & T Mobility LLC v. Concepcion*, 563 U.S. 321 (2011) that class-action waiver and mandatory arbitration

clauses were enforceable under the Federal Arbitration Act, which preempted California law that might otherwise find such clauses unconscionable in consumer contracts under the test set forth in *Discover Bank v. Superior Ct.*, 36 Cal.4th 148, 30 Cal.Rptr.3d 76 (2005). *Accord American Express Co. v. Italian Colors Restaurant*, 133 S.Ct. 2304 (2013) (FAA does not permit courts to invalidate a contractual waiver of class arbitration on the ground that the plaintiff's cost of individually arbitrating a federal statutory claim exceeds the potential recovery).

9. *Berkson v. Gogo LLC*, 97 F. Supp. 3d 359 (E.D.N.Y. April 8, 2015) (Second Circuit appeal pending as of the writing of this article; motion for preliminary approval of class action settlement granted at 2015 WL 7960042 (Dec. 4, 2015)).

10. *See, e.g.*, *Whitt v. Prosper Funding LLC*, 2015 WL 4254062 (S.D.N.Y. July 14, 2015) (a reasonably prudent website user does not lack sufficient notice of terms of an agreement that are viewable through a conspicuous hyperlink adjacent to a clickable box indicating acceptance of the TOS); *Centrifugal Force, Inc. v. Softnet Commc'n, Inc.*, 2011 WL 744732, at *7 (S.D.N.Y. Mar. 1, 2011) ("In New York, clickwrap agreements are valid and enforceable contracts."); *Rudgayzer v. Google Inc.*, 2013 WL 6057988 (E.D.N.Y. Nov. 15, 2013) (upholding Google's clickwrap agreement that required a "user's assent as a prerequisite for using the services," finding the terms were "reasonably communicated."); *Feldman v. Google, Inc.*, 513 F. Supp. 2d 229, 233 (E.D. Pa. 2007) (forum selection clause enforced in TOS between Internet advertising service and advertiser where TOS conspicuously notified users in bold at the top to "Carefully read the following terms and conditions," required users to click on an "accept" box and the TOS were presented in a scrollable window).

11. *See Berkson, supra*, 97 F. Supp. 3d at 395 -97 (also discussing at length variations of click-wrap and browsewrap agreements and degrees of enforceability).

12. *Specht v. Netscape Communications Corp.*, 306 F.3d 17, 32 (2d. Cir. 2002) ("where consumers are urged to download free software at the immediate click of a button, a reference to the existence of license terms on a submerged screen is not sufficient to place consumers on inquiry or constructive notice of those terms."). The Second Circuit applied California law to refuse enforceability of an arbitration clause in TOS that were buried at the bottom of a download web page.

13. *People v. Direct Revenue, LLC*, 2008 NY Slip Op. 50845 (Sup. Ct., N.Y. Co., 3/12/2008).

14. *Id*.

15. *5381 Partners v. Sharesale.com*, 2013 WL 5328324 (E.D.N.Y. Sept. 23, 2013). Although the end user argued that the merchant terms were not "readily visible" because one had to click a link to access those terms, the court found the agreement enforceable because the plaintiff "was shown precisely where to access the Merchant Agreement before it agreed to them, and it should have clicked on them." *See also Rudgayzer, supra.*

16. *Nguyen v. Barnes & Noble, Inc.*, 763 F.3d 1171 (9th Cir. 2014). The TOS also provided for application of New York law, and the Ninth Circuit noted that its decision comported with both New York and California law. 763 F.3d at 1175.

17. *Id*. at 1177 (also citing to *Specht*, 306 F.3d at 30-31).

18. *Hoffman v. Supplements Togo Mgmt., LLC*, 419 N.J. Super. 596, 611 (App. Div. 2011). *See also Edme v. Internet Brands, Inc.*, 968 F. Supp. 2d 519, 525-26 (E.D.N.Y. 2013) (court refused to enforce forum selection clause in TOS under New York law because no evidence was presented to show how an end user was presented with the TOS on a website).

19. *Berkson, supra*, 97 F. Supp. 3d at 395.

20. *Id*. at 404.

21. *See* F.R.E. §803(6)("Records of a Regularly Conducted Activity"); N.Y. Civ. Prac. Law & Rules §4518 ("Business Records").

22. For example, in *Bassett v. Electronic Arts, Inc.*, 93 F. Supp. 3d 95, 99 (E.D.N.Y. 2015), registered users of EA Online were notified of amended TOS and required to click "I Accept" as a condition to proceeding, as they were required to do upon initial registration. Business records produced by EA reflected that Plaintiff had affirmatively accepted both the original and amended versions.

23. *Wilson v. Kellogg Co.*, 2015 WL 3937511 (E.D.N.Y. June 25, 2015); *aff'd on other grounds*, Summary Order No. 15-2237 (2d Cir. Jan. 13, 2016) ("Order") (also finding the TOS not unconscionable because the plaintiff "had the option not to accept Kellogg's Terms and Conditions, and to not submit his idea through Kellogg's website." 2015 WL 3937511, at *6 n.1.).

24. *Register.com, Inc.*, *supra*, 356 F.3d at 401-03, 430.

25. *Wilson*, *supra*, Order at p.4.

26. *See, e.g.*, *Fteja v. Facebook, Inc.*, 841 F.Supp.2d 829, 834 (S.D.N.Y. 2012) (Facebook account sign-up process established through "[d]eclarations filed by Facebook employees, screenshots …. and Facebook's current website of which the Court takes judicial notice…."); *Moretti v. Hertz Corp.*, 2014 WL 1410432 (N.D. Cal. Apr. 11, 2014) (clear evidence that a consumer could not have completed an online transaction without checking a box accepting posted terms and conditions was sufficient to constitute notice and acceptance of a forum selection clause contained therein).

27. *In re Zappos.com, Inc., Customer Data Security Breach Litigation*, 893 F.Supp.2d 1058 (D. Nev. 2012).

28. *Id*. at 1065, also emphasizing that "[m]ost federal courts that have considered this issue have held that if a party retains the unilateral, unrestricted right to terminate the arbitration agreement, it is illusory and unenforceable, especially where there is no obligation to receive consent from, or even notify, the other parties to the contract."

29. *Douglas v. Talk America*, 495 F.3d 1062 (9th Cir. 2007).

30. *Rodriguez v. Instagram*, No. CGC-13-532875 (San Francisco Sup. Ct., Feb. 28, 2014).

31. *Bassett*, *supra*, 93 F. Supp. 3d at 99; 106-07 (citing various decisions under New York and California law finding unilateral amendments to arbitration clauses not illusory where fair notice was given).

32. *See AT & T Mobility LLC, supra*, 131 S.Ct. at 1746 (under California law); *Berkson supra*, 97 F. Supp. 3d at 391-92; *Allen v. Snow Summit, Inc.*, 59 Cal. Rptr. 2d 813, 824 (Ct. App. 1996); *Sitogum Holdings, Inc. v. Ropes*, 352 N.J. Super. 555, 564-66 (Ch. Div. 2002); *Gillman v. Chase Manhattan Bank, N.A.*, 73 N.Y.2d 1, 10 (1988) (procedural and substantive unconscionability require "'some showing of an absence of meaningful choice on the part of one of the parties together with contract terms which are unreasonably favorable to the other party…'").

33. *See, e.g.*, *California Grocers Ass'n v. Bank of Am.*, 22 Cal. App.4th 205, (Ct. App. 1994); *Muhammad v. County Bank of Rehobath Beach*, 189 N.J. 1, 15 - 16 (2006); *Berkson, supra*, 97 F. Supp. 3d at 391 ("Whether procedural unconscionability exists is determined by what led to the formation of the contract.").

34. *See e.g.*, *Muhammad*, 189 N.J. at 15.

35. *Berkson, supra*, 97 F. Supp. 3d at 391-92; *California Grocers Ass'n v. Bank of Am.*, *supra*, 22 Cal. App.4th at 214, citing to an old New York Court of Appeals decision in *Osgood v. Franklin*, 1 Johns Ch. 1, 21 (N.Y. 1816). *Accord Sitogum Holdings, Inc. v. Ropes*, 352 N.J. Super. 555, 564-66 (Ch. Div. 2002).

36. *See, e.g.*, *Gillman supra*, 73 NY2d at 10-12. *See also Whitt v. Prosper Funding LLC*, 2015 WL 4254062 (S.D.N.Y. July 14, 2015), finding enforceable an agreement to arbitrate contained in online TOS of peer-to-peer lending service where there was a conspicuous link to the applicable TOS adjacent to a box, which a user was required to click to acknowledge his or her acceptance of those terms, and further finding mandatory arbitration clause was not unconscionable based on plaintiff's alleged lack of resources.

37. *Baidu, Inc. v. Register.com*, 760 F. Supp. 2d 312, 317-18 (S.D.N.Y. 2010).

38. For example, U.C.C. §2-719(3) voids an exclusion of consequential damages for injury to person in the case of consumer goods as being "prima facie unconscionable," but not where losses are commercial. Under New York law, liability exculpatory clauses are unenforceable "when, in contravention of acceptable notions of morality, the misconduct for which it would grant immunity smacks of intentional wrongdoing." *Kalisch-Jarcho, Inc. v. City of New York*, 58 N.Y.2d 377 (1983). In *Baidu, Inc., supra,* 760 F. Supp. 2d at 317-19 (S.D.N.Y. 2010), the court declined to enforce Register.com's TOS exculpation provisions as to claims for gross negligence or recklessness, despite both parties being sophisticated commercial entities. *See also* U.C.C. § 2-316(2), which requires that exclusions of the warranty of merchantability be "conspicuous."

39. *See, e.g.*, *Zaltz v. JDate*, 952 F.Supp.2d 439, 451-52 (E.D.N.Y. 2013) (forum selection clause enforced where new dating site members had to check a box confirming they read and agreed with the site's TOS); *Fteja*, 841 F.Supp.2d at 838-40.

40. *M/S Bremen v. Zapata. Off-Shore Co.*, 407 U.S. 1, 10 (1972). In *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 595 (1991), the Court also held that "forum-selection clauses contained in form… contracts are subject to judicial scrutiny for fundamental fairness" (enforcing forum selection clause printed on non-negotiated cruise ticket, which bore a prominent all-caps notice of important conditions of contract). Forum-selection clauses requiring transfer to another U.S. district court are enforced by a forum non conveniens motion to transfer under 28 U.S.C. § 1404(a). *Atl. Marine Constr. Co. v. U.S. Dist. Court for the W. Dist. of Tex.*, 134 S.Ct. 568, 580 (2013). Forum selection clauses providing for exclusive jurisdiction in another country, however, are enforced through a motion to dismiss for improper venue under Rule 12(b)(3) of the Federal Rules of Civil Procedure. *Martinez v. Bloomberg LP*, 740 F.3d 211, 216 (2d Cir. 2014).

41. *See, e.g.*, *Carnival Cruise Lines, Inc., supra,* 499 U.S. at 593-94; *In re Exide Technologies*, 544 F.3d 196, 218 n.15 (3d Cir. 2008); *Park Inn Int'l, LLC v. Mody Ent., Inc.*, 105 F.Supp.2d 370, 373-74 (D.N.J. 2000) (collecting cases); *Leong v. MySpace, Inc.*, 2011 U.S. Dist. LEXIS 155117, *12-13 (C.D. Cal. Mar. 11, 2011) (holding that a forum-selection clause embedded within a "click-wrap" contract is enforceable); *Tradecomet.com LLC v. Google, Inc.*, 2010 WL 779325 (S.D.N.Y. Mar. 5, 2010), *aff'd* 647 F.3d 472 (2011) (upholding forum selection clause in Google Adwords online agreement).

42. *See, e.g.*, *Song fi, Inc., supra,* 72 F.Supp.3d at 359; *Tradecomet.com LLC, v. Google Inc.*, 693 F.Supp.2d 370, 377 (S.D.N.Y. 2010) (enforcing a forum selection clause under California law in Google's AdWords TOS, noting that "clickwrap agreements that require a user to accept the agreement before proceeding are 'reasonably communicated' to the user for purposes of this analysis.").

43. *See Schnabel v. Trilegiant Corp.*, 697 F.3d 110, 119 (2nd Cir. 2012) (in refusing to enforce TOS and an arbitration clause therein the court emphasized that: "Applying the choice-of-law clause to resolve the contract formation issue would presume the applicability of a provision before its adoption by the parties has been established."); *Song fi, Inc. v. Google Inc.*, 72 F.Supp.3d 53, 61-62 (N.D. Cal. 2014) ("However, it would be premature to apply the choice of law provision in the Terms of Service, which requires application of California law, given Plaintiffs' argument that it is unenforceable.").

44. *Caspi v. Microsoft Network*, LLC, 323 N.J. Super. 118 (App. Div. 1999).

45. *Song fi, Inc., supra*.

46. *Id.*, 72 F.Supp.3d at 62.

47. *Id*.

48. *Id.*, 72 F.Supp.3d at 63.

49. *Id*.

50. *Trump v Deutsche Bank Trust Co. Ams.*, 65 A.D.3d 1329, 887 N.Y.S.2d 121 (N.Y. App. Div. 2d Dep't 2009). *See* also notes 18, 37 and 42, *supra*.

51. *Starkey v. G Adventures, Inc.*, 796 F.3d 193, 198 (2d Cir. 2015).

52. *Jerez v. JD Closeouts, LLC*, 36 Misc.3d 161, 943 N.Y.S.2d 392 (Dist. Ct. Nassau Co. 2012).

53. *Id.*, 36 Misc.3d 161 at 170.

Barry Werbin is Counsel at Herrick, Feinstein LLP and a member of Herrick's Intellectual Property and Technology Practice Group. Barry concentrates his practice in intellectual property and online issues (including trademarks, trade dress, copyrights, unfair competition, false advertising, publicity and privacy rights, trade secrets, domain name issues and UDRP arbitrations, digital rights protection, trademark and content licensing, Internet and traditional marketing and sponsorship agreements, publishing, due diligence and exploitation rights) and technology (including software licensing and development, IT support agreements, website development and hosting and data and computer security breaches). Barry handles infringement and other complex commercial litigation and a broad variety of IP-related transactional matters. In 2013 and 2014, he was recognized as a top intellectual property litigation lawyer by Thompson Reuters' Super Lawyers, which rates outstanding lawyers who have attained a high degree of peer recognition and professional achievement.

Inside Interview

Naomi Waltman, Esq.

Senior Vice President and Associate General Counsel
CBS Corporation

Conducted by Georgia Tsismenakis

Naomi Waltman

Mrs. Waltman was raised in Connecticut. After graduating from Stanford University and Stanford Law School, she served as a law clerk to the Honorable Warren W. Eginton of the U.S. District Court for the District of Connecticut. She then joined Kaye Scholer LLP in New York as a litigation associate. Since then, Mrs. Waltman has been Vice President and Senior Counsel at Viacom, Inc., and is now Senior Vice President and Associate General Counsel of CBS Corporation and is the co-head of the CBS Law Department's Intellectual Property Group.

A Typical Day at CBS

As an intellectual property and litigation attorney, each day is different for Mrs. Waltman. The Intellectual Property Group spends time pursuing individuals and entities that create new businesses and services using CBS content without authorization or permission. On any given day, she may be called upon to resolve a crisis or she may spend the day reviewing briefs, taking phone calls or going to court.

When she started with the company twenty years ago, her group handled most litigation matters in-house, but as the company grew over the years, the group began sending more cases to outside counsel. However, the in-house lawyers still remain very involved in the day-to-day management of CBS cases.

Getting Started in IP Law

Mrs. Waltman knew that she wanted to be a litigator because she enjoyed the process: learning everything she could about one case and then moving on to the next. Having no background in intellectual property, Mrs. Waltman somewhat "fell into IP" when she joined Kaye Scholer LLP in the firm's litigation group. The litigation partner for whom she did a lot of work handled a lot of trademark and copyright cases, which enabled Mrs. Waltman to work on many preliminary injunctions. What drew her to IP was that the work was "exciting, fun and moved at a really fast pace," and with so many preliminary injunctions, it typically did not result in "long-drawn out litigation."

Work-Life Balance

Mrs. Waltman believes that "it's great to have a job that is professionally fulfilling, but it's important to also have a personal life and to try to balance the two as best you can."

Her advice to those seeking a balance: Do not be afraid to ask for what you want. "When I had my first child, I came back to my law firm part-time and I was one of the first part-time attorneys." Twenty years ago, "flex-time" was not something law firms were used to, but Kaye Scholer and Mrs. Waltman were determined to make it work. As a litigator, however, Mrs. Waltman found that it was not entirely practical to work part-time. For example, if there is an emergency hearing, "you can't just tell the judge that you do not work on Fridays." She emphasized that it is important for the attorney and the firm to be flexible; but with two small children at the time, Mrs. Waltman knew that this inconsistency in her schedule would not allow for a fair work-life balance.

Mrs. Waltman notes that working in a big law firm can become "all consuming." She witnessed a lot of women who worked hard and were relatively happy at their law firms at the time, but when they looked up after five or ten years and realized that they wanted to leave, they felt trapped. They perceived that they had become too senior for many available positions elsewhere.

When trying to determine her next steps, Mrs. Waltman asked herself, "where do I want to be five years from now?" and then tried to figure out what steps she would need to take in order to get there.

As such, Mrs. Waltman took steps to proactively pursue a career in-house, even though she was satisfied with the work at her firm: "I was getting good work, but I knew the lifestyle was not for me." Shortly thereafter, Mrs. Waltman applied to CBS, interviewed, and was offered a position in the Litigation section of the CBS Law Department, where her work-life balance has generally been more manageable, although she and her in-house colleagues still work hard.

Career Influence

Mrs. Waltman's mother had a strong influence on her career. "My mother always wanted to be a lawyer, but she had three young kids and my father went to law school, so she gave up her career." Her mother did eventually go to law school, but it was not until Mrs. Waltman was in high school. "She would always tell me, 'You're lucky. You can do whatever you want to do. You can go wherever you want; you can go to law school right after college. You are lucky to have choices.'"

Finding a Mentor

Mrs. Waltman has been a mentor in several programs, including a mentoring program offered through the Stanford Women's Network—New York. Mrs. Waltman has mentored a lot of women and truly enjoys it. "As women in the legal profession, I think that we all have to help each other; it is very important."

Mentoring, though, does not have to occur through a formal process. Mrs. Waltman explains that you can find a mentor as you meet people day-to-day, at work. The judge for whom she clerked, for example, would make it a point to encourage his law clerks to observe attorneys in his courtroom who were particularly good litigators. Mrs. Waltman found that there are "people you look at and say 'this is how I would like to practice law.'"

Professional Growth and Development

After 20 years at CBS, Mrs. Waltman says that she is very satisfied with her career there. "When I took this job, I said to myself, I am going to stay as long as I am happy." She notes while she has always been interested in the area of law, it is important to continue to grow professionally and try to take on new challenges. "You can be a lawyer and do the same thing day in and day out for 20 years—but that would be boring."

Mrs. Waltman believes that successful people "look for opportunities to grow outside of their comfort zone." So when she recognized a few years ago that she was nervous about speaking in public, she took on more public speaking engagements to get over her fear.

Mrs. Waltman is also a part of the CBS Law Department's Diversity Committee, which has allowed her to gain exposure to other people in the company and work with her subcommittee to plan different programs for the legal department.

Networking

Mrs. Waltman maintains that networking is one of the best ways to get a job in today's market. It is equally as important to let people know that you are looking for a job. "When I hear of job openings, I will send them around to people I know who are looking for a job, who might be a good fit."

Networking Opportunities

Mrs. Waltman advises that you attend events that appeal to you. She is actively involved in many women's bar associations and groups because those tend to be the most interesting for her. She notes that these events can assist in forming connections: "I have spoken at some networking events and I have had people e-mail or reach out to me afterward."

Once you become more involved, more people will connect with you. Mrs. Waltman adds that after one event, "a female patent attorney in Chicago reached out to me and asked about women's initiatives, and I told her about a conference for female IP lawyers. She went and is now helping to start an initiative for women attorneys in New York that I plan to get involved in."

Getting involved in organizations is a good thing; you never know who you will meet.

This interview was conducted by Georgia Tsismenakis, a New York-based attorney. She currently works as a Director of Operations for a legal education company. She was previously an Associate Attorney at a litigation firm located in Manhattan. She is interested in practicing within the corporate and business law sector and would like to represent start-ups and small businesses.

Inside Books

Saving Gotham

By Tom Farley
WW Norton & Co., 2015, 310 pages

Reviewed by Janice Handler

If you think a book about former Mayor Michael Bloomberg's nutritional and health initiatives sounds like a big yawn, think again. The subtitle says it all: "A billionaire mayor, activist doctors, and the fight for eight million lives." This is a book about a former Mayor by a doctor (also a Health Commissioner) and it reads like a swashbuckling thriller. It really is about saving lives—our lives, fellow New Yorkers—and it reads that way. Moreover, it evokes a time when government actually did something.

There are those who believe Bloomberg's health initiatives were a joke initiated by a Nanny-State and those who believe they were brilliant, heroic, but politically incorrect moves launched by a visionary. I admit to being in the latter camp. So I loved this story of the convergence of the right people. A pragmatic but determined Mayor Bloomberg and an intense, brilliant, driven Health Commissioner Tom Frieden at the right time, during Bloomberg's first term with a lot of a political capital, trying to do the right thing by enacting health regulations that would save hundreds of thousands of people from the scourge of chronic diseases.

Like any thriller, this book starts with a hero. While the author is Tim Farley, Bloomberg's Health Commissioner in his third term, it is really the story of Farley's predecessor Tom Frieden, the son of a New York City cardiologist who had worked for the Center for Disease Control and the World Health Organization fighting tuberculosis in India. Coming to the realization that the killers of today are not infectious diseases but chronic conditions such as heart disease, cancer, and stroke, Frieden calculated the percentages of these ailments caused by smoking (30% of heart disease; 90% lung cancers; 30% other cancers; and, 50% strokes). Frieden agreed to become Health Commissioner in 2001 on one condition: the newly elected Mayor, Mike Bloomberg, take on tobacco.

In Bloomberg, Frieden found the right partner. In the 1990s, Bloomberg developed a relationship with the Dean of Johns Hopkins University School of Public Health and fully embraced its philosophy of saving lives wholesale instead of retail. The motto of today's Johns Hopkins *Bloomberg* School of Public Health is "Protecting Health, Saving Lives—Millions at a Time). Bloomberg had just one question about Frieden's anti-smoking initiatives, "Are you sure this is going to save lives?" According to the Mayor's Chief of Staff, "There was a complete mind meld between Mike and Tom."

"So a smart powerful politician was actually listening to a man with lifesaving but politically dangerous ideas." And what resulted was not incremental regulation but a blitzkrieg of proposals to entirely revamp the health of New Yorkers.

The initial focus was on smoking. A battery of initiatives were advanced including the raising of cigarette taxes in the city and state; the Smoke Free Air Act, which banned smoking in bars, restaurants, and public buildings; graphic anti-smoking ads on subways and TV (yes, this is where those *really scary* anti-smoking ads came from!); and raising the age to buy cigarettes in New York City to 21. The tobacco industry, sometimes joined by the grocery industry and free speech advocates, fought back hard and the legislative and judicial battles are compellingly described. The legal machinations of shopping legislative forums, rewriting rules and appealing court cases may be appealing only to lawyers—but that is what we are!

Not content enough to stop deaths from only one cause, Frieden's (and then Farley's) Health Department also advanced legislation to fight obesity and chronic diseases caused by bad nutrition. The first initiative was the 2006 ban on trans fats in restaurants, making New York the first city or state in America to do this. While required calorie labeling in restaurants and fast food chains was defeated in the lower courts by federal preemption claims, it succeeded upon a rewrite of the proposed rule. Green Carts, which would sell fruits and vegetables in underserved neighborhoods, were authorized by the City Council in 2008.

Perhaps the Mayor's most notable failure which denominated him by some critics as the dictator of a nanny-state, involved attempts to restrict marketing of sugary soft drinks accounting for 40% of the sugar people eat and between one-third to one-half of the total increase in calories in American diets in the last 30 years. Proposals to raise city and state taxes on sugary beverages failed in the New York State Legislature. Proposed restrictions of the food stamp program, now known as the SNAP or Supplemental Nutrition Assistance Program, to exclude sugary drinks were blocked by the Congress and U.S. Department of Agriculture. The very notorious cap on restaurant and food service sizes of sugary drinks was defeated 3 times in the State courts as exceeding the authority of the Board of Health. Farley blames the failures of these initiatives primarily on the lobbying clout and big money of the grocery and beverage industries.

They won some, they lost some, but the David and Goliath story never gets stale. For legislative junkies, this book has much to offer in its readable treatment of the various legislative arenas and prerogatives. Federal, State, City and administrative bodies all had a role and intersected in constructive and not so constructive ways. Complicated subjects such as federal pre-emption of food law are discussed and explained. It is clear that the doctors had good lawyers who used the full regulatory arsenal to get things done. When a door closed they opened a window, or smashed one in as the case may be. When the State Legislature or City Council would not act, there was always the Board of Health.

If this book is to be judged as a thriller, we must look for a happy ending. Was Mayor Mike successful in saving lives, millions at a time? Let us consider the following:

- Between 2001 and 2010, life expectancy at birth in NYC increased 3 years to 80.9 (as opposed to a 1.8 year increase country-wide). 50% of the increase was due to a decrease in heart disease and 16% to declines in cancer, the two diseases most linked to smoking which Frieden attacked in 2002.
- By 2014, New Yorkers did not smoke in bars, restaurants or on hospital grounds. The price of bodega cigarettes went up to $11. TV and subway ads graphically described the suffering caused by smoking. The age for cigarette sales in NYC was raised to 21. The practice of discounting cigarettes with coupons was banned. While not all initiatives passed, such as mandated warnings and restrictions on displays, from 2002-2011, smoking among adult New Yorkers fell by 31% (compared to 16% nationwide) and smoking rates among high school students fell 52%. Moreover, Bloomberg Philanthropies spent over $375 million dollars to export these strategies worldwide.
- By the end of Bloomberg's third term, New Yorkers saw a ban on trans-fats in restaurants, required calorie labels on menu boards, initiatives to cut sodium in processed foods, proposals to blunt the marketing of sugary drinks and the arrival of 250 "Green Carts" selling fresh fruits and vegetables in underserved neighborhoods.
- While the cap on sugary beverages sizes did not succeed, from 2007-2012, the fraction of adult New Yorkers who drank sugary drinks daily dropped from 36% to 23%. The drop among high school students was from 57% to 42%.

Sounds like a happy ending to me! Although Frieden characterized fighting chronic diseases as much harder than curing TB ("Tuberculosis bacteria don't bribe politicians; tuberculosis bacteria don't rebrand themselves as 'lite' bacteria"), the successes were substantial and measurable. According to a key staffer, "Having done public health…at this particular time in history is a time I will look back on in my old age and say 'You shouyda been there'."

Or, in the words of the British medical journal, *Lancet*, "Of all of Michael Bloomberg's legacies to New York, lending his support to the gradual extension of human life may well prove the most meaningful of all."

Janice Handler is the former Editor of *Insid*e and former General Counsel of Elizabeth Arden. She is an adjunct professor of Law at Fordham Law School.

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