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N.I.G.G.A., SLUMDOG, DYKE, JAP, AND HEEB: RECONSIDERING DISPARAGING TRADEMARKS IN A POST-RACIAL ERA†

Amanda E. Compton††

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† “Post-racial era” is a term that was coined after the 2008 presidential election of the United States of America’s first African-American President, President Barack Obama.

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Currently, registration of disparaging trademarks is prohibited under Section 2(a) of the Lanham Act. Recent events, however, should reinvigorate the debate about the protection and registration of disparaging marks: (1) recent decisions published by the Trademark Trial and Appeal Board (TTAB) that continue to address and highlight the issues surrounding the registration of disparaging marks; (2) a proposed federal act that would not only specifically bar the registration of any trademark that includes the word "redskins," but would also retroactively cancel any existing registration that consists of or includes that term; and (3) an amendment to a state act that would allow public institutions to use disparaging terms (subject to challenge by the community). In light of these activities, I have written this article, which considers the viability of the federal registration of disparaging marks. I posit that the registration of such marks should be allowed for a variety of reasons. First, it is not in line with the original goals of the U.S. Trademark Act of 1946, also commonly known as the Lanham Act. For example, trademark law seeks to protect consumers—it is the mind of the consumer that we are most concerned about when deciding likelihood of confusion or counterfeit cases. This goal has been improperly extended to justify the denial of disparaging trademarks. For instance, if consumers have socially accepted and adopted the use of such terms, then trademark owners should be allowed to adopt these terms to promote its goods or services to those consumers. Second, and along the same lines, the country has recently experienced a shift in its social climate. During the past few years we have elected (and re-elected) our first African-American president; we had our first viable female Democratic

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2 See In re Prosynthesis Labs., Inc., No. 77902555, 2012 WL 1267929, at *2 (T.T.A.B. Mar. 23, 2012), where the applicant, Prosynthesis Laboratories, Inc., sought registration of the mark CHINA FREE and Design (“CHINA FREE”) for use in connection with “vitamin and mineral supplements.” The applicant touted on its website that its products are free of products that originate from China, and expressed concern about the wholesomeness of such products. The examining attorney used this evidence to prove that the mark was disparaging of China and/or people from China, and therefore refused registration of the mark. On appeal to the TTAB, the Board overruled the decision of the examining attorney’s denial of registration of CHINA FREE. The Board gave several reasons for why this mark is registrable, and seemingly opened the door for registration of similar marks that may be deemed disparaging; see also In re Tam, No. 85472044, 2013 WL 5498164, at *6 (T.T.A.B. Sept. 26, 2013) reaching a different result because the applicant touted the disparaging nature of the mark.
Presidential nominee, and; the military’s “Don’t Ask Don’t Tell” policy has been repealed. It has been said we now live in a post-racial America: an era that has magically erased racism, and perhaps sexism and homophobia. Let’s be clear, however; the dream of living in a “post-racial” United States of America has been a dream deferred. Still, in the spirit of this post-racial era where race, among other things, should no longer be a “hot-button” issue, registration of disparaging trademarks should be allowed. Finally, the law surrounding disparaging trademarks is unclear, scant, and where applied, has been applied in an inconsistent manner. Clearer guidelines must be set, or this portion of the Trademark Act must be repealed. Without such guidelines, Congress may be compelled to continue to present amendment after amendment for each term it deems to be repugnant.

Part I of this article will explore the history of these types of marks, consider the standards for trademark registration, and explore the purpose behind Section 2(a) of the Lanham Act. In Part II, I will examine specific disparaging trademarks and show the lack of uniformity in rejecting registration of these marks. Finally, in Part III, I will explain the benefits and drawbacks of prohibiting registration of disparaging trademarks, and propose three options for reform in this area of the law.

Reference to a poem entitled Harlem (but commonly called “A Dream Deferred”) by Langston Hughes.
I. History: The Process of Banning Disparaging Trademarks from Federal Protection

“I refuse to accept the view that mankind is so tragically bound to the starless midnight of racism and war that the bright daybreak of peace and brotherhood can never become a reality . . . . I believe that unarmed truth and unconditional love will have the final word . . . .”

— Dr. Martin Luther King, Jr.  

Disparaging terms—terms that may bring one into contempt or disrepute—were not always expressly banned from trademark registration. It was not until the adoption of The Federal Trademark Act (“Lanham Act” or “Act”), enacted on July 5, 1946, that the word “disparages” appeared and a formal ban on such trademarks (or “marks”) marks was allowed. Since that time, few disputes over the registrability of such marks have emerged. While it is unclear exactly how many applicants have attempted to register a term that the courts may deem disparaging, it is clear that a trend has emerged when such marks are at issue. Specifically, if a mark is deemed to be a

7 Martin Luther King, Jr., Nobel Peace Prize Acceptance Speech (Dec. 10, 1964), in LES PRIX NOBEL EN 1964 (Göran Liljestrand ed., 1965), available at http://www.nobelprize.org/nobel_prizes/peace/laureates/1964/king-acceptance_en.html. Dr. King was honored with the Nobel Peace Prize at the height of the Civil Rights Movement. It was a time when millions of Americans fought for equality. It was a time, as Dr. King alludes to in his speech, when race relations were at an impasse—the people of our great nation would either peacefully accept that “all men were created equal,” or face continued and increasing civil unrest.


9 See Trade Mark Act of 1946, Pub. L. No. 79–489, 60 Stat. 427 (codified at 15 U.S.C. §§ 1051–141 (2012)). The Act is officially called the “Trademark Act of 1946,” but is most commonly called the “Lanham Act” in reference to Congressman Fritz G. Lanham who introduced the bill to Congress and was the driving force behind getting the Act adopted. See generally H.R. 9041, 75th Cong. (1938). This was not the first trademark act in the United States. However, previous attempts to protect trademark rights under the law failed for either being unconstitutional or for being inadequate in keeping pace with the global changes in trademark. See The Trade-Mark Cases, 100 U.S. 82, 82 (1879) (holding and effectively abolishing the Federal Trade Mark Act of 1870 as being unconstitutional due to its conflict with the provision on patents in the United States Constitution); see also Trademark Act of 1881, ch. 138, 21 Stat. 502 (1881), adopted on March 3, 1881, which underwent several substantial amendments and was ultimately replaced by the Lanham Act.

10 I have done an extensive search of the online federal trademark database, TESS, from 2009 to the present. My research included determining the number of applications filed each year, and then reviewing month by month all of the
disparaging term then the likelihood that an applicant will be able to successfully defend her mark is very slim. On the other hand, marks that are challenged through a third party proceeding (opposition or cancellation) seem to stand a better chance of achieving registration. Ultimately, the success of the mark rests on the subjective beliefs of the finders of fact (either an examining attorney during the application phase, or a panel of administrative judges who are in charge of reviewing the registrability of a mark when it is challenged).  

In order to better understand the flaws in the process of denying registration to marks that are deemed disparaging, a review of the historical development of this portion of the Act is necessary. A discussion of the current process that is in place will follow.

The Lanham Act defines a trademark as, “any word, name, symbol, or device, or any combination thereof . . . .” The United States Supreme Court has interpreted this provision very broadly, allowing for the adoption of a variety of types of trademarks. In Qualitex Co. v. Jacobson Products Co., Inc., the Court interpreted the word “device” found in the Lanham Act to include any number of things, so long as the item sought to be used as a trademark was used properly to distinguish the goods or services of one trademark owner from another. This interpretation is also supported by language

applications filed in search of disparaging marks, monitoring the applications I deemed to have a disparaging term. I also searched the database by term, and yielded results beyond my 2009 search. When possible, I reviewed the file history of each application containing the disparaging term. However, in some cases, I was unable to determine why a term was registered or not. The database is not complete. Specifically, for older applications or registrations the file history is not available online or only includes basic details of the application and/or registration; information relating to any potential objections raised by the examining attorney or a third party is missing. This particularly appeared to be true for applications starting with “75” or smaller serial number. Finally, my results may vary as it is not possible to search the TESS database based on rejection (i.e., a Section 2(a) disparaging rejection). Additionally, even if I could, I would not get a hit on all disparaging terms as in some instances marks that I deemed to be disparaging were either registered without any incident (e.g., the words BITCH or SLUT is disparaging of women, but I failed to locate one application that was refused registration because the word was disparaging) or denied registration on other grounds (e.g., the mark conflicted with a previously registered mark).

11 See infra Part I.C. (discussing generally the process of registering a trademark).
13 See Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159 (1995) (holding that a “color” could serve as trademark so long as it was not functional and had acquired secondary meaning).
15 Id. at 163.
found in the Act which supports registration of a trademark that is “distinguishable from the goods of others.”

The Lanham Act, however, also sets forth certain limitations as to what can be federally registered as a trademark. Specifically, the Act prohibits the registration of any trademark that is “immoral, deceptive, scandalous, or disparaging.” This language, while present in the Lanham Act since its adoption, was not included in prior trademark acts.

A. Earlier Federal Trademark Acts

Congress’s first attempt at federally protecting trademarks came with the adoption of The Federal Trade-Mark of 1870 (“1870 Act”). The 1870 Act recognized that “any person or firm” under the authority of the United States had a right to lawful protection of its trademark in the United States. While the 1870 Act was slim compared to today’s modern trademark act, the drafters did have the foresight to place certain limitations on what could be registered and/or protected as a trademark in the United States. For instance, the 1870 Act prohibited the registration of any trademark which was merely the name of a person or a trade name, a mark that was identical to a previously registered trademark used in the same class of merchandise that belongs to a different owner, or any mark that is likely to cause confusion and deceives the public. In 1879, however, the Supreme Court held that the 1870 Act was unconstitutional. The Court found

17 Id. at § 1052(a).
19 Id. at § 77.
20 Id. at § 79.
21 Id. The complete language of the 1870 Act’s prohibition on certain trademarks is:
   The commissioner of patents shall not receive and record any proposed trade-mark which is not and cannot become a lawful trade-mark, or which is merely the name of a person, firm, or corporation only, unaccompanied by a mark sufficient to distinguish it from the same name when used by other persons, or which is identical with a trade-mark appropriate to the same class of merchandise and belonging to a different owner, and already registered or received for registration, or which so nearly resembles such last-mentioned trade-mark as to be likely to deceive the public . . .

Id. In comparison, the Lanham Act still prohibits the registration of marks based on these same standards.
22 The Trade-Mark Cases, 100 U.S. 82, 99 (1879).
that the 1870 Act did not distinguish between intrastate and interstate commerce, and on its face appeared to only apply to intrastate commerce. 23 Congress only has the power to regulate interstate commerce; and therefore, the 1870 Act exceeded the powers granted to Congress under the Constitution. 24

Congress, in response to the Court’s ruling, enacted the Trademark Act of 1881 ("1881 Act"), 25 making clear that the 1881 Act was limited to the regulation of interstate commerce and commerce with foreign nations. 26 Again, Congress prohibited the registration of some trademarks, mirroring the limitations found in the 1870 Act. 27 Certainly, the chief concern of the day seemed to stem from an increase of counterfeit goods, whereby competitors were using the trademarks of others on inferior goods. 28 In fact, by the time the 1881 Act was debated, nineteen states had already adopted trademark provisions that provided “severe” penalties for the unauthorized use of the same or similar marks on similar goods. 29 The legislative history is devoid, however, as to why Congress limited registration of certain trademarks in this manner. 30

It was not until 1905, when the 1881 Act underwent the substantial changes ("1905 Amendments" 31), that we see federal trademark law take shape in terms of placing further prohibitions on what may serve

23 Id. at 96–97.
24 Id. at 96 (holding that the Constitution does not apply to the regulation of all property, including trademarks; and only applies to regulation of interstate commerce); see also U.S. CONST. art. I, § 8, cl. 8 (authorizing Congress to promote the progress of science and useful arts by securing to authors and inventors the exclusive right to their respective writings and discoveries (the Court interpreting “writings” to not include trademarks)).
26 Trademark Act of 1881, ch. 138, 21 Stat. 502 (1881). The 1881 Act was substantially identical to the 1870 Act, with minor formatting changes (i.e., grouping certain sections of the 1870 Act together), “save that it [was] confined to foreign and inter-State commerce.” H.R. REP. NO. 46-561, at 1 (1880).
27 Trademark Act of 1881, ch. 138, 21 Stat. 502 § 3 (1881) (limiting the registration of trademarks that were "merely the name of the applicant; nor which is identical with a registered or known trade-mark owned by another and appropriate to the same class of merchandise, or which so nearly resembles some other person's lawful trade-mark as to be likely to cause confusion or mistake in the mind of the public, or to deceive purchasers.").
28 See The Trade-Mark Cases, 100 U.S. 82, 82 (1879).
30 The legislative history found for the 1881 Act appears to serve as a response to the Supreme Court’s decision in the Trade-Mark Cases, including a complete copy of the opinion in the report and focusing solely on the question of whether Congress has the ability to regulate the use and registration of trademarks. H.R. REP. NO. 561, at 1. There does not appear to be any legislative history for the 1870 Act.
as trademark.\textsuperscript{32} The 1905 Amendments included all of the same prohibitions, but further denied registrations of marks, for example, that were immoral or scandalous.\textsuperscript{33} Still, the statute makes no reference to the inability to register “disparaging” marks.

It is commonly accepted that the 1905 Amendments were enacted to bring United States trademark law closer to the standards being set around the world. At the time, the United States was a member of numerous “separate treaties, conventions, and declarations” with various foreign countries; and, there was growing concern over protecting the trademark rights of foreign entities in the United States and vice versa.\textsuperscript{34} In light of this, on June 4, 1898, President William McKinley appointed a group of commissioners to review and suggest amendments to the 1881 Act in order to bring it in line with the various conventions and treaties of which it was a part.\textsuperscript{35} Two years later, after an exhaustive review of the trademark acts of several nations and seeking comments from the professional community, the commissioners submitted their findings to the Senate’s Committee of Patents (“Report”).\textsuperscript{36} The commissioners primarily sought to make changes to the 1881 Act by establishing a clearer trademark registration process, clarifying the process for handling marks that were likely to conflict with existing registered trademarks, and of course, by changing the 1881 Act so that it would “conform to treaty stipulations entered into between the U.S. and certain governments.”\textsuperscript{37}

In the Report, the three commissioners proposed two trademark acts—one proposal being supported by two of the commissioners, with a dissenting report and proposal by one commissioner.\textsuperscript{38} The “majority bill” (a term used by the dissenting commissioner), was similar in many aspects, but did diverge on which marks should be prohibited from federal protection.\textsuperscript{39} Ultimately, it was the language

\textsuperscript{32} Id.
\textsuperscript{33} Id. at § 5. The 1905 Amendments also prohibited registration of marks that consisted of or comprised the official insignia of any country, state or municipality; was descriptive in connection with the goods on which it was used; was merely a geographical name or term; or was the portrait of a living person that was used without the consent of that individual.
\textsuperscript{34} H.R. REP. NO. 58-3147, at 2 (1904).
\textsuperscript{35} Id.
\textsuperscript{36} See “Report of The Commissioners Appointed to Revise the Statutes Relating to Patents, Trade and Other Marks, and Trade and Commercial Names, under Act of Congress Approved June 4, 1898;” S. REP. NO. 56-20 (1900).
\textsuperscript{38} See S. REP. NO. 56-20 (starting at page 63 for the first proposed act, and starting at page 126 for the second proposed act).
\textsuperscript{39} Id. at 66.
from the dissenting proposal that was adopted by Congress. Unfortunately, neither in the Report (which spans over 550 pages) nor in the numerous House of Representatives or Senate Reports on the 1905 Act is any justification given for the adoption of the language that prohibits registration of certain marks. The Majority Bill proposed by the commissioners made no reference to immoral, scandalous or disparaging trademarks. In this respect the Dissenting Bill diverged from the majority. This is the first time that reference is made to immoral or scandalous marks. Regrettably, again no justification is given for why these terms were added to the list of prohibitions.

I suspect that given some of the primary goals of revising the 1881 Act—“to remedy existing defects in the present trademark law” and to bring the law in line with the trademark laws of foreign countries—that the drafter of the Dissenting Bill was attempting to capture something either already being done in practice in the United States (whether on a state or federal level) or being done in one of the many member countries to which the United States has joined under some treaty or convention. Still, no clear guidance is given by the commissioners on why this language was chosen.

What is clear, however, is that the word “disparaging” was not in the Report, and did not make it into the 1905 Act.

The 1905 Act was amended twelve times. In order to clear up conflicting provisions and consolidate the 1905 Act into one piece of legislation, Congress adopted the 1920 Act. Similar to its predecessors, the 1920 Act had its flaws, underwent numerous amendments, and ultimately was found to create further problems with respect to which trademarks could be registered. Still, no limitations were placed on the registration of disparaging marks.

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40 H.R. REP. NO. 58-3147 at 7 (referencing to the Report that “[t]he language of section 5 is taken almost verbatim from section 5 of the bill proposed by Mr. Arthur P. Greeley . . . ”).
41 S. REP. NO. 56-20.
42 Id. at 66. The Majority Bill did expand on the prohibitive language by proposing a ban on the registration of marks that are descriptive of the goods, geographical names, or comprise or consist of public arms, decor, or national flags. Id.
43 Id. at 127 (adopting the proposed prohibitions listed in the Majority Bill).
44 Id.
45 Id. at 126.
46 Id.
50 Trade-Marks: Hearing on H.R. 9041 Before the Subcomm. on Trade-Marks continued . . .
B. The Lanham Act

It was not until the Trademark Act of 1946 ("Lanham Act") that further prohibitions were adopted, including “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 . . . .” Nevertheless, this prohibition was not in the original bill proposed by Congress. It was not until nearly fifteen years later, after much debate on the revision of the current trademark act, that a refusal to register disparaging marks was added to the bill. Further amendments to this section of the bill were made in 1941 and 1943, which reflects this portion Lanham Act that we see today. The goals behind revising the law were clear—the drafters wanted to “eliminate judicial obscurity,” “to dispense with mere technical prohibitions and arbitrary [sic] provisions,” and to mirror “the purpose of any act . . . to protect the public.” With respect to the latter goal, the drafters appear to be concerned about two segments of the public: (1) businesses and their ability to prevent others from tarnishing the goodwill associated with their marks and products; and (2) well-known individuals and their right to privacy and not to have their name or likeness associated with a product.

1. Protection of the Public: Businesses or Organizations

In 1938, Congress proposed H.R. 9041, which included a ban on the registration of a mark that “consists of or comprises immoral,
deceptive, or scandalous matter[.]

Upon reviewing the legislative history, the purpose of this proposed section seems to prohibit the registration of certain matter that would either deceive the public or blemish a preexisting trademark or product. The objective seems to be less about protecting the public in general and more about protecting businesses and their consumers from the deceptive acts of others. Ultimately the drafters were attempting to protect the public from counterfeit goods and protect the goodwill of trademark owners.

What is absent from this debate on this portion of the Act is the concern or desire to enact a law that protects individuals (collectively or otherwise) from the unwanted intrusions that one might face by allowing the registration of disparaging marks, unless that individual is well known. With this in mind, the drafters of the Lanham Act appear to be more concerned about “trademark disparagement” (false or misleading claims about another’s trademark, goods or services, or business) and less about trademarks that might disparage others personally (even non-trademark holders).

This analysis is further supported by the discussion that ensued when the language was revised and adopted in H.R. 4744. The section at issue was amended to ban “matter which tends to disparage persons, living or dead, institutions, beliefs, or national symbols, or to bring them into contempt” (emphasis added).

Still, the concern focused less on what kind of matter would be “disparaging” to an established institution (and thereby bring it into ridicule or contempt), and more on an “institution’s” right to freely associate itself with certain goods (and thereby not face contempt from

59 Id.
60 See H.R. REP. NO. 76-944 (1939).
61 Id.
62 See H.R. REP. NO. 76-944, at 2 (1939) (expressing that times had changed since the adoption of the earlier trademark act, and that a new trademark act was needed in order to keep pace with commercial development; thereby strengthening the trademark rights of businesses and protecting the public from the deceitful acts of others that attempted to exploit the goodwill of its competitors).
63 H.R. REP. NO. 76-944 (1939).
64 But see The Freecycle Network, Inc. v. Oey, 505 F.3d 898, 904 (9th Cir. 2007) (rejecting an interpretation of the Lanham Act as providing for a “trademark disparagement” claim); see also World Wide Prosthetic Supply, Inc. v. Mikulsky, 640 N.W.2d 764, 772 (Wis. 2002) (considering the possibility of an action under the Lanham Act for “commercial disparagement” without supporting or rejecting the same).
65 H.R. 4744, 76th Cong. (1939).
66 Id. at 1.
its consumers who may be opposed to the sale of certain products).\textsuperscript{67} Case in point, in both the 1938 and 1939 bills, apparently alcohol was the vice that respectable individuals or institutions might not want associated with their name.\textsuperscript{68} The drafters expressed concern about the ability of someone not in association with the institution to register an identical name for a product not sold by the institution.\textsuperscript{69} The fear, however, was not that consumers would be confused by the source of the product, but that consumers would not respect the institution for having its name associated with certain products.\textsuperscript{70}

\section*{2. Protection of the Public: Individuals and Right to Privacy}

The drafters also aspired to protect the rights of celebrities.\textsuperscript{71} Again, the record appears to be devoid of any concern about protecting a general class of people, except for perhaps members of a particular organization.\textsuperscript{72} Under the originally proposed language, there was great concern over a person’s right to register the name of someone else.\textsuperscript{73} The proposed language included a section that prohibited the registration of a mark that “[c]onsists of or comprises the portrait or signature of a living individual . . . or the name, portrait, or signature of any deceased President of the United States . . . .” without the consent of the living person or the President’s widow.\textsuperscript{74}

Nevertheless, the drafters expressed concern over whether this section (section 3(c)) had enough teeth to prevent registration of marks that might taint the character of reputable figures.\textsuperscript{75} For instance, one

\begin{footnotesize}
\textsuperscript{67} See id. at 20 (noting that it would be hard for a fraternal organization, club, or society to get a name that has not been or is not being used by another fraternal organization, club, or society).

\textsuperscript{68} Trade-Marks: Hearing on H.R. 9041 Before the Comm. on Patents Subcomm. on Trade-Marks, 75th Cong. 79 (1938) (providing as examples Harvard University’s objection to having beer and liquor sold under the name “Harvard” and “Notre Dame for alcoholic beverages” (most likely referring to the University of Notre Dame), respectively). The disdain for liquor probably is the result of the vestiges of the Prohibition Era, where there was a federal ban on the sale and consumption of alcohol. The prohibition was repealed by the 21st Amendment in 1933 (only five to six years prior to the discussion of these bills). See id.

\textsuperscript{69} Id.

\textsuperscript{70} Id. at 1.

\textsuperscript{71} Id. at 20.

\textsuperscript{72} Trade-Marks: Hearing on H.R. 9041 Before the Comm. on Patents Subcomm. on Trade-Marks, 75th Cong. 79-80 (1938); see also, Hearing on H.R. 4744 at 20.

\textsuperscript{73} Id.

\textsuperscript{74} Hearing on H.R. 9041 at 79.

\textsuperscript{75} Id. at 79.
\end{footnotesize}
attorney that was called to testify before the Sub-committee of Trade-Marks thought “[t]he idea of prostituting great names [like Thomas Jefferson Coffee or Abraham Lincoln products] . . . [to be] very distasteful . . .” Others followed in this sentiment, including the Commissioner of the Patent Office who found it to be a “shock to [his] sense of propriety to see liberty taken not only with the names of our Presidents, but with the names of celebrities of private life.” Therefore, it was proposed that section 3(a) be amended to capture marks that would “bring into disrepute or ridicule anyone in the place or community he resides.” The drafters further distinguished this language from that found in § 3(c), finding that such language was necessary in order to prevent the registration of “immoral and scandalous matter” or matter that would allow for the laissez-faire adoption of some prominent figures names.

In 1939, this intent was supported by the adoption of the revised language found in the corresponding section, now numbered § 2(a). The intent of this revised language was made clear in H.R. 4744, which made reference to the 1938 bill, where “a good deal of discussion” was made in support of protecting the names of prominent individuals. By way of example, the drafters endeavored to prevent certain nefarious uses (like the use of “Abraham Lincoln gin”) but not prevent good-natured uses (like “G. Washington on coffee”).

In any event, neither bill defines (and therefore protects) “persons” as meaning those belonging to a certain group that shares similar physical characteristics, disabilities, race or nationality, or sexual orientation. This overly broad application of this section of the Act is why we have conflicting registrations and cases on these issues.

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76 Id (quoting from an exchange between Representatives Lanham, Chairman of the Sub-Committee on Trade-Marks, and Edward S. Rogers, a lawyer from Chicago, Illinois).
77 Id. (citing examples where people attempted to register KNUTE ROCKNE for alcoholic beverages (an American football player and coach for the University of Notre Dame) and DUCHESS OF WINDSOR for ladies’ underwear (most likely a reference to Wallis Simpson, an American socialite, who acquired the title “The Duchess of Windsor” after marrying the Duke of Windsor, Prince Edward).
78 Id. at 80 (quoting from an exchange among Harrison F. Lyman, from The Boston Patent Law Association, Commissioner Coe, Representatives Lanham, and Mr. Rogers).
79 Id. (seeking to preserve the sanctity of certain names).
80 See H.R. 4744, 76th Cong. (1939).
81 Id. (1939).
82 Id. at 80 (quoting from an exchange among Harrison F. Lyman, from The Boston Patent Law Association, Commissioner Coe, Representatives Lanham, and Mr. Rogers).
83 Id.
84 See H.R. 4744, 76th Cong. (1939); H.R. 9041, 75th Cong. § 3(a) (1938).
C. The Registration Process and Review of Disparaging Matter by Examining Attorneys

Another goal of the drafters of the Lanham Act was to streamline and simplify the federal trademark registration process. In order to understand the flaws in the current system as applied to disparaging marks, a brief explanation of the registration process is needed.

1. The Registration Process

Upon the filing of an application that meets the minimum filing requirements, the application is assigned to an examining attorney for review. The examining attorney will conduct an initial, yet complete review of the application in order to determine if the mark is eligible for registration and to make sure that other matters conform to the requirements of the United States Patent and Trademark Office ("USPTO").

Under federal law, in order to protect matter as a trademark, all that is required is that the mark be used in commerce and not fall into one of the recognized prohibited categories. For example, upon initial review, the examining attorney is making sure that: the description of goods or services provided by the applicant is written in a format as prescribed by the USPTO; that the applicant is the owner of the mark; that there are no conflicting marks already in the system; and that it is not a prohibited mark that should be denied registration. If there is any offending information in the application, the examining attorney will issue an Office Action and give the applicant

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85 See id. at 18 (revising the section to read “[c]onsists of or comprises immoral, deceptive, or scandalous matter; or matter which tends to disparage persons, living or dead, institutions, beliefs, or national symbols, or to bring them into contempt . . . ”).
86 See 37 C.F.R. § 2.21(a) (2012) (requiring that before a substantial review of an application is conducted, an applicant must submit an application that meets the minimum filing requirements—the name of the applicant; the name and address for correspondence; a drawing of the mark; a description of goods and/or services associated with the mark; and the filing fee).
89 Id. at § 901; see also 15 U.S.C. § 1052 (2012). The Lanham Act also allows for filing of a trademark application based on intent-to-use; however, the applicant must start using the mark in order for the USPTO to issue a certificate of registration. See TMEP § 1101.
a period of time to respond to the Office Action. If the applicant cannot overcome the objections of the examining attorney, then a final refusal will be issued. On the other hand, if the applicant successfully addresses the examining attorney’s concerns, then the application will clear the examination phase and the mark will be published for opposition. The opposition period allows for any party that believes it will be harmed by registration of the mark to oppose registration of that mark. If no opposition is filed, or the applicant successfully defends an opposition, then the mark will be registered. After registration, the public has another opportunity to challenge registration of a mark by way of a cancellation proceeding. Similar to an opposition proceeding, any party that believes it will be harmed by registration of the mark may petition to cancel registration of that mark.

In each of the challenges referenced—final refusal by examining attorney, an opposition proceeding, and a cancellation proceeding—the owner of the challenged mark has a right to a review of the issues by the Trademark Trial and Appeal Board (“TTAB”) or may appeal a decision to the United States Court of Appeals for the Federal Circuit. Should the challenged mark successfully clear review and adjudication by either the TTAB or Court of Appeals, then the mark may be registered or the registration maintained.

What is inherently missing from this process is the fact that even if the owner of the offending mark loses on any level, they may still be able to use the mark in commerce. The Lanham Act regulates the registration of trademarks, but does not regulate the use of matter that might otherwise be unregisterable. In other words, what the Act attempts to avoid—having matter in the marketplace that would offend or harm people—does nothing more than prevent the owner of that

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95  Id. at § 1063(b).
96  Id. at § 1064.
97  Id.
98  See id. (discussing opposition and cancellation proceedings before the TTAB); see also 15 U.S.C. § 1070 (2012) (discussing appeals from final decisions by examining attorney); 15 U.S.C. § 1071 (2012) (discussing appeals to courts so long as the mark is in use in commerce).
100  The owner of an offending mark would, however, be enjoined from using matter that is likely to cause confusion with the owner of a superior mark (a mark that was in use prior to adoption and use of the offending mark).
mark from being able to use the federal trademark symbol in connection with the offending mark.\(^{101}\) The offending mark could still be used, and used in connection with a TM or SM symbol without fear of sanctions from the USPTO.\(^{102}\)

Furthermore, the Lanham Act regulates trademarks used in interstate commerce.\(^{103}\) Therefore, certain matter prohibited under the Lanham Act, may still be acceptable under a state’s definition and valid within that state. For example, Colorado defines a trademark in similar manner as the Lanham Act,\(^{104}\) but no further limitations are imposed on what could qualify as a trademark in Colorado.\(^{105}\) In theory a disparaging trademark could be protected under Colorado law, validly use the TM or SM symbol, and be put into the stream of commerce, exposing the public to the mark.\(^{106}\)

Applying the test of whether a mark would disparage a person has proven to be difficult and seems to be left more up to the subjective beliefs of the examining attorney, without taking into account whether the applicant belongs to the class of people associated with that term, the intent of the applicant, even if not a member of the class of people, or if the term, once disparaging, remains disparaging when the applicant seeks protection of the mark.

2. What is a disparaging trademark?

\(^{101}\) See 15 U.S.C. § 1057(a) (2012) (limiting the use of the circle R symbol to federally registered trademarks). However, use of the symbol is permissible if the mark is registered in a foreign country (presumably even if that mark would not be eligible for registration in the U.S.). See 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 19:146 n.1 (4th ed. 2014); TMEP § 906 (8th ed., Apr. 2014).

\(^{102}\) TMEP § 906 (8th ed., Apr. 2014) (“A party may use terms such as ‘trademark,’ ‘trademark applied for,’ ‘TM’ and ‘SM’ regardless of whether a mark is registered. These are not official or statutory symbols of federal registration.”).

\(^{103}\) 15 U.S.C. § 1127

\(^{104}\) COLO. REV. STAT. § 7-70-101(7) (2013) (defining a trademark as “a word, name, symbol, device, or any combination thereof.”).

\(^{105}\) But see COLO. REV. STAT. § 7-70-107(1)(b) (2013) (establishing a process for cancelling registration of a mark “[b]y a person who is harmed by a statement of trademark registration . . . that . . . contains a material misstatement, [was filed] in bad faith, or is fraudulent.”).

\(^{106}\) I conducted a search of the Colorado online trademark database, searching for marks that have been cited in this article. See online searching database at http://www.sos.state.co.us/biz/BusinessEntityCriteriaExt.do where only one similar mark was located: REDNECK ROY, Registration No. 19911009906 (expired Feb. 19, 2001).
No statutory definition of what constitutes a disparaging mark is provided in the Lanham Act.\textsuperscript{107} Due to this lack of a basic framework, the Trademark Office and the TTAB has been left to create its own definition and test for determining if a mark is disparaging.\textsuperscript{108} For example, the Trademark Manual of Examining Procedure (“TMEP”)\textsuperscript{109} adopts the definition of disparagement that was established in \textit{Greyhound Corp. v. Both Worlds Inc.}, 6 USPQ2d 1635 (“TTAB 1988”) as:

Disparagement is essentially a violation of one’s right of privacy—the right to be ‘let alone’ from contempt or ridicule. \textit{See Carson v. Here’s Johnny Portable Toilets, Inc.}, 698 F.2d 831, 218 USPQ 1 (6th Cir. 1983). It has been defined as the publication of a statement which the publisher intends to be understood, or which the recipient reasonably should understand, as tending ‘to cast doubt upon the quality of another’s land, chattels, or intangible things.’ Restatement (Second) of Torts


\textsuperscript{108} United States Patent and Trademark Office (USPTO) is a multi-faceted organization that is broadly divided into three groups: the prosecution of patent and trademark applications (the Patent Office and the Trademark Office), the litigation of patent and trademark issues (the Board of Patent Appeals and Interferences and the Trademark Trial and Appeal Board), and the administration of the organization. Any reference to the USPTO, will mean the Trademark Office and not the Trademark Trial and Appeal Board (TTAB). The TTAB is the adjudicatory arm of the Trademark Office, and hears disputes over the ownership and validity of trademarks, including trademarks that have been rejected as unregistrable by a trademark examining attorney. In this paper, when discussing the process and standards followed by the USPTO, I am referring to the Trademark Office and the examination phase of the application (the process by which a trademark application is assigned to an examining attorney who then makes a determination about the validity or registrability of a trademark before either approving it for publication and ultimately for registration should the application clear additional hurdles not related to the examining attorney’s belief in the registrability of the mark). Reference to the TTAB reflects a different phase in the life cycle of trademark: appeals by applicants whose marks did not clear the examination phase; marks that did clear the examination phase, but a third party seeks to prevent registration of the mark (opposition proceeding); and marks that were registered, but a third party missed the opposition period and now seeks to cancel the registration (cancellation proceeding).

\textsuperscript{109} The TMEP is a publication issued by the USPTO to provide examining attorneys with a framework on how to review and resolve issues that come up in the registration process. As found in the foreword of the TMEP, “[t]he Manual contains guidelines for Examining Attorneys and materials in the nature of information and interpretation, and outlines the procedures which Examining Attorneys are required or authorized to follow in the examination of trademark applications.” TMEP (8th ed., Apr. 2014).
§629 (1977).\textsuperscript{110}

When determining if a term fits this definition of disparagement, the USPTO and the TTAB apply a two-part test:

(1) What is the likely meaning of the matter in question, taking into account not only dictionary definitions, but also the relationship of the matter to the other elements in the mark, the nature of the goods or services, and the manner in which the mark is used in the marketplace in connection with the goods or services; and

(2) If that meaning is found to refer to identifiable persons, institutions, beliefs or national symbols, whether that meaning may be disparaging to a substantial composite of the referenced group.\textsuperscript{111}

When reviewing an application, an examining attorney has the burden of proving that a term adopted as a trademark is disparaging.\textsuperscript{112} The threshold of such proof is low. For instance, scandalous marks are also barred from registration.\textsuperscript{113} This bar is coupled with disparaging marks and is found in the same section of the Lanham Act.\textsuperscript{114} Because scandalous marks have been barred from registration longer than disparaging marks, much of the early disparaging cases built on the tests set for denying registration of disparaging marks.\textsuperscript{115} With this in mind, it is possible for an examining attorney to submit little documentation to support that a term is disparaging. For example, in a case dealing with whether or not a term was scandalous and thus prohibited from registration under the Lanham Act, an examining attorney only needed to provide a dictionary definition to prove the mark was scandalous.\textsuperscript{116} Therefore, once the examining

\textsuperscript{111} In re Lebanese Arak Corp., 94 U.S.P.Q.2d 1215, 1217 (T.T.A.B. 2010); TMEP § 1203.03(b)(i).
\textsuperscript{112} See In re Lebanese Arak Corp., 94 U.S.P.Q.2d at 1225.
\textsuperscript{114} Id.
\textsuperscript{116} See In re Boulevard Entertainment, Inc., 334 F.3d 1336, 1340–41 (Fed. Cir. 2003) (affirming the refusal to register 1-800-JACK-OFF and JACK-OFF as being scandalous marks, where the examining attorney cited to few references of the 85 sources discovered in her search).
attorney has found evidence (no matter how small) that the mark is disparaging, the burden then shifts to the applicant to prove that the mark, as used in connection with the claimed goods or services in the application, is not disparaging.\textsuperscript{117}

The ability of an applicant to overcome such an objection is rarely seen, however, leaving the applicant’s option of abandoning the mark (or at least the possibility of obtaining a federal registration), or appealing the examining attorney’s decision to the TTAB. In fact, after conducting an extensive search of the federal trademark database, I have only found one instance where an examining attorney later withdrew his refusal to register the mark based on the term being disparaging.\textsuperscript{118} In this instance, the registrant sought registration of word PHAG and filed an application to protect the same on October 17, 2006.\textsuperscript{119} On March 8, 2007, the examining attorney issued his first office action, denying registration of the mark as being disparaging because would likely associate the term with “fag,” a word that is “clearly defined in the English language as an offensive, although slang, term to the public.”\textsuperscript{120} To support this claim, the examining attorney provided as proof a dictionary definition of “fag.”\textsuperscript{121} Nearly nine months later, the applicant filed a petition to reconsider the refusal and submitted her own evidence of various dictionary definitions and examples of other trademark owners using FAG in connection with its goods or services.\textsuperscript{122} Without further inquiry, the examining attorney approved the mark for publication on May 14, 2008.\textsuperscript{123} Nevertheless, as indicated previously, this is a rare outcome for an applicant that gets an objection to registration of matter that is initially deemed disparaging by an Examining Attorney.

\textsuperscript{117} See TMEP § 1203.03(b)(i) (8th ed., Apr. 2014).
\textsuperscript{118} See PHAG, Registration No. 4,135,694.
\textsuperscript{120} Letter from John D. Dailer, Trademark Examining Attorney, to Lisa L. Wright, Trademark Applicant (Oct. 3, 2007) (on file with author) http://tsdr.uspto.gov/documentviewer?caseId=sn77022538&docId=OOA20070308111156#docIndex=38&page=1.
\textsuperscript{121} Id.
\textsuperscript{122} TEAS Petition Revive Abandoned Application, from Lisa Miller, to The Commissioner for Trademarks (Dec. 07, 2007) (on file with addressee) http://tsdr.uspto.gov/documentviewer?caseId=sn77022538&docId=POA20071208185401#docIndex=36&page=1 (last visited Sept. 4, 2014).
\textsuperscript{123} U.S. Patent and Trademark Office, supra note 97, at prosecution history.
II. MOVING TOWARD THE REGISTRATION OF DISPARAGING TRADEMARKS

The disparagement test and the policies that support such a test are straightforward. Clearly, however, there are issues with the application of this test. In light of this, measures have been put in motion to combat some of the terms that exist on the federal trademark registration despite the current law. However, the goals that the test seeks to achieve are not prevented under the current law or the proposed amendment. Particularly, the refusal to register such marks will not prevent the continued use of those marks in the marketplace. Further, as illustrated above, application of the test has been inconsistent.

A. Denial of Registration Will Not Stop Use of the Term

One fallacy with the current law is that, by denying registration of disparaging terms, the government will somehow protect consumers that would otherwise be subjected to seeing these marks in the marketplace. However, the Trademark Office has long recognized that the denial of registration does not prevent one from using the mark or securing common law rights in the mark. Certainly, examples of this exist today.

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125 This seems to be a paternalistic approach to granting or denying trademark rights, and this justification should not be encouraged.

126 Stephano Bros. v. Stamatopoulos, 238 F. 89, 91 (2d Cir. 1916) (citing Southern v. How, Popham, 143, 144, 79 E.R. 1243, 1244 (K.B.1582) (noting that there are some inconsistencies with the date of the Southern v. How decision and finding that while the plaintiff’s trademark failed to meet the requirements for registration under the 1905 Act, plaintiff still had common law rights and therefore an ability to use the mark and successfully assert a claim of trademark infringement)).

127 It seems unlikely that a sports team like, for example, the Washington Redskins, would continue to use a term without the protection of a federally registered trademark given the amount of money generated under that brand name that potentially would be lost if others could sell goods bearing that same term. Nevertheless, Dan Snyder, owner of the Washington Redskins, affirmatively declared “[w]e’ll never change the name . . . It’s that simple. NEVER—you can use caps.” Erik Brady, Dan Snyder Says Redskins Will Never Change Name, USA TODAY, May 10, 2013, http://www.usatoday.com/story/nfl/redskins/2013/05/09/Washington-redskins-daniel-snyder/2148127.
To be clear, federal trademark registration of a term is not necessary in order to use that term in connection with the sale of goods or services.\textsuperscript{128} Certainly, there are many benefits to receiving federal registration, including a legal presumption of ownership and the right to use the federal registration symbol, which puts others on notice of your claim of ownership of the mark.\textsuperscript{129} Still, the Trademark Office cannot prevent the sale of goods or services bearing the disparaging term.\textsuperscript{130}

Case in point, on August 11, 2012, James Genobaga filed a federal trademark application for FLIPS AND BEANERS for use in connection with the promotion of a comedy tour.\textsuperscript{131} On March 11, 2013, the Examining Attorney refused registration of the mark, claiming that the terms “flips” and “beaners” were derogatory terms, despite the fact that the trademark had already been in use since November 10, 2010.\textsuperscript{132} The Examining Attorney submitted Wiktionary definitions that defined “flip” as a “chiefly derogatory, ethnic slang” for a Filipino person, and “beaner” as an “offensive” and “ethnic slur” for a Mexican.\textsuperscript{133} While the application is still pending, it is unlikely that the applicant will file a response, and will ultimately abandon the application.\textsuperscript{134} In the meantime, the mark is still being used in commerce to promote the comedy tour.\textsuperscript{135}

\textsuperscript{128} In fact, the Lanham Act recognizes a cause of action of unfair competition and false designation of origin for unregistered trademarks. Nevertheless, the claim is limited to those marks that \textit{could} be registered. 15 U.S.C. § 1125(a) (2012).


\textsuperscript{130} Additionally, it seems unlikely that a class of people could receive damages because the group is offended by the term being used in connection with certain goods or services. \textit{See}, e.g., Bromberg v. Carmel Self Service Inc., 198 U.S.P.Q. (BNA) 176, 178 (T.T.A.B. 1978) (“There is no provision in the Trademark Act for class actions.”).


\textsuperscript{133} \textit{See id.} The USTPO attorney attached several screen captured images from the internet that contained the definitions they used when making their determination.

\textsuperscript{134} As of Oct. 9, 2013 this application was abandoned by the applicant for failure to respond to the Office Action. \textit{See Notice of Abandonment from USPTO to James Genobaga (Oct. 9, 2013), \textit{available at} http://tsdr.uspto.gov/documentviewer?caseld=sn85701322&docld=NOA201310092 continued . . .
Another example, involves the Asian-American rock band, The Slants. A member of the band attempted to register THE SLANTS in connection to “live performances by a musical band.” The application was filed in 2011, but the applicant claimed to be using the mark since 2006. Ultimately, the mark was deemed to be disparaging and the Trademark Office refused to register the mark. To date, the band is still performing under the name The Slants.

B. Approval of Registration Will Not Guarantee Continued Use of the Mark

Just as denial of trademark registration will not prevent use of the mark, approval of trademark registration will not ensure the continued use of the mark. First, those that believe that the registration of a disparaging mark is improper can petition to have the registration canceled. Second, consumers who are offended by goods that bear disparaging terms can refuse to purchase them. For example, in In re Tam, No. 85472044, 2013 WL 5498164, at *1 (T.T.A.B. Sept. 26, 2013), the Trademark Office initially refused registration of MADE NIGGA$ INC. and Design, but the term was later abandoned on Aug. 6, 2013, because it was disparaging against members of the Asian community. See Notice of Abandonment from USPTO to Adrian Mitchell (Aug. 6, 2013), available at http://tsdr.uspto.gov/documentviewer?caseId=sn85718169&docId=NOA2013080623051&docIndex=4&page=1. This trademark application was for MADE NIGGA$ INC. and Design, and was filed by Adrian Mitchell for use in connection with entertainment services. The Examining Attorney refused registration of the trademark as being derogatory of African Americans. See Letter from Katy Halmen, Trademark Examining Attorney, USPTO, to Adrian Mitchell (Jan. 8, 2013), available at http://tsdr.uspto.gov/documentviewer?caseId=sn85718169&docId=OAA20130108134156&docIndex=1&page=1. The application was later abandoned on Aug. 6, 2013, but a search of the internet reveals that the term is still in use. See Notice of Abandonment from USPTO to Adrian Mitchell (Aug. 6, 2013), available at http://tsdr.uspto.gov/documentviewer?caseId=sn85718169&docId=NOA2013080623051&docIndex=1&page=1, and Made Nigga$ Inc., http://madenniggainc.yolasite.com/ (last visited Aug. 26, 2014).

Id. at *8 (upholding the examining attorney’s refusal to register the mark as being disparaging against members of the Asian community). As I will argue in Part III of this article, even if the Trademark Act is amended to strike out “disparage” or the Trademark Office develops a policy of allowing the continued...
a disparaging mark can voice their concerns by protesting to the company’s use of the term, or otherwise “vote with their wallet” by not purchasing the goods. Such efforts may drive a company to adopt another brand in order to avoid the bad press and loss of revenue by using the disparaging term.\textsuperscript{141} For this reason, the Trademark Office should err on the side of registration.

This point is best illustrated by the current campaign to get the Washington Redskins to change its name. Launched in September 2013, members of the Oneida Indian Nation started a “Change the Mascot” campaign that included a symposium and series of radio and online ads emphasizing the disparaging nature of the name “redskin,” and asking the National Football League to change the team’s name.\textsuperscript{142} The campaign thus far has been effective, at least to the extent that it has stirred a national debate and has led many (both within and outside the NFL) to understand the significance of the term in the Native American community.\textsuperscript{143} For example, the campaign has caused people like NFL Commissioner Roger Goodell, President Obama, and a series of other politicians to address the viability of a business that uses a term like “redskins” and does not listen to its consumer base.\textsuperscript{144}

\textbf{C. The Application of the Disparaging Test Is Too Subjective}

The most notable problem with the application of the disparaging test is that it is too subjective and instills too much power in one person (the examining attorney) to determine the validity of the term as a trademark. The counter to this point is that an examining attorney is charged with basing his/her decisions on objective criteria—the review of dictionaries, encyclopedias, surveys of the general public and the alleged disparaged group, and the like.\textsuperscript{145} Still, the examining registration of disparaging marks without scrutiny, then members of a targeted class may still petition to cancel the registration.

\textsuperscript{141} \textit{Id.} at 123. Public shaming and ostracizing have proven to be effective tools in getting companies to change everything from company policies to ingredients in food to discriminatory practices. The public, therefore, would not make an exception for using such tactics when it comes to a company’s trademark use. \textit{See, e.g.,} John R. Harris, \textit{Nuances of Trademark Protection: Policing, Bullying and Shaming}, \textit{Tech Law \\& Business Report}, http://www.mmmtechlaw.com/?p=5669 (last visited Aug. 30, 2014).

\textsuperscript{142} \textit{See} Oneida Indian Nation, \textit{Change the Mascot}, http://www.changethemascot.org/ (last visited Aug. 29, 2014).


\textsuperscript{144} \textit{Id.}

\textsuperscript{145} \textit{See} John R. Wallace, \textit{Discriminatory \\& Disparaging Team Names, Logos, \\& continued \ldots
attorney’s personal beliefs about the term may influence her research of the matter. The chart below best illustrates this point:

<table>
<thead>
<tr>
<th>Disparaging Marks</th>
<th>Non-Disparaging Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>REDSKIN for computer software</td>
<td>REDSKIN for beans</td>
</tr>
<tr>
<td>SQUAW for clothing</td>
<td>SQUAW for ski-related goods</td>
</tr>
<tr>
<td>KJORAN for wine</td>
<td>KORAN WE MAKE FIRM</td>
</tr>
</tbody>
</table>

146 For purposes of this comparison, I have not included the Pro-Football marks that are the center of *Harjo v. Pro Football, Inc.*, 565 F.3d 880 (D.C. Cir. 2009), cert. denied, 130 S. Ct. 631 (2009) and pending *Blackhorse*, Cancellation No. 92046185 (T.T.A.B. 2014). With respect to the former case, the Board initially canceled the trademark registration due to it being a disparaging term. On appeal to the district court, the court reversed the cancellation due to a delay in filing the initial claim (i.e. laches). See *Pro-Football Inc. v. Harjo*, 284 F. Supp. 2d 96, 144 (D.D.C. 2003). The petitioners appealed, and in 2009, the Supreme Court denied certiorari. In light of this decision, a series of new petitioners in *Blackhorse* filed a similar cancellation action. Earlier this year, the Board conducted a hearing to determine whether the term “redskin” is a disparaging trademark. However, it may be several months before an opinion is issued. Additionally, I have included these particular marks because House Bill 1278 seems to limit the refusal to register or cancel marks consisting of or comprising the term “redskin” to those marks that are “used in . . . connection with references to or images of [Native Americans].” *Id.* at 1285.

147 See *REDSKIN*, Registration No. 85,394,731 (filing made as of Aug. 10, 2011, and later abandoned by the applicant due to the examining attorney refusing registration of the mark as being disparaging to Native Americans). I believe the examining attorney did not understand the purpose of the mark. First, the mark was filed by a company called Red.com. Second, the mark is used in connection with computer software. “Skin” is a commonly recognized term in the computer industry used to reference decorative and/or protective sleeves that can be placed over computer equipment (e.g., laptops). It is my belief that the examining attorney missed the play of the words on the trade name and the product. Instead, the examining attorney opted to reject the mark as being disparaging.

148 *See REDSKIN*, Registration No. 2,183,639.

149 *See In re* Squaw Valley Development Company, 80 U.S.P.Q.2d 1264, 1264 (T.T.A.B. 2006) (finding that SQUAW was disparaging to Native American women when used in connection with clothing, but not when used in ski-related items as consumers would think that it was a reference to ski resort in Squaw Valley, California).

150 *Id.* at 1285.

151 See Serial No. 77/072,261. This application was reviewed by two examining continued . . .
attorneys. The first examining attorney issued an office action on Feb. 23, 2007, making no objections to registration of the mark, but seeking more information as to whether the word had any significance in the alcoholic beverage industry or any geographical significance. This information was provided by the applicant. At some point the application was assigned to another examining attorney, and on Sept. 19, 2007, the new examining attorney refused registration of the mark as being disparaging to Muslims because the mark was the phonetic equivalent of Koran, and under the Koran the consumption of alcohol is prohibited. (Use of a term that is the phonetic equivalent of a disparaging term is also disparaging. See, e.g., In re Hines, 31 U.S.P.Q.2d 1685, 1691 (T.T.A.B. 1994) (recognizing BUDDA as a misspelling of the name of the religious figure “Buddha”). A final office action was issued on Apr. 8, 2008, and the applicant appealed the decision.

152 Reg. No. 3,243,538 (providing information in the application that “koran” in Chinese means “big flower”; the mark proceeded to registration without a § 2(a) refusal).

153 Serial No. 78/558,043. This application seems to have suffered a similar fate as the KHORAN mark. When the application was initially assigned to an examining attorney, her objections to the registration of the mark centered on the fact that the mark seemed to be ornamental in nature when used in connection with clothing (i.e., it served more as a design on a shirt, rather than serving as a source identifying trademark). Eight months later, the examining attorney reconsidered her objections and issued another order denying registration of the mark based on disparagement. Applicant appealed the decision to the T.T.A.B., which affirmed the refusal. See In re Heeb Media, LLC (T.T.A.B. 2008).

154 Serial No. 78/432,597. The examining attorney refused registration of the mark because it is the phonetic equivalent of the term HEBE, which is viewed as being disparaging to Jews. The application was later abandoned by the applicant.

155 HEEB, Registration No. 2,858,011 (proceeding to registration without a § 2(a) refusal).

156 U.S. Trademark Application Serial No. 76,704,644 (filed Sept. 23, 2010) (refusing registration of the mark as being disparaging to Japanese and young Jewish women; the applicant later abandoned the mark without fighting the refusal).

157 JUNGLE JAP, Registration No. 1,296,211 (proceeding to registration without objection, but later canceled by registrant for failure to file the appropriate documents showing continued use).

158 U.S. Trademark Application Serial No. 78,368,298 (filed Feb. 15, 2004) (refusing registration as being offensive to minorities; the applicant challenged the
examining attorney’s refusal to register the mark by citing at least thirty examples where the USPTO allowed registration for similar marks, including: ASIAN PRIDE; BLACK PRIDE; CHOCTAW PRIDE; HISPANIC PRIDE; and JEWISH PRIDE).

159 WHITE POWER, Registration No. 2,249,953 (proceeding to registration without a § 2(a) refusal, but later canceled for failure to show continued use of the trademark).

160 REDNECK CONFEDERATION, Registration No. 4,229,888 (approving registration without any objections).

161 BLACK PRIDE, Reg. No. 1,573,602 (showing that the mark proceeded to registration without a § 2(a) refusal, but was later canceled for failure to show continued use of the trademark).

162 BLACK POWER, Reg. No. 3,332,496 (indicating that the mark proceeded to registration without a § 2(a) refusal).

163 U.S. Trademark Application Serial No. 78,164,481 (filed Sept. 16 2002). This mark was refused registration for being a “derogatory term.” The applicant later abandoned the mark without challenging the refusal.

164 F•A•G FABULOUS AND GAY, Reg. No. 2,997,761. The mark was registered without any challenge from the examining attorney, but was later canceled for failure to show continued use of the mark.

165 PHAG, Reg. No. 4,135,694. In this case the examining attorney refused registration of the mark under § 2(a), but the trademark owner challenged the examining attorney’s refusal citing resources that showed PHAG (and its phonetic equivalent FAG) were used by homosexuals in a non-pejorative manner. Based on this argument, the examining attorney withdrew his refusal and approved the mark for registration.

166 U.S. Trademark Application Serial No. 74,325,314 (filed Oct. 26, 1992) (showing this application was filed before the DYKES ON BIKES decision, and was refused registration as being disparaging to lesbians).

167 Various other pending applications that were filed by different trademark owners were initially refused registration, as “dyke” was viewed as being disparaging to lesbians. Those applications were suspended until a final determination was made for DYKES ON BIKES. The T.T.A.B. ultimately approved registration of DYKES ON BIKES, and other “DYKE” marks were allowed registration based on the T.T.A.B.’s decision. See McDermott v. S.F. Women’s Motorcycle Contingent, 81 U.S.P.Q.2d 1212 (T.T.A.B. 2006) (citable as precedent).
RHR RIDE HARD  
RETARD for clothing  

RETARDIPEDIA and 
RETARDAISSANCE for entertainment services  
RETARDS GONE WILD for adult entertainment services  

NIGGA for clothing and retail services  

COLORED PEOPLE and Design for clothing  
UPPITY NEGRO for clothing  
REDNECK and Design for clothing  
REDNECK ALERT for humorous novelty items  

The above-noted examples clearly show the inability to consistently and accurately apply the disparagement test. As the chart highlights, several so-called disparaging marks have been registered, without challenge, by various examining attorneys. Again, when an applicant files a trademark application, that application is assigned to

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168 U.S. Trademark Application Serial No. 77,745,550. This mark was refused registration for being a “derogatory term.” The applicant later abandoned the mark without challenging the refusal.

169 Registration No. 3,750,644, Registered Feb. 16, 2010; Registration No. 3,739,648, Registered Jan. 19, 2010; Registration No. 3,751,638, registered Feb. 23, 2010 (all approved for registration without any challenges).

170 U.S. Trademark Application Serial No. 78,735,840. This mark was ultimately abandoned by the applicant and was never approved for registration. The examining attorney refused registration of the mark for two reasons: (1) the mark was confusingly similar to prior filed marks; and (2) the mark was immoral and scandalous. However, the reasons given by the examining attorney support denying the mark because it is a disparaging term, citing from a dictionary definition that “the word “RETARD” is an “offensive term that deliberately insults somebody with a learning disability or somebody regarded as unintelligent.” The applicant abandoned the mark without challenging the refusal. See also FUNCTIONING RETARD, U.S. Trademark Application Serial No. 85,832575, filed Jan. 23, 2013 (monitor for results).

171 U.S. Trademark Application Serial Nos. 76,623,949, 76,639,548.


173 U.S. Trademark Application Serial No. 86,053,392 (filed Aug. 31, 2013). As of Dec. 20, 2013, this application is pending and the examining attorney has requested only minor amendments to the application. Should the applicant address these minor requests, then the mark will clear the examination phase.

174 REDNECK, Registration No. 1,054,383 (later canceled for failure to show continued use of the mark). Other marks are currently registered for REDNECK for drinks, food, and car care products.

175 REDNECK ALERT, Registration No. 3,128,078.
one examining attorney that is in charge of deciding the fate of the subject mark.\textsuperscript{176} It is the mind of this individual that will determine if (in his or her view) the mark is disparaging. Granted, the test lays out objective factors that an examining attorney can use in order to investigate if the mark is disparaging. Still, if at first glance the examining attorney does not perceive the mark to be a disparaging term, then there is no prompt for that individual to apply any of the objective factors.

Take, for instance, the HEEB, JAP, FAG, and REDNECK marks cited in the chart. There is objective evidence that exists that shows each of these terms have been used in a disparaging manner against a group of specific people. Still, for the examining attorneys in charge of reviewing these applications, the prosecution history seems to suggest that these individuals did not have concerns about the disparaging nature of the marks.\textsuperscript{177} Perhaps they did not know about the historical and/or current use of the terms. It is also plausible that despite knowing that the term had a disparaging definition, the examining attorney did not think that the term was “disparaging enough” to warrant a refusal. Certainly, this is just speculation. Nevertheless, if an applicant gets the right examining attorney, the mark will be registered. If not, the mark will be denied registration. Given these notable inconsistencies, this portion of the Act should be struck and disparaging marks should receive the same protection as other arbitrary terms.\textsuperscript{178}

One perplexing example of the subjective nature of disparaging marks and support for why such terms should be treated as arbitrary trademarks can be found in \textit{Dayton Nut Specialties, Inc. v. Fuqua Pecans, LLC}.\textsuperscript{179} In this opinion, the Board took judicial notice of a dictionary definition that defined the term in question, “redneck,” as “disparaging.”\textsuperscript{180} The opinion stemmed from a trademark opposition

\textsuperscript{176} See \textit{e.g.}, HEEB, \textit{supra} note 132, Attorney Information.

\textsuperscript{177} See \textit{id.}, Prosecution History.

\textsuperscript{178} Trademarks may either be inherently distinctive (and thus immediately qualify for trademark protection) or may become protectable over time after meeting certain requirements. Marks that are deemed “inherently distinctive” are classified as either fanciful (completely made up words or terms, like XEROX), suggestive (indirectly conveys a quality about the goods or services, like COPPERTONE for tanning lotion), or arbitrary. Arbitrary marks have been defined as “words that are in common linguistic use but, when used to identify particular goods or services, do not suggest or describe . . . the goods or services.” TMEP § 1209.01(a) (8th ed., Apr. 2014). Commonly cited examples include APPLE for computers or CAMEL for cigarettes.


\textsuperscript{180} \textit{Id.} at *2.
that was filed by Dayton Nut Specialties, Inc. (“Dayton Nut”) against Fuqua Pecans, LLC (“Fuqua”) when the latter sought protection for a mark that Dayton Nut claimed was confusingly similar to its mark.\textsuperscript{181} Fuqua had filed an Intent-to-Use application on October 3, 2006 to protect REDNECK NUTS for use in connection with various nut products.\textsuperscript{182} Although Fuqua had filed its application prior to Dayton Nuts application, the record showed that Dayton Nut had used the trademark REDNECK in connection with “processed nuts” since at least 1997.\textsuperscript{183} Dayton Nut argues that since its mark was used first in connection with the same product that it had acquired common law protection of the trademark.\textsuperscript{184}

Fuqua’s defense was that in order to make a claim for common law protection, Dayton Nut would have to show that its mark was inherently distinctive or had otherwise acquired secondary meaning.\textsuperscript{185} With respect to the former point, if a trademark is “fanciful” (i.e., the word is made up by the trademark owner) or arbitrary (i.e., it is a commonly recognized word, but used in connection with unrelated goods or services) then the trademark would be deemed to be inherently distinctive.\textsuperscript{186} In other words, the mark would immediately be protectable once in use in commerce.\textsuperscript{187} The Board addressed this issue by taking judicial notice of a Merriam-Webster’s dictionary definition that defined “redneck” as “disparaging: a white member of the Southern rural laboring class.”\textsuperscript{188} In light of this definition, the Board found “redneck” to be an arbitrary term when used in connection with peanuts, and held Dayton Nut’s trademark, REDNECK, to be an inherently distinctive mark.\textsuperscript{189} The Board went on to conclude that Dayton Nut had established a priority use over Fuqua,\textsuperscript{190} and that the marks were confusingly similar.\textsuperscript{191} Therefore, it denied registration of Fuqua’s trademark.\textsuperscript{192}

What is troubling about this decision is that the Board, while attempting to prove one’s right for trademark protection, unwittingly

\begin{itemize}
\item \textsuperscript{181} \textit{Id.} at *1.
\item \textsuperscript{182} \textit{Id.} at *2; see also U.S. Trademark Application Serial No. 77,012,333 (filed Oct. 3, 2006).
\item \textsuperscript{183} \textit{Id.}; see also REDNECK, Registration No. 3,703,868 showing filing date of Feb. 2, 2007 and a first use date of Aug. 1, 1997.
\item \textsuperscript{184} Dayton Nut Specilaites, Inc., 2009 WL 1068776 at *2.
\item \textsuperscript{185} \textit{Id.}
\item \textsuperscript{186} See TMEP, §1209.01--.01(a).
\item \textsuperscript{187} \textit{Id.} at § 1202.
\item \textsuperscript{188} Dayton Nut Specialties, Inc., 2009 WL 1068776 at *2.
\item \textsuperscript{189} \textit{Id.}
\item \textsuperscript{190} \textit{Id.}
\item \textsuperscript{191} \textit{Id.} at *5.
\item \textsuperscript{192} \textit{Id.}
\end{itemize}
proved its invalidity. The Board used a source that defined the term in a way that would make the term unregistrable, which should have prevented either party from being able to register the term. In fact, dictionary definitions are one of the primary sources that an examining attorney would use in order to support a claim of disparagement.\textsuperscript{193} For example, when attempting to prove that a term is disparaging, the disparagement test incorporates a direction to consult dictionary definitions.\textsuperscript{194} Consequently, if the Board recognizes that a term is disparaging and still allows for its protection, then the general refusal of disparaging marks should be struck from the Act.

D. The Introduction of H.R. 1278 Attempts to Prevent Adoption of REDSKIN as a Trademark, But Falls Short

In an effort to remove certain improperly registered disparaging terms, on March 20, 2013, Rep. Eni Faleomavaega and nine co-sponsors introduced bill H.R. 1278, known as the “Non-Disparagement of Native American Persons or Peoples in Trademark Registration Act of 2013.”\textsuperscript{195} The bill attempts to provide finality to a line of disputes surrounding Pro-Football, Inc.’s registration of REDSKINS, and variations.\textsuperscript{196} The dispute started in 1992 when a group of Native Americans petitioned the Board to cancel the REDSKINS trademark, arguing that the mark was disparaging and therefore registered in violation of the Lanham Act.\textsuperscript{197} Based on this assertion, the Board canceled the registration.\textsuperscript{198} Pro-Football appealed the decision to the district court, and the court reversed the cancellation.\textsuperscript{199} However, the court did not reinstate the mark because it deemed it to be a non-disparaging term.\textsuperscript{200} Instead, the court reversed the Board’s decision based on a laches defense.\textsuperscript{201} The group of Native Americans appealed to the Supreme Court, but it denied

\textsuperscript{193}See \textit{In re} Lebanese Arak Corp., 94 USPQ2d 1215, 1217 (T.T.A.B. 2010) (stating that dictionary definitions are to be taken into account in the determination of whether a proposed mark is disparaging).

\textsuperscript{194}Id.

\textsuperscript{195}H.R. 1278, 113th Cong. (2013).


\textsuperscript{198}Id.


\textsuperscript{200}Id.

\textsuperscript{201}Id.
certiorari. In response to this result, a series of new petitioners, in Blackhorse v. Pro Football, Inc., filed a similar cancellation action. On March 7, 2013, the Board conducted a hearing to determine whether the term “redskin” is a disparaging trademark. It was expected to be several months before an opinion was issued, and in the meantime, H.R. 1278 was introduced. On June 18, 2014, the TTAB issued a decision on Blackhorse, and by a 2-1 vote, determined that REDSKINS is a disparaging term and ruled that the registration should be canceled. Still, it is expected that the decision will be appealed. Therefore, it could be some time before we get a final answer about the status of the REDSKINS registration.

The purpose behind H.R. 1278 (the “Bill”) is two-fold: (1) to prevent the future registration of trademarks that consist of or include the term “redskin;” and (2) to cancel any existing registrations that contain the term, regardless of whether it was deemed disparaging at the time of registration or if it is incontestable. What is remarkable about this Bill is that it seems to be the first time in federal trademark history that the legislators have sought a statutory ban on a specific term. However, such an express ban is not necessary under the current law and it does nothing more than trample on the rights of existing trademark owners. For example, under current and past trademark law, words are deemed registrable on a case-by-case review given the various tests laid out for accepting or denying registration or a mark. Disparaging marks are no exception, and it is possible under the current test to register a mark that may seem disparaging, but when analyzed in the context of its use in connection with the

204 Id.
206 Id.
207 Erik Brady, Redskins trademarks canceled by U.S. Patent Office, USA TODAY SPORTS, June 18, 2014.
208 Id. A party to a cancellation proceeding may appeal a decision by the TTAB by either filing an appeal to the U.S. Court of Appeals for the Federal Circuit in Washington, DC, or by filing a civil action through the U.S. District Court for the Eastern District of Virginia. While an appeal is pending, the registration is still valid.
claimed goods or services, would otherwise be registrable. For example, in 1998 the Nittany Corporation received a registration for REDSKIN, as used in connection with canned beans.\footnote{REDSKIN, Registration No. 2,183,639.} Clearly, this company’s use of REDSKIN refers to the color of beans it is selling under the mark. In light of the current test, this mark was properly registered because it is not used in such a way as "to refer to identifiable persons."\footnote{In re Lebanese Arak Corp., 94 USPQ2d 1215, 1217 (T.T.A.B. 2010).} Under this Bill, however, Nittany’s trademark rights would be wiped out as the proposed legislation seeks to cancel any existing registrations that contain the term, regardless of whether it was deemed disparaging at the time of registration.\footnote{See H.R. 1278, 113th Cong. § 5 (2013).} The Bill, being retroactive in nature if adopted, puts in jeopardy the rights of trademark owners who legally achieved registration under the current law.

Arguably, this Bill is necessary to achieve what the current law has not been able to do—prevent or cancel registrations that contain the word “redskin.” However, H.R. 1278, as well meaning as it may be, does little to prevent the issue it seeks to address.\footnote{I acknowledge that the history of the term “redskin” is disparaging toward Native Americans, and that the term continues to be a source of pain and ridicule for a number of Native Americans. It is not my goal to advocate for the abuse of the word “redskin,” or any other term now known or created in the future, that would disparage a group of people. Still, the harms that are trying to be prevented will not be cured via legislation.} First, the Bill does not prevent use of the mark—only registration of the mark.\footnote{H.R. 1278, 113th Cong. § 5 (2013).} Granted, a trademark owner receives numerous benefits under the federal Trademark Act, but a mark owner may not be concerned about the protections and rights granted in the Trademark Act. Therefore, the owner will still use the mark, and the class that the legislators seek to protect will still be subject to the use of the mark in the marketplace.

Additionally, the Bill does not prevent the user from claiming common law rights in the mark.\footnote{Id.} Certainly, common law trademark rights do not provide the same protection that federal rights would give a trademark user. However, common law trademark rights do provide some protection, at least in the geographic area where the mark is actually used.\footnote{Gen. Healthcare Ltd. v. Qashat, 364 F.3d 332, 336 n.7 (1st Cir. 2004) (citing United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97-98 (1918), which clarifies that common-law trademark rights are confined to territories of use).} These rights are still recognized today, and given the prevalent use of the Internet to market and sell goods or

\footnote{REDSKIN, Registration No. 2,183,639.}

\footnote{In re Lebanese Arak Corp., 94 USPQ2d 1215, 1217 (T.T.A.B. 2010).}

\footnote{See H.R. 1278, 113th Cong. § 5 (2013).}

\footnote{I acknowledge that the history of the term “redskin” is disparaging toward Native Americans, and that the term continues to be a source of pain and ridicule for a number of Native Americans. It is not my goal to advocate for the abuse of the word “redskin,” or any other term now known or created in the future, that would disparage a group of people. Still, the harms that are trying to be prevented will not be cured via legislation.}

\footnote{H.R. 1278, 113th Cong. § 5 (2013).}

\footnote{Id.}

\footnote{Gen. Healthcare Ltd. v. Qashat, 364 F.3d 332, 336 n.7 (1st Cir. 2004) (citing United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97-98 (1918), which clarifies that common-law trademark rights are confined to territories of use).}
services, these rights can rapidly expand to various territories even if the trademark user’s base is only in one state. Further, because the law protects the common law rights of a trademark user, that owner may use the “TM” or “SM” symbol. This designation serves to put others on notice that the user claims rights to the mark, thereby discouraging others from using the mark. Therefore, while H.R. 1278 may prevent the registration of a particular term, it will not prevent the use of that term.

In short, the proposed bill does not achieve the goals it sets out to address. It stops short of preventing the real issues, and is overreaching in curing those issues by eliminating otherwise registrable marks. For these reasons, the proposed amendment is unnecessary and a waste of legislative time and resources.

III. PROPOSAL FOR RESOLVING DISPUTES SURROUNDING DISPARAGING MARKS

As I detailed above, determining what is a disparaging mark and applying this test resulted in inconsistency on the federal registry. In light of this, I assert one of three proposals—(1) the registration of disparaging marks should be allowed without scrutiny or challenge; (2) registration of disparaging marks should be allowed, but with the ability for those that believe they would be injured by the mark to oppose registration of the mark or cancellation of the registration of contestable marks; or (3) the current Act should be reformed and guidelines adopted that would make the process more objective.

A. First Proposal: Allow the Registration of Disparaging Marks Without Scrutiny or Challenge

My preferred approach to resolving the inherit inconsistencies that are sure to arise under the Trademark Act is to amend it so that disparaging marks could be registered. I particularly believe this to be the best approach because it is more in line with the legislative intent

219 See generally, e.g., Brian L. Berlandi, What State Am I In?: Common Law Trademarks on the Internet, 4 Mich. Telecomm. & Tech. L. Rev. 105 (1998) (highlighting the fact that common law rights are limited to the zone of the geographic use, and how the Internet may expand the geographic territory for a trademark user).


221 Id.

222 See, supra chart above, Section C.
of preventing directed attacks at an identifiable individual or institution. Additionally, the current law has proven to be vague in terms of setting clear guidelines for resolving these disputes, and application of the disparagement test is highly subjective.

Currently, the Trademark Act reads, as follows:

No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it—

(a) 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; . . . .

I propose that the Trademark Act should be amended, as follows:

No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it—

(a) 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 matter which may bring them an identifiable person, living or dead, or institution into contempt, or disrepute; . . . .

B. Second Proposal: Allow the Registration of Disparaging Marks, But with a Process for Protected Groups to Challenge the Registration of the Mark

Under my second proposal, the Trademark Office should treat disparaging terms, which are directed at a general group of people,
institution, belief, or national symbol, as arbitrary or suggestive marks when applied to the protected goods or services. By taking this approach, the Trademark Office should not prevent the registration of a term simply because it has disparaging meaning or context of use. However, if “a substantial composite of the referenced group” believes it will be harmed by the registration of the mark at issue, then a process should be adopted that would allow for these challenges to move forward.

A similar approach was adopted and recently amended in the state of Wisconsin. Under Wisconsin’s state trademark law, “any mark” may be adopted and registered with few limitations. These limitations, however, do not include one’s ability to register a disparaging trademark. For this reason, even state-supported institutions may adopt “race-based nicknames, logos, mascots, and team names” (collectively, “race-based marks”). Wisconsin’s act specifically allows for schools to use these types of marks. The original act, 2010 Wisconsin Act 250 (“2010 Act”), provided the basic framework that allowed for the adoption of such marks, while still providing a way for injured parties to challenge a school’s use of the same. In December of 2013, the Wisconsin legislators repealed the 2010 Act and adopted 2013 Wisconsin Act 115 (“2013 Act”). The 2013 Act kept the same basic framework and procedural process, yet made changes in terms of who could bring a challenge, the timeliness of the challenge, and shifted the burden from the state of disproving the injury to the injured party proving an injury as a result of a school’s use of a race-based

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226 See 2010 Wis. Legis. Serv. 250 (West), repealed by 2013 Wis. Legis. Serv. 115 (West).
228 Wis. Stat. Ann. § 132.01(5) (West Supp. 2013) (preventing the registration of “any mark which consists of or comprises a replica or simulation of the flag, coat of arms, or insignia of the United States, or of any state or municipality or any foreign nation”). Additionally, under Wisconsin case law, marks that are deemed generic or descriptive may also be denied registration. See generally Vredenburg v. Safety Devices Corp., 10 N.W.2d 226 (Minn. 1955); Avenarius v. Kornely, 121 N.W. 336 (Wis. 1909). Marks that are “identical or substantially identical” to a previously registered mark are also rejected, under Wisconsin’s trademark counterfeiting act. Wis. Stat. Ann. § 132.001 (West 2011).
230 2010 Wis. Legis. Serv. 250 (West), repealed by 2013 Wis. Legis. Serv. 115 (West).
mark. For example, in terms of who can bring the suit, under the 2010 Act, “a school district resident” could file a complaint challenging the use of a race-based mark and the school board had the burden of proving “by clear and convincing evidence, that the [race-based mark] did not promote discrimination, pupil harassment, or stereotyping.” In contrast, under the 2013 Act, any school district resident may file the complaint, but only after collecting signatures from “at least 10% of the school district’s member[s].” Additionally, the burden is on the complainant to prove discrimination, harassment, or stereotyping as a result of the school using a race-based mark. What is particularly appealing about the newly adopted process in the 2013 Act, is that it prevents one person from making a claim based on his or her personal view of how the mark causes an injury to a whole group. Instead, it implements a procedure whereby the collective voices of that community and/or targeted group may challenge a school’s use of the mark.

I believe that a similar approach should be adopted by the Trademark Office—allow for the registration of disparaging marks, with a process for injured parties to challenge the registration of the same. Such an approach would not be foreign to the federal trademark registration system. First, when there is any doubt as to the registrability of a trademark, an examining attorney must resolve that doubt in favor of the applicant. At that point, the examining attorney would publish the mark for opposition. Under the current law, during the opposition phase any party that believes it will be injured by registration of the mark may oppose registration of the

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232 Id.
234 See 2013-2014 Wis. Legis. Serv. Act 115, 1 (West) (defining a “school district member” as an adult only (i.e., “electors’ signatures”) and invalidating any signature that was obtained more than a 120 days before the complaint is filed).
235 Id.
236 There exists proof that concerned groups will use the process in order to protect themselves. For instance, the Trademark Office approved the registration of JAP for clothing (JAP, Registration No. 10,30,376) on January 13, 1976. (The prosecution history is not available for this file, therefore I do not know if the examining attorney ever questioned the registrability of the mark). On January 13, 1981, David Nikaido and The Japanese American Citizen League filed a petition to cancel the registration, arguing that the term “jap” was a derogatory term to Japanese-Americans. The petition was not challenged by the Registrant and the registration was canceled April 22, 1981.
237 See, e.g., In re Prosynthesis Laboratories, Inc., No. 77902555, 2012 WL 1267929 at *18 (T.T.A.B. 2012) (overturning an examiner’s refusal to register CHINA FREE and Design, and finding that there was not enough evidence to support a claim of disparagement).
Furthermore, should an injured party miss the deadline for filing an opposition, that party will have a second bite at the apple once the mark is registered. Similar to filing an opposition before registration, a party may file a petition to cancel the registration within five years of the date of registration.15

Currently, anyone that believes a mark is disparaging may oppose registration of a mark, or petition to have a registration canceled.16 I propose, however, when it comes to disparaging terms that these petitions should not be brought unless the petitioner can show that “a substantial composite of the referenced group” also deems the mark to be disparaging.17 By adding this extra layer, it prevents petitions brought on the subjective views of one individual, while protecting the collective views of the targeted group. Again, such an approach is not completely new to the process of determining the registrability of a mark under the current law. One, petitions may be brought by more than one party. Two, surveys of the targeted group and/or community can be used as evidence of how the term is used or perceived by or against the referenced group. Third, this approach is directly in line with the second prong of the disparagement test which requires that a “substantial” part of the referenced group must find the mark to be disparaging.18 This process can be streamlined by requiring a petitioner to conduct a survey of the referenced group and/or collecting signatures from the referenced group before filing.19 Additionally, such a process would include the added benefit of avoiding unnecessary filings when (1) a survey, or the inability to collect the necessary number of signatures, reveals that the group does

238 See id. at *16 (expressing its uneasiness about approving the mark for registration, but acknowledging “that if a group does find the mark to be scandalous or disparaging, an opposition proceeding can be brought. . . .”).
240 See id. at § 1063 (allowing “any person who believes that he would be damaged by registration of a mark” to file an opposition objecting to registration of the mark); § 1064 (allowing for the cancellation of a registration by “any person who believes that he is or will be damaged . . . by registration of a mark . . . . ”).
241 In re Lebanese, 94 USPQ2d 1215, 1217 (BNA) (T.T.A.B. 2010).
242 Id.
243 It is my belief that adding this requirement is not overly burdensome on a party that wishes to institute an opposition or cancellation proceeding. Given the ability to rapidly disseminate information on-line, collect electronic signatures (which the Trademark Office accepts when one files other documents), and conduct online surveys, the party could collect this information in a timely and cost-effective manner. Additionally, concerns about the ability to collect this within the required timeframe also should not be problematic. For example, once a mark is published for opposition, an injured party has thirty days to file a notice of opposition or request an extension. The extension request should be granted in order to give a party time to collect the required information.
not find the mark disparaging, thus preventing the filing; and (2) if one party has already gathered the required evidence, then subsequent parties would not need to file a petition.

C. Third Proposal: Amend the Current Act and/or Adopt Guidelines that Clarify the Process and Make Application of the Test Less Subjective

Two recent TTAB decisions further illustrate the problem of deciding which terms are disparaging, and the factors used to judge whether or not a term is disparaging. The cases both involve terms directed at members of the Asian community, and each considers whether those terms are disparaging. Remarkably, however, while both boards seem to come to the conclusion that each mark is most likely disparaging, one board approves registration and other denies registration. For this reason, these decisions can be used to help clarify how the disparaging test should be applied.

The first decision stemmed from an applicant’s attempt to register the mark CHINA FREE and Design (CHINA FREE) for use in connection with “vitamin and mineral supplements.” The applicant, Prosynthesis Laboratories, Inc., touted on its website that its goods are free of ingredients that originate from China, and expressed concern about the wholesomeness of such products that contain such China-derived ingredients. The examining attorney used this evidence to prove that the mark was disparaging of China and/or people from China, and therefore refused registration of the mark. On appeal to the TTAB, the Board overruled the decision of the examining attorney to deny registration of CHINA FREE. The Board gave several reasons for why this mark is registrable, and seemingly opened the door for registration of similar marks that may be deemed disparaging yet still registrable.

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246 Under the current law, I believe both of these decisions are accurate and can be reconciled given the facts presented in each case.

247 In re Prosynthesis Lab., Inc., at 1.

248 Id. at *1–4.

249 Id. at *6.

250 Id. at *45.

251 The Board seemed to be troubled by the applicant’s statement, though said that the statements could be read to have a non-disparaging meaning as well. Ultimately, it appears from the decision that the Board begrudgingly allowed continued...
The second and more recent decision involved an Asian rock band that performs under the name “The Slants.”\footnote{Anandashankar Mazumdar, Asian-American Rock Band’s Attempt To Register ‘The Slants’ Rejected Under §2(a), BLOOMBERG BNA (Oct. 2, 2013), http://www.bna.com/asianamerican-rock-bands-n17179877489/} A member of the group attempted to register THE SLANTS in connection with “entertainment in the nature of live performances by a musical band.”\footnote{Mazumdar, supra note 223, at 1; see also U.S. Trademark Serial No. 85/472,044 filed on November 14, 2011 (claiming a date of first use of November 15, 2006).} Registration of the mark was refused by the examining attorney due to THE SLANTS being a “highly disparaging reference to people of Asian descent.”\footnote{Id. note 223., at 2.} The Board agreed.\footnote{Id. (citing the band’s Wikipedia entry and Myspace page, which included an image of an Asian woman next to THE SLANTS mark).}

Similar to the CHINA FREE decision, the Board relied heavily on statements made on the applicant’s website and other promotional materials that revealed that the applicant picked the mark because it “derived from an ethnic slur for Asians.”\footnote{In re Squaw Valley Dev. Co., 80 U.S.P.Q.2d (BNA) 1264, 1267 (T.T.A.B. 2006).}

In sum, the Trademark Act prevents the registration of disparaging marks. Under the test set in In re Squaw Valley, some guidelines are given for resolving the disparaging nature of the mark in question: (1) what is the likely meaning of the matter in question; and (2) whether the meaning would disparage a “substantial composite” of the referenced group.\footnote{See In re Lebanese Arak Corp., 94 U.S.P.Q.2d (BNA) 1215, 1217 (T.T.A.B. 2010). The test was recently affirmed in In re Tam, 108 U.S.P.Q.2d 1305 (T.T.A.B. 2013).} To some extent, objective factors are listed in the test. Still, The Board and other courts have been left to set its own definition of what a disparaging mark is and have used other objective (and sometimes subjective) factors for determining if a mark is disparaging.\footnote{In re Squaw Valley Dev. Co., 80 U.S.P.Q.2d (BNA) 1264, 1267 (T.T.A.B. 2006); See In re Lebanese Arak Corp., 94 U.S.P.Q.2d (BNA) 1215, 1217 (T.T.A.B. 2010); In re Tam, 108 U.S.P.Q.2d 1305 (T.T.A.B. 2013).} Further, none of the decisions include a comprehensive list or rank the order of importance of these factors.\footnote{In re Squaw Valley Dev. Co., 80 U.S.P.Q.2d (BNA) 1264, 1267 (T.T.A.B. 2006).}

Under my third proposal, I argue that the factors listed below must be used in order to avoid decisions based on subjective beliefs. To be clear, a finder of fact should consider all of these factors before making a final determination.

registration of the mark due to a lack of evidence that conclusively supported a disparaging use in the context of the goods provided by the applicant.
1. **What is the likely meaning of the mark?**

In order to determine if a mark is disparaging, one must consider the meaning of the mark. Disparaging marks may either be “per se disparaging” or disparaging as used with the goods or services. Under *In re Tam*, the Board bifurcated this first category, and listed three categories for disparaging marks:

Depending on the facts of the case, a proposed mark may be: (1) an innocuous term that in the context of the goods or services is disparaging . . . (2) a disparaging term that may have a non-disparaging meaning in a specific context . . . or (3) a disparaging term that has no non-disparaging meanings in any context, and remains disparaging despite the applicant’s goods or services, actual use or intent.

The *Tam* Board seems to suggest that only under the second category would it be possible to otherwise register a *per se* disparaging mark.

Therefore, in order to determine if a proposed mark falls into the other two categories (and therefore would be unregistrable), the following items should be considered:

- (a) The definition of the mark in standard dictionaries;
- (b) The relationship of the matter to the other elements in the mark;
- (c) The nature of the goods or services used in

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260 This question comes directly from the test set in *In re Squaw Valley*, 80 U.S.P.Q.2d at 1267.

261 *See In re Tam*, 108 U.S.P.Q.2d at 1310. I disagree with the approach that only marks that have a non-disparaging meaning can be registered under the current test. For example, in the last category, a mark that may have started out as a disparaging term could be re-appropriated by a significant portion of the protected class and used in a non-disparaging manner. Therefore, the intent of the applicant and how the mark is used in connection with the claimed goods or services must be considered. *See generally* McDermott v. San Francisco Women’s Motorcycle Contingent, 81 U.S.P.Q.2d 1212 (T.T.A.B. 2006).


263 If there are other recognized definitions, showing that the term may have an innocuous meaning, then the mark should be approved for registration. *See In re Heeb Media LLC*, 89 U.S.P.Q.2d 1071, 1074 (T.T.A.B. 2008).

264 Marks that “comprise of” disparaging matter, may actually have a nondisparaging meaning when considered in the context of the whole mark. An examining attorney should not dissect a mark, but consider the meaning of the composite mark as a whole. *In re Am. Fertility Soc’y*, 188 F.3d 1341, 51 U.S.P.Q.2d 1832, 1837 (Fed. Cir. 1999).
connection with the mark;
(d) The manner in which the mark is used in the market place;\textsuperscript{265}
(e) The meaning of the term to the general public;\textsuperscript{266}
(f) The meaning of the foreign equivalent of the word;\textsuperscript{267}
(g) The likely meaning of the mark \textit{at the time of use/filing};\textsuperscript{268}

\textsuperscript{265} In re Lebanese Arak Corp., 94 U.S.P.Q.2d 1215, 1217 (T.T.A.B. 2010); TMEP § 1203.03(b)(i).

\textsuperscript{266} The second part of the test focuses on the meaning of the term to the referenced group, and consideration of the general public’s perceptions has been rejected. See In re Hines, 31 U.S.P.Q.2d 1685, 1688 (T.T.A.B. 1994) (“[T]he perceptions of the general public are irrelevant. . . . [and] only the perceptions of those referred to, identified or implicated in some recognizable manner by the involved mark are relevant.”). I propose, however, that the meaning of the term to the general public can also provide some value and should be considered as evidence of the terms use in a non-pejorative manner. Therefore, if evidence exists that the term has been used in a non-pejorative way, the mark should be approved for registration.

\textsuperscript{267} The foreign equivalent doctrine has been applied to reject foreign terms that, when translated into English, are either descriptive or generic of the goods or services, or likely to cause confusion with existing marks. See TMEP, Foreign Equivalents, § 1209.03(g) (2013). The doctrine, however, does not seem to be applied when determining if a mark is disparaging under the English language. In contrast, it seems that the foreign meaning of the word is taken into account. Such an approach shows a nonpejorative meaning, and therefore should be viewed similarly to a dictionary definition. Any other approach leads to the bizarre result that foreign companies could register terms that are not disparaging in their country, but an American applicant would be barred because the term is disparaging in the U.S. See, e.g., Reg. Nos. 0,759,908, 0,759,957, 0,759,980. (advancing FAG for industrial manufacturing products, which were registered, without challenge, by a German company based on existing foreign registrations in its home country. Also consider, PHAG, which was registered after an applicant successfully overcame a disparaging rejection by submitting as evidence, among other things, proof that “fag” is also a slang term in Europe for “cigarettes” and FAG BAG and Design for cigarettes and cigarette holders, Reg. No. 1,121,874, registered July 10, 1979 (now expired) (applicant disclaimed use of the term “fag bag,” most likely because it was deemed descriptive of the goods under the foreign equivalent doctrine).

\textsuperscript{268} See Pro-Football, Inc., v. Harjo, 284 F. Supp. 2d 96, 125, 68 U.S.P.Q.2d 1227, 1248 (D.D.C. 2003). \textit{But see In re Tam, 108 U.S.P.Q.2d at 1309} (“Whether a proposed mark is disparaging must be determined from the standpoint of a substantial composite of a referenced group. . . in the context of contemporary attitudes.”) (emphasis added). I believe this approach is flawed and can lead to inequitable, retroactive cancellation of marks or the denial of current applications. For example, “colored” or “negro” were terms used to refer to African-Americans. At the time the terms were adopted, the use of those terms was not considered disparaging. In fact, prominent African-American organizations like the National
(h) The existence of third party registrations;  

(i) Consideration for acronyms;  

(j) The intent of applicant should be considered, resolving matters in favor of the applicant that does not seek to do harm to others.

Association of the Advancement of Colored People and the United Negro College Fund, incorporated a term in its trade name and sought registration of acronyms reflecting this usage. See UNCF, Reg. No. 4,163,579, registered June 26, 2012; and NAACP, Reg. No. 1,188,182, registered January 26, 1982. However, the use of search terms today to reference African-Americans in general may be deemed disparaging in nature. Still, others have continued to successfully register marks incorporating these terms despite “contemporary attitudes.” See, e.g., UPPITY NEGRO, Serial No. 86/053,392 (the examining attorney sent a request to the applicant to make minor amendments as recently as December 20, 2013); BAKED BY A NEGRO, Reg. No. 4,424,120, registered October 29, 2013; COLORED PEOPLE and Design, Reg. No. 3,843,574, registered September 7, 2010.

While it is true that third party registrations provide “little value” and each application must stand on its own, the existence of third party registrations does provide some value. The fact that other registrations exist that consist or comprise the so-called disparaging term, at the very least, proves that others do not deem the term to be disparaging. With that in mind, doubt as to the meaning the mark should be resolved in favor of the applicant.

Acronyms should not be deemed disparaging unless the meaning of the acronym is disparaging. A similar approach is taken with descriptive marks, which are unable to be registered without showing secondary meaning or non-descriptive use. Under a descriptive-acronym analysis, if an acronym does not have a descriptive meaning, then the mark should be approved for registration. See, e.g., Baroness Small Estates, Inc. v. Am. Wine Trade, Inc., 104 U.S.P.Q.2d (BNA) 1224, 1230–31 (T.T.A.B. 2012) (holding that CMS was not synonymous with “cabernet, merlot, and syrah” and therefore not descriptive for wine). A similar approach could be taken with disparaging marks. For instance, while the Trademark Office has rejected registrations for “fag,” one applicant was able to successfully register F•A•G – FABULOUS AND GAY for bath products, Reg. No. 2,997,761, registered September 20, 2005; compare with FAG for political and social commentary periodicals, Serial No. 78/164,481, filed on September 16, 2002 (refused by examining attorney as being “a derogatory term for homosexual men and homosexual woman.”). A similar approach could have been taken when an applicant attempted to register NIGGA for clothing. This acronym was developed by the late rapper Tupac “2Pac” Shakur, who defined the acronym as “never ignorant, getting goals accomplished.” See the “Strictly for my N.I.G.G.A.Z.” album (released in 1993) and the “Loyal to the Game” album (released posthumously in 2004). Shakur sought to redefine the term “nigger,” by using “nigga” to mean something positive to African-Americans. The word is still in widespread use (possibly to the chagrin of the older generation) and has been adopted as a term of endearment. See MARYANNE D. BROWN CAMPBELL, Food for the Soul 353 (AuthorHouse 2008); see also Kash Azrael, The N Word, CALL & POST (Aug. 9, 2013), www.callandpost.com/news/2013/aug/09/n-word/.

Both the Tam and Prosynthesis Boards reject the notion that the applicant’s purpose for using the mark should matter. In re Tam 108 U.S.P.Q.2d (BNA) at 1312; In re Prosynthesis Laboratories, Inc., No. 7790255, 2012 WL 1267929, at *3– continued . . .
(k) Whether the applicant is a member of the “referenced group.”

2. What is a “substantial composite” of the referenced group?

Under the second part of the test, a mark should only be denied registration if the term would be deemed to be disparaging “to a substantial composite of the referenced group.” The TTAB and Courts have avoided setting a firm figure as to what would equal a “substantial composite.” Even further, how to confirm that a substantial composite of the referenced group would be offended by use of the term is also not clear. Such determinations seemed to be based more on gut reactions and selected evidence rather than objective evidence. So what is a “substantial composite” of the reference group if a majority is not required, what proof should be submitted in order to prove this standard, and who really should make up the group?

To the first point, I believe that at the very least some guidance should be given as to what should be the “magical” number. Perhaps Wisconsin’s standard of “10% of the school district community” is too small, but at least it gives us a starting point. I would propose,

4 (T.T.A.B. 2012). However, each Board does consider the applicant’s intent, but only when it is clear that the applicant is using a mark in a disparaging matter. If a finder of fact can use the applicant’s own statements to prove a disparaging use, then intent to use the mark in a non-disparaging manner should also be considered when weighing other factors for or against registration. It seems inequitable to claim that intent does not matter, but use the applicant’s intent against him/her when finding the mark is disparaging. But see In re Lebanese Arak Corp., 94 U.S.P.Q.2d 1215, 1222 (T.T.A.B. 2010); In re Heeb Media, LLC, 89 U.S.P.Q.2d (BNA) 1071, 1077 (T.T.A.B. 2008); In re Tam 108 U.S.P.Q.2d at 1312 (rejecting consideration of applicant’s intent, even when adopted in good faith, not to disparage, or to “reclaim the term,” respectively).

In line with the prior point, an applicant that is a member of the referenced group is most likely not adopting the term in order to harm others. Additionally, such a factor could be used to show that the term has been reappropriated by the protected group and is no longer seen as being disparaging. See, e.g., Michael J. McDermott v. San Francisco Women’s Motorcycle Contingent, Opp. No. 91169211, 12-13 (T.T.A.B. 2006) (citable as precedent) (illustrating that “dyke” was not seen as a disparaging term and that members of the gay community had adopted the moniker in order to change to negative impact once associated with the word).

In re Lebanese, 94 U.S.P.Q.2d at 1217.

In re Tam, at 9 (citing to Squaw Valley, 80 U.S.P.Q.2d at 1269) (determining that a “substantial composite” does not mean that a majority of the referenced group must find the term disparaging).

See 2013 Wisconsin Act 115 (allowing for any adult in the school district to continued . . .
however, to set the number to at least 33% of the referenced group. It is not a majority, but the number seems to reflect the minimum requirement for having a “substantial” amount of a group.

With that in mind, who should make up the group? One interesting point inferred in the Tam case is this issue of whether the referenced group includes all members that could identify with the “referenced group” or only the targeted group (i.e., consumers). As stated by the Board in Tam:

[W]e are charged with taking into account the views of the entire referenced group who may encounter applicant’s [services] in any ordinary course of trade for the identified services. Thus, all members of the Asian-American public may encounter the mark THE SLANTS in advertising in newspapers, billboards or on a website. (emphasis added).

This statement seems to suggest that it is not the entire referenced group that should concern the finder of fact, but only those that would encounter the mark. Therefore, consider a band like The Slants and how it would advertise its services. The Board specifically references “newspapers, billboards, or websites,” however, fails to prove that the band advertises in any of these ways, except for the website. Still, the Board states that “all members of Asian-American public” would encounter this mark because of the band’s use of these mediums to advertise its services. This is simply not in the record. For this reason, it is not “all members of the Asian-American public,” but only its consumers (i.e. fans that would visit the band’s website).

With that said, I am inclined to believe that perhaps a “substantial composite” should include all members of the referenced group and not just the targeted consumers. Still, such a consideration gives me pause when I consider the changing beliefs and views of those that are growing up in a “post-racial” world. The current standard of including “all members” fails to recognize that there is a split in beliefs about the negative nature of certain terms. Again, considering the Tam

sign a petition to have an offending name removed, and not just members of the targeted group).

\[275\] In re Tam, at 16.

\[276\] Id.

\[277\] Id.

\[278\] See, e.g., id. at 5 (citing online articles submitted by the examining attorney in order to prove the Asian-American community’s concern about the band’s name, but not as forms of advertisement).

\[279\] This debate is best illustrated by the longstanding and ongoing debate in the African-American community over the use of the word “nigga.” “Nigger” is seen by continued \ldots
decision, a substantial composite of a younger generation of Asian-Americans may not deem “slant” to be a disparaging term, feel the same sting of the term if it is used against them, or are otherwise open to reappropriating the term. On the other hand, a substantial composite of the older generation may want the term completely wiped out. In such cases, perhaps those splits should be decided in favor of the applicant. Certainly, any doubt as to who makes up the group, or whether a substantial amount of the group finds the term disparaging, should be resolved in favor of the applicant.\textsuperscript{252}

Finally, what proof should be submitted in order to establish that a substantial composite of the referenced group finds the term disparaging? Such determinations should not be based on gut reaction, a few newspaper clippings, or perceptions.\textsuperscript{253} Objective evidence should be required in these cases. For example, the applicant could be required (during the examination phase) to either submit evidence of a survey conducted of the referenced group’s opinion about the disparaging nature of the term or provide a list of a certain amount signatures from members of the referenced group that would not object to registration of the mark. Such a task may seem burdensome; however, given the number of free online resources for conducting such surveys and collecting signatures, an applicant should be able to easily gather this evidence.\textsuperscript{254} Such an approach is far more

\begin{itemize}
\item all as being a disparaging term, but to many younger generations “nigga” is a positive term. In fact, “nigga” is frequently used in the African-American community by younger groups, and can be heard in numerous rap songs. I would imagine that a survey of the African-American community would reveal stark differences in the number of “all African-Americans” that find the word “nigga” offensive and those that are most likely subjected to the term on a daily basis (i.e., fans of urban music and culture). Leora F. Eisenstadt, \textit{The N-Word at Work: Contextualizing Language in the Workplace}, 33 BERKELEY J. EMP. & LAB. L. 299, 312–13 (2012).\textsuperscript{252}
\item In \textit{re Tam}, 108 U.S.P.Q.2d at 1309 (the USPTO has the burden of proving a mark is disparaging). Any doubts in proving a mark is disparaging should be resolved in favor of the applicant. \textit{In re Lebanese}, 94 U.S.P.Q.2d at 1221.\textsuperscript{253}
\item See \textit{id.} at 1310 (citing \textit{In re Heeb Media}, 89 U.S.P.Q.2d 1071 (T.T.A.B. 2008), for the proposition that “mixed opinion among members of the referenced group does not erase the perception of a substantial composite who finds it disparaging.”) (emphasis added).\textsuperscript{254}
\end{itemize}

\textsuperscript{254} For example, SoGoSurvey.com offers survey services for as low as $144/year of $19/month with the ability to create unlimited surveys, questions, and responses. SoGoSURVEY, www.sogosurvey.com (last visited Sept. 1, 2014). Also, websites like MoveOn.org and PetitionOnline.com allow users to create petitions and collect signatures. MOVEON.ORG, http://front.moveon.org (last visited Sept. 1, 2014); PETITIONONLINE.COM, http://www.petitiononline.com (last visited Sept. 1, 2014). Additionally, in order to facilitate such a collection, the USPTO could offer such a service through its website (it is, after all, the USPTO that has the burden of \textit{continued} . . .
favorable and reliable than depending on what can be located through a simple internet search. 255

IV. CONCLUSION

Serious consideration must be given with respect to the continued prohibition of disparaging trademarks on the federal trademark registry. The law has been applied too subjectively, and has resulted in a patchwork of standards for approving or rejecting these marks. Furthermore, the main goal should be to prevent groups from being subjected to certain terms. However, the refusal to register disparaging marks does nothing to stop the use of the mark. Other measures exist that are more effective in preventing the use of truly offensive marks. Therefore, without solid evidence to prove that a term is disparaging, the USPTO should allow registration of these types of marks. Under the current law, parties that believe they will be harmed by the registration of the mark could challenge its validity under an opposition or cancellation proceeding. Additionally, publically ostracizing the user of such a mark could work to end its use (even if validly registered).

proving that a term is disparaging).

255 In Tam, the Board cited the examining attorney’s evidence that certain Asian-American groups that had initially hired the band to perform and/or speak at its conference later pulled the group/speaker from the line-up out of concern over attendees objecting to the use of the band’s name. See In re Tam, 108 U.S.P.Q.2d at 1307–08. Such evidence shows that some may object to the use of THE SLANTS, but it does not prove that a substantial composite would find the term disparaging. After all, the leaders of these Asian-American organizations did hire them to perform/speak, and it was only after some objected to them being on the line-up that they were pulled.
SO LET THE PAINT BE SPREAD, WE’RE PAINTING THE
SOLES RED†

Michelle Gonzalez††

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† SAMMY FAIN & BOB HILLIARD, PAINTING THE ROSES RED (1951), available at
http://disney.wikia.com/wiki/Painting_the_Roses_Red (adapting the lyrics to
Painting the Roses Red for the title of this paper).
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I. INTRODUCTION

In fantasy, one imagines improbable or impossible things. There is a sense of adventure, wonder, and magic transcending reality. If literary characters like Cinderella and Dorothy Gale had an opinion on the matter, they would certainly agree. In fairy tales and fantasies, audiences have seen how glass slippers can make dreams come true, and how the power of a pair of ruby red slippers can take someone home with nothing more than a click of the heels. Footwear designer Christian Louboutin has said, “A shoe has so much more to offer than

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2 See id. (describing how “fantasy”, when used as a modifier, can mean unrealistic ideas or fiction involving magic and adventure).

3 See “Cinderella,” BRITANNICA ONLINE ENCYCLOPEDIA, http://www.britannica.com/EBchecked/topic/676833/Cinderella (last visited Sept. 14, 2014) (providing an overview of the 1950 film adaptation made by Walt Disney of the original fairy tale Cinderella by Charles Perrault). In the animated adaptation of the classic fairy tale, Cinderella is a young, beautiful girl virtually enslaved by her cruel stepmother and her jealous stepsisters. With the help of the enchantments of her fairy godmother, Cinderella is able to attend a royal ball where she has until midnight to meet Prince Charming. With no time to spare, Cinderella flees from Prince Charming as the clock strikes midnight. Cinderella accidentally leaves behind one of her glass slippers as she runs from the ball. Prince Charming then uses the glass slipper to find Cinderella, and, shortly after, they get married and live happily ever after. Id.

4 See “The Wizard of Oz,” BRITANNICA ONLINE ENCYCLOPEDIA, http://www.britannica.com/EBchecked/topic/646330/The-Wizard-of-Oz (last visited Sept. 14, 2014) (providing an overview of the 1939 musical film adaptation of Frank L. Baum’s classic book). In The Wizard of Oz, Dorothy Gale, a young girl from Kansas, runs away from home with her dog Toto out of fear that Toto will be put down for biting her neighbor. After encountering Professor Marvel, a fortuneteller, she is persuaded to return home to her aunt and uncle. However, while in her home waiting for her aunt and uncle, she is knocked unconscious during a tornado. During this period of unconsciousness, she is transported, or so she believes, in her home to the land of Oz. Dorothy’s home lands in Munchkinland on top of the Wicked Witch of the East who was wearing ruby red slippers at the time. After realizing she has killed the Wicked Witch of the East, the magical ruby red slippers then appear on Dorothy’s feet. Dorothy soon embarks on an adventure to the Emerald City seeking the Wizard of Oz to help her return home in Kansas. Once Dorothy meets the Wizard, she realizes he does not have any powers of wizardry to transport her home. Glinda the Good Witch then informs Dorothy that she will return to Kansas simply by clicking her ruby red heels. Dorothy follows the instructions and awakens in her home in Kansas. Id.

5 See supra note 3 and accompanying text.

6 See supra note 4 and accompanying text.

7 See id.
just to walk.” Some have argued that shoes can act as a looking glass into the age, income, and personality of a person by simply looking at their choice of footwear rather than the person wearing the shoes. Whether this ability to understand someone by their shoes is rooted in the fantastical idea of true omniscience or whether it is plain human judgment, it seems more likely to be the latter.

The fantasy of power in footwear has grown considerably since the development of shows like *Sex and the City.* Carrie Bradshaw, the glamorous protagonist of *Sex and the City,* frequently wore designs by Christian Louboutin, Manolo Blahnik, and Jimmy Choo, not only

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9 See Cari Nierenberg, *You Really Can Judge People by Their Shoes*, TODAY.COM (June 13, 2012), http://todayhealth.today.com/_news/2012/06/13/12206095-you-really-can-judge-people-by-their-shoes (describing a study testing how accurate sixty-three college students could gauge a person’s “personality, attachment style, political bent and demographic measures, such as age, gender, and family income” by looking at their shoes). Researchers have found that age, income, and gender are visible characteristics that can be more easily discerned without viewing the person wearing the shoe but simply by viewing the shoe. *Id.* However, most surprisingly, researchers found that people could accurately guess a person’s attachment anxiety. *Id.* Attachment anxiety connotes how concerned a person is with being rejected or abandoned in a close relationship. *Id.*

10 See generally *Sex and the City Premieres on HBO*, HISTORY, http://www.history.com/this-day-in-history/sex-and-the-city-premieres-on-hbo (last visited Sept. 14, 2014) (detailing a comprehensive overview of the premise of the cable network television show *Sex and the City* and the success of the show). In 1998, the cable network HBO launched the comedy series *Sex and the City.* *Id.* The show follows the lives of four single females living in New York City. *Id.* Actress Sarah Jessica Parker portrayed the lead character Carrie Bradshaw, a writer using her own life as inspiration to write her column for the fictional newspaper *New York City Star.* *Id.* It is explained that “[t]he main premise--that each episode provides fodder for one of Carrie’s columns, each of which features a different question about sex, love and relationships--remained constant throughout the show.” *Id.*

11 See generally Carrie Bradshaw, HBO, http://www.hbo.com/sex-and-the-city/cast-and-crew/carrie-bradshaw/index.html#/sex-and-the-city/cast-and-crew/carrie-bradshaw/bio/carrie-bradshaw.html (last visited Sept. 14, 2014) (describing the fictional author Carrie Bradshaw of the HBO show *Sex and the City*). Despite the trials and tribulations of love faced by Carrie Bradshaw spanning six seasons, it is her sense of style that became a true staple of the show. *Id.* In describing the protagonist’s style, “[r]ummage through Carrie’s closet and you’ll find haute couture pieces side by side with vintage frocks, downtown club wear and miles of Manolo Blahnik stilettos. Carrie expresses her eclectic, whimsical self and that of her city through a masterful and sometimes outrageous mix of these styles.” *Id.*

on the show but also in the subsequent films. However, the significance of the footwear revolution goes beyond the impact on the common shopper, but on the companies producing the shoes. Though high fashion footwear is not normally lumped into categories with companies such as Tiffany & Co. and the United Parcel Service (“UPS”), there is a common factor that these two

visited Sept. 14, 2014) (recounting a brief biography of French fashion designer Christian Louboutin). Footwear designer Christian Louboutin is widely known for producing shoes with red lacquered soles. Id. Shoes by the designer have been seen on numerous celebrities such as Angelina Jolie, Britney Spears, and Madonna. Id. See generally Manolo Blahnik, MANOLO BLAHNIK, http://www.manoloblahnik.com/ (last visited Sept. 14, 2014) (discussing Manolo Blahnik’s remarkably successful career as a high fashion footwear designer for over thirty years).

See generally Jimmy Choo, BIOGRAPHY.COM, http://www.biography.com/people/jimmy-choo-20692491 (last visited Sept. 14, 2014) (detailing the life and success of high fashion footwear designer Jimmy Choo). See Sex and the City: A Product Placement Roundup, VANITY FAIR (May 30, 2008), http://www.vanityfair.com/online/daily/2008/05/sex-and-the-cit [hereinafter A Product Placement Roundup] (describing the abundance of product placement in Sex and the City, the television series and the film); see also Julia Neel, Sex and the City 2, BRITISH VOGUE (Nov. 5, 2009), http://www.vogue.co.uk/spy/celebrity-photos/2009/11/05/sex-and-the-city-2-fashion-and-costumes (describing how designer staples of Sex and the City such as Chanel and Manolo Blahnik were featured in Sex and the City 2). The television series Sex and the City put designers such as Manolo Blahnik and Jimmy Choo in the spotlight. VANITY FAIR, supra. With the 2008 release of Sex and The City: The Movie, there was an abundance of product endorsements seen throughout the film. Id. Designer pieces by Chanel, Christian Louboutin, and Manolo Blahnik were featured in the film. Id. See Shoes and the City, INSTYLE, http://www.instyle.com/instyle/package/general/photos/0,,20164501_20198488_20217652,00.html (last visited Sept. 14, 2014) (describing how with the launch of the television series Sex and the City, a shoe revolution began with the emergence of a voice in a character like Carrie Bradshaw who has an unwavering passion for fine footwear); see also, e.g., A Product Placement Roundup, supra note 15 (demonstrating how proper product recognition alone is coveted by large companies as a means of marketing).


companies and a high fashion footwear designer like Christian Louboutin share. The power of a single trademarked color has become essential to the recognition and success of each company.  

With the help of a color and the image of Audrey Hepburn as Holly Golightly standing in front of a jewelry store window on Fifth Avenue in New York City, Tiffany & Co. has become a world-renowned jeweler exceeding 200 stores around the world. Tiffany Blue, sometimes referred to as robin’s-egg blue or forget-me-not blue, was chosen by Tiffany & Co. founder Charles Lewis Tiffany for the cover of the Blue Book in 1845. Tiffany Blue was later adopted
for the shopping bags and promotional materials. With the launch of the Tiffany Blue Box®, Tiffany & Co. would mold into the vision of its founder as an icon of luxury, opulence, and exclusivity. In 1906, the *New York Sun* reported that Charles Lewis Tiffany had implemented an inexorable rule at Tiffany & Co. The longstanding rule still in place today is that Tiffany Blue boxes bearing the name “Tiffany & Co.” cannot be purchased, and may only leave the establishment if an item has been sold for which Tiffany & Co. is responsible.

Beyond companies producing shoes and jewelry, companies like UPS and others internationally have seen great success with trademarked colors as a means of identification and marketing.
Since 1916, UPS, the world’s largest package-delivery company, has used the color brown as a signifier of the company. Brown® is a registered trademark of UPS. In 2002, a $45 million campaign was launched by UPS revolving around the slogan “[w]hat can brown do for you?”, which cites the famous trademarked color. At UPS, brown is considered more than a color—it is a tangible asset to the company’s brand.

French footwear designer Christian Louboutin (“Christian Louboutin”) produces shoes with a trademarked, red-lacquered sole. Christian Louboutin’s line of shoes has become instantly recognizable to those most attuned to current fashion due to the famous starlets who have popularized the shoes. Catherine Deneuve, Gwyneth Paltrow, and Nicole Kidman are only a few of the many celebrities old British confectionary giant Cadbury). Although the British confectionary company Cadbury has succeeded in trademark litigation for the color purple overseas, the importance of a single color trademark can be appreciated despite transnational legal differences. Tobin, supra. Cadbury has utilized the color purple for its packaging for over 100 hundred years. HUFF POST FOOD, supra. Cadbury has sought exclusive use of the right to the particular shade of purple since 1995, and in 2008, the British Intellectual Property Office granted the trademark for the color purple. Id. After a three-year legal battle with Nestlé, Cadbury received full rights to the color. Id.

36 See id. (“’At UPS, brown is more than a color—it’s a tangible asset that people associate with all the things that are good about our brand,’ said Dale Hayes, vice president for brand management and customer communications, in a news release.”).
38 Clark, supra note 37.
who have donned a pair of the red-lacquered high heels. Christian Louboutin has stated, ever so simply, that he began painting the soles of shoes red because “it is the color of love. It’s the color of passion. Even if a woman is wearing all black, she might choose a red lip or red nails.” The importance of the simple idea of red lacquer on the sole of a shoe has become a tool of identification and instant recognition of Christian Louboutin once the red sole is spotted. However, designer Christian Louboutin is certainly not the first to utilize a distinct color as a tool of recognition and marketing.

With lucrative companies like Tiffany & Co. and UPS making certain colors instrumental to their brands, respectively, for over 100 years, Christian Louboutin’s emergence as an up-and-coming designer utilizing a single color appeared to be a brilliant business strategy. However, the pattern of protecting single color trademarks may be approaching a legal halt. In Christian Louboutin S.A. v. Yves Saint Laurent Am., Inc., the red-lacquered sole trademark became the focal point of litigation between Christian Louboutin S.A. (“Louboutin”) and Yves Saint Laurent America, Inc. (“Yves Saint Laurent”). After a heated legal battle, the Second Circuit allowed Louboutin to retain the rights to Pantone-18 Chinese Red splashed on the bottom of...
every high-heeled shoe. However, the trademark had to be changed from its original version to a version that effectively diminished the level of protection initially afforded to Louboutin. The Second Circuit weighed its decision to change Louboutin’s single color trademark on a determination that the trademark only carries a secondary meaning when the red sole of the shoe contrasts with the color of the shoe’s body. With the recent decision in Christian Louboutin, does the Louboutin fashion house have a leg, or red-lacquered heel, to stand on in the matter of single color trademarks?

Though the decision in Christian Louboutin appears to be a victory for the red-lacquered shoes, the reality is that Louboutin lost the full rights to the red-lacquered sole trademark when the court determined that it was acceptable for Yves Saint Laurent to produce a monochromatic red shoe. Christian Louboutin jeopardizes the comfort of companies like Tiffany & Co. and UPS in their single color trademarks in the United States. If the Louboutin red-lacquered sole is only protected when the red sole contrasts with the rest of the shoe as the court determined, the implications of such a decision could be disastrous for companies like Tiffany & Co. or UPS. A potential challenge to the single color trademarks of Tiffany & Co. and UPS could yield limitations to trademark protection just as in Christian Louboutin.

51 See infra text accompanying notes 173–74.
52 See infra text accompanying notes 173–74.
53 See infra text accompanying note 172.
55 See infra text accompanying notes 175–76.
56 See generally Danielle E. Gorman, Revisiting Single Color Trademarks in Fashion After Louboutin, 31 CARDOZO ARTS & ENT. L.J. 209, 212 (2013) [hereinafter Revisiting Single Color Trademarks] (discussing how the Second Circuit’s opinion in Louboutin could leave companies with trademarks at risk to an aesthetic functionality defense). The Second Circuit set out a test for aesthetic functionality, but did not apply it to the facts of the case. Id. Thus, even Christian Louboutin’s trademark is not safe if a company can bring a “fact-based aesthetic functionality defense.” Id.
57 See supra note 56 and accompanying text; infra notes 173–74 and accompanying text.
58 See supra note 56 and accompanying text.
Mindful of these developments, this article delves into the legal importance of single color trademark registration in the United States, and how companies relying on the legal protections afforded to single color trademarks may no longer feel safe from trademark infringement as exemplified by the recent holding in *Christian Louboutin*. Part II provides a brief overview of the history of trademark legislation in the United States and contains a carefully detailed analysis of the advancement of the law in protecting single color trademarks. Part III explains the landmark decision made by the Supreme Court of the United States, which resolved the issue of whether single color trademarks could be granted protection under the law. Part IV details the most recent decision regarding single color trademark and questions whether single color trademarks are safe under the current state of the law. Part V proposes amending the Lanham Act as a means of providing uniformity to the law on single color trademarks, expanding the analysis under secondary meaning specifically for single color trademarks, and imposing new time limitations that should be set in place for single color trademarks.

II. HISTORY AND DEVELOPMENT OF SINGLE COLOR TRADEMARK REGISTRATION

In 1870, the United States passed its first federal trademark statute, the Trademark Act of 1870. It would not be until the passing of the Trademark-Law of 1946 (the “Lanham Act”) that more broadened

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59 *Christian Louboutin S.A.*, 696 F.3d at 206.
60 See infra Part II.
61 See infra Part III.
62 See infra Part IV.
63 See infra Part V.
64 Patent Act of 1870, ch. 230, 16 Stat. 198, 198–217 (1870), invalidated by Trade-Mark Cases, 100 U.S. 82 (1879); see also Trade-Mark Cases, 100 U.S. 96–97 (declaring the Trademark Act of 1870 unconstitutional because the statute did not limit the acts as taking place in interstate or foreign commerce and thus it was enacted beyond the constitutional powers of Congress); see generally 1 ANNE GILSON LALONDE & JEROME GILSON, GILSON ON TRADEMARKS § 1.06 (2014) (providing an elaboration on the history and progress of trademark law beginning with the Trademark Act of 1870). The Act of 1881 replaced the Trademark Act of 1870, which was later replaced by the 1905 Act. The 1905 Act and a supplemental Act passed in 1920 would dictate trademark law until the passing of the Lanham Act in 1946.
protections were afforded through a congressional statute for federal trademarks. Pursuant to the Lanham Act, a “trademark” is any word, name, symbol, or device, or any combination of the preceding used by a person “to identify and distinguish his or her goods . . . .” Trademarks are requested for registration with the United States Patent and Trademark Office (the “USPTO”) for the purpose of setting apart a product from those manufactured or sold by others and to signify the source of the goods. Prior to the Lanham Act, color alone did not qualify for trademark registration.

Despite the exclusion of color registration, some courts afforded protection to companies who could demonstrate that trademark registration protection is an essential defense against unfair competition, and that the company’s color trademark carries a secondary meaning. With the hesitant emergence of color

66 See Pirkey, supra note 65. Congressman Lanham fought Congress for eight years to pass the “Lanham Trade-Mark Act”—arguably the most important piece of modern legislation in the realm of trademarks—in a valiant effort to modernize trademark law because it was his conviction that the interests of the nation commanded modernization through a broadening of trademark legislation. Id.


68 See 15 U.S.C. § 105(a)(1) (2012) (explaining the initial process of trademark registration); see also 15 U.S.C. § 1127 (asserting that often trademarks are used to distinguish a product in a competitive market and as a manufacture mark so the consumer is aware of who the maker is despite not knowing the name of the company or manufacturer); The USPTO: Who We Are, USPTO, http://www.uspto.gov/about/index.jsp (last modified Mar. 4, 2013) [hereinafter USPTO] (providing a comprehensive overview of the responsibilities of the United States Patent and Trademark Office); Trademark, BRITANNICA ONLINE ENCYCLOPEDIA, http://www.britannica.com/EBchecked/topic/601724/trademark (last visited Sept. 14, 2014) (defining a trademark as a “visible sign or device” utilized by businesses to identify and distinguish a product from competing products in the market). In the United States, the rights to a trademark are established by mere use, but only by registration of the mark is the owner granted procedural advantages. Id. The owner of a trademark may request registration of the trademark on the principal register by paying the established fee and filing in the Patent and Trademark Office an application and verified statement. 15 U.S.C. § 105(a)(1). The United States Patent and Trademark Office is responsible for granting United States patents and registering trademarks. USPTO, supra.

69 See A. Leschen & Sons Rope Co. v. Broderick & Bascom Rope Co., 201 U.S. 166, 171 (1906) (“Whether mere color can constitute a valid trademark may admit of doubt. Doubtless it may, if it be impressed in a particular design, as a circle, square, triangle, a cross, or a star. But the authorities do not go farther than this.”) abrogated by Hurn v. Oursler, 289 U.S. 238 (1933).

70 See, e.g., Park ’n Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 194 (1985) (explaining how a descriptive mark that only describes a good or service must hold a secondary meaning that “has become distinctive of the applicant’s goods in commerce” to qualify for registration (citing 15 U.S.C. § 1052(f) (2012)); Yellow Cab Transit Co. v. Louisville Taxicab & Transfer Co., 147 F.2d 407, 415 (6th Cir. continued . . .
recognition prior to the Lanham Act, the United States would not recognize the trademark of a single color until 1987. The Owens-Corning Fiberglas Corporation (“Owens-Corning”) would be the first to pave a long-standing path in color mark litigation. Owens-Corning has effectively evolved an entire fibrous glass insulation business around the color PINK® by using the Pink Panther as its mascot since 1980 and managing to trademark the color PINK® in 1987. Owens-Corning has achieved steady success since its founding in 1938 and has been a Fortune® 500 company for the past

1945) (establishing that the plaintiff had no exclusive claim over the color yellow, but is granted protection by virtue of the plaintiff’s “long established use” of the color for taxicabs); Clifton Mfg. Co. v. Crawford-Austin Mfg. Co., 12 S.W.2d 1098, 1101–02 (Tex. Civ. App. 1929) (finding that it was proper to restrain defendant from manufacturing “reddish brown” colored tents, tarpaulins, and wagon covers of a color similar to that which the plaintiff uses).


72 See, e.g., id.; see also Owens Corning, N.Y. TIMES, http://topics.nytimes.com/topics/news/business/companies/owens-corning/index.html (last visited Mar. 15, 2013) (detailing information on the Owens-Corning Corporation as well as its status in the stock market). The Owens-Corning Fiberglas Corporation was the first company to trademark a single color. Collins, supra note 71. In summation, “Owens-Corning is engaged in composite and building materials systems, delivering a range of products and services. The Company’s products range from glass fiber used to reinforce composite materials for transportation, electronics, marine, infrastructure, wind-energy and other markets to insulation and roofing for residential, commercial and industrial applications.” .Owens Corning, supra note 71.


74 Fortune 500, INC.COM, http://www.inc.com/encyclopedia/fortune-500.html (last visited Sept. 6, 2014). In detailing what it means to be considered a “Fortune 500” company and the significance of the title in the business world, it has been continued . . .
fifty-nine years. The success of Owens-Corning is attributed not only to its reputation in its innovation in glass fiber technology, but also to spearheading the first color trademark and utilizing the benefits of color recognition. Currently, Owens-Corning still retains the rights to the Pink Panther and the color PINK®.

Despite Owens-Corning’s success with its PINK® trademark, In re Owens-Corning Fiberglas Corp. resulted in friction among federal circuit courts. Some circuit courts chose to follow Owens-

explained that:

The term Fortune 500 refers to an annual listing by Fortune magazine of the top 500 public companies in the U.S., as ranked by sales, assets, earnings, and capitalization . . . . This list is important to a number of financial groups, but particularly to investors, who study the performance of these select companies. In addition, academic and business researchers look to these companies to learn about best practices in various industries and to discover the secrets to their business and financial success.


See OC@75: A Heritage of Innovation: The 1980s, supra note 73; Janet R. Hubbard, Note, Think Pink! Color Can Be A Trademark, 43 WASH. & LEE L. REV. 1433, 1439 (1986) (detailing the assertions of the Vice President of Owens-Corning from his affidavit regarding the expenditures of Owens-Corning in promoting pink insulation). By the end of the 1970’s, Owens-Corning reported sales reaching two billion dollars. OC@75: A History of Innovation: The 1970s, OWENS CORNING, http://www2.owenscorning.com/acquainted/about/history/1970.asp (last visited Sept. 6, 2014). By the end of the 1980’s, sales rose to three billion dollars. OC@75: A History of Innovation: The 1980s, supra. Owens-Corning spent more than forty-two million dollars from 1972–1981 in print, radio and television advertisements and promotional materials to promote and establish recognition for their pink fiber insulation. Hubbard, supra. An independent survey showed that forty-one percent of consumers in 1980 recognized Owens-Corning as the manufacturer of pink insulation and by 1981 it rose to fifty-one percent of consumers. Id.


See Danielle E. Gorman, Note, Protecting Single Color Trademarks in Fashion After Louboutin, 30 CARDozo ARTS & ENT. L.J. 369, 375 (2012) [hereinafter Protecting Single Color Trademarks]. It has been noted that in Owens-Corning:

[T]he court found that the color pink as applied to fibrous glass insulation served no utilitarian purpose (was not functional) and sufficiently acted as a trademark. In doing so, the court noted that the Lanham Act should be construed broadly to afford continued . . .
Corning by facilitating the protection of a single color as a trademark while others followed the traditional ban on single color trademarks.\(^{80}\) The Owens-Corning court established a limited rule holding that in certain situations it is acceptable to register a single color as a trademark so long as the party seeking single color trademark protection could satisfy the requirements of a two-prong analysis.\(^{81}\) The analysis first requires a showing that there is no competitive need for the color by other manufacturers or producers in the industry and, second, it must be shown that the color has achieved a secondary meaning.\(^{82}\)

The Owens-Corning court emphasized the importance of color registration in trademark law and the significance of the Lanham Act as a basis for fostering the much-awaited growth in color registration.\(^{83}\) The Supreme Court took extensive measures, beyond protection to a wide variety of marks, including color. Moreover, the court suggested that the color depletion theory should give way to more flexible review of each case on its facts. This decision created discord among the circuits, as some followed the Owens-Corning rationale permitting protection of single color while others adhered to the traditional ban on “mere color.”

\(^{80}\) See, e.g., supra note 70 and accompanying text. Compare Master Distribs., Inc. v. Pako Corp., 986 F.2d 219, 224 (8th Cir. 1993) (holding that the trademark of a color is valid based on the Owens-Corning decision), with Nutrasweet Co. v. Stadt Corp., 917 F.2d 1024, 1027 (7th Cir. 1990) (ruling against the trademark of a “mere” color in accordance with the traditional rule). The court held “[a] per se rule prohibiting the protection of a color alone would essentially render a valid color trademark registration ineffective and unenforceable. This would be extremely confusing and inconsistent . . . . [W]e decline to establish a per se prohibition against protecting color alone as a trademark.” Master Distribs., 986 F.2d at 224. The Seventh Circuit Court of Appeals upheld the traditional rule that mere color cannot be monopolized to distinguish a product. Nutrasweet Co., 917 F.2d at 1027. Without a distinctive design, shape, or symbol in conjunction with a color, the Seventh Circuit refused to allow a trademark monopoly of Nutrasweet blue. Id.

\(^{81}\) See In re Owens-Corning, 774 F.2d at 1122–27; see also First Brands Corp. v. Fred Meyer, Inc., 809 F.2d 1378, 1382 (9th Cir. 1987) (clarifying the limited rule established in Owens-Corning); infra text accompanying note 84.

\(^{82}\) See First Brands, 809 F.2d at 1382 (providing the Owens-Corning two-step analysis as applied to the facts of the case). The court determined that first, there was no competitive need for the color pink to remain available to insulation producers and, second, that the pink insulation had garnered such widespread recognition through aggressive promotion and the use of the Pink Panther that it had achieved a secondary meaning. Id.

\(^{83}\) In re Owens-Corning, 774 F.2d at 1120, 1123 (describing the broad exercise of the Lanham Act in various jurisdictions just as Congress intended). Through judicial application of the Lanham Act, it is evident that a heavily fact-based analysis of each case was the intent of Congress in passing the Lanham Act. Id. at 1120. An absolute prohibition of “mere” color trademark registration runs afoul to the continued . . .
creating a two-step analysis, to reach a comprehensive, legally historic decision. Courts have customarily looked to factors such as “the nature of the goods, how the color is used, the number of colors or color combinations available, the number of competitors, and customary marketing practices” to determine whether a color qualifies for registration. Outside the scope of the aforementioned factors, the Supreme Court in Owens-Corning gravitated to three especially significant considerations: “functionality,” “color depletion,” and “registration of a color having secondary meaning.”

The Supreme Court has determined that a product feature is “functional” if it is indispensable to the use of the product or the feature affects the quality or cost of the product. If functionality is modernization of trademark law as intended by the statute. Id. Trademarks are essential in generating competition amongst businesses. Id. at 1123. By encouraging, supporting, and protecting trademarks, the law effectively fosters fair competition in the market and gives consumers the benefit of the quality and reputation expected of the producer or manufacturer of a particular good. Id.


In re Owens-Corning, 774 F.2d at 1120 (describing the factors used by courts in determining the “registrability” of a color as a trademark following the Lanham Act).

See id. at 1121 (asserting that functionality can bar trademark registration); see also Ellerbrock, supra note 73, at 26 (stating that courts have established a theory that bars color registration if it is functional by nature). A trademark’s functionality can be determined by the definition provided in the RESTATEMENT OF TORTS: “A feature of the goods is functional . . . if it affects their purpose, action or performance, or the facility or economy of processing, handling, or using them.” Ellerbrock, supra note 73, at 26 (citing RESTATEMENT OF TORTS § 742 (1938)).

See In re Owens-Corning, 774 F.2d at 1120 (explaining the color depletion theory and how courts shied away from the theory following the passage of the Lanham Act); see also Campbell Soup Co. v. Armour & Co., 175 F.2d 795, 798 (3d Cir. 1949) (establishing the color depletion theory); Ellerbrock, supra note 73, at 27 (providing that the color depletion theory is an antiquated notion that the amount of available colors will be depleted if the registration of colors as trademarks is allowed). The fear the court demonstrated in Campbell Soup is that there are only so many colors so they may “soon run out.” Ellerbrock, supra note 73, at 27. The color depletion theory as applied in Campbell Soup was appropriate in application, but, with the passing of the Lanham Act, the per se prohibition of color registration for trademarks is contradictory to the “liberating purposes” of the Act. In re Owens-Corning, 774 F.2d at 1120.

See In re Owens-Corning, 774 F.2d at 1122 (stating how colors have been protected when a secondary meaning has been shown and the colors were generally non-functional in nature, but denied when neither was satisfied).

See id. at 1121 (defining functionality and providing the three factors establishing functionality). There are three factors that determine functionality: “(1)
found without secondary meaning, it will result in a bar to trademark registration. Unlike functionality, the color depletion theory no longer carries the legal weight it once did prior to the Lanham Act, therefore, it is not a driving factor in barring trademark registration. Secondary meaning must be shown to overcome issues that functionality may present and to justify the need for registration. If consumers associate a particular trademark with certain goods, then the trademark has achieved secondary meaning and the trademark is entitled to protection. Functionality and secondary meaning have in effect become the crux of a proper color registration analysis as exemplified by Owens-Corning. The split in the circuit courts on whether a particular design yields a utilitarian advantage, (2) whether alternative designs are available in order to avoid hindering competition, and (3) whether the design achieves economies in manufacture or use.”

90 See In re Owens-Corning, 774 F.2d at 1120–21 (distinguishing utilitarian features as ineligible for registration whether functional or non-functional); see also “Utilitarian,” http://dictionary.reference.com/browse/utilitarian?s=t (last visited Mar. 15, 2013) (defining utilitarian as “having regard for utility or usefulness rather than beauty, ornamentation, etc.”); Ellerbrock, supra note 73, at 26 (elaborating on the relationship between functionality and secondary meaning as a bar to trademark registration). When color serves primarily as a utilitarian feature of a good, it will not qualify for trademark protection. In re Owens-Corning, 774 F.2d at 1120–21. A color trademark will not receive protection if it is merely “aesthetically functional” and without secondary meaning. Id. at 1121. Under the Lanham Act, “a trademark consisting of a color which is primarily distinctive of the applicant’s goods, but is otherwise nonregistrable due to incidental functionality, and which does not fall within 15 U.S.C. §1052(a)–(d), may nevertheless become registrable under 15 U.S.C. §1052(f) upon proof of secondary meaning.” Ellerbrock, supra note 73, at 26–27.

91 See Ellerbrock, supra note 73, at 27 (describing how the color depletion theory was once a viable basis for refusing color protection until the passing of the Lanham Act excluded the theory as a sole reason for completely barring registration).

92 See In re Owens-Corning, 774 F.2d at 1125 (providing the purpose of an evidentiary showing of secondary meaning and what constitutes evidence sufficient to support secondary meaning). An evidentiary showing of secondary meaning should demonstrate that a trademark has achieved “distinctiveness” manifesting the source of the goods. Id. The evidence should include the method of using the trademark and the effectiveness of the trademark as a means of identification of its source to the public. Id.

93 See Ellerbrock, supra note 73, at 29 (elaborating on how products achieve a secondary meaning).

94 See Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 173 (1995) (describing how the Lanham Act was amended by Congress in 1988 partially against the background of the Federal Circuit Court decision in Owens-Corning); see also In re Owens-Corning, 774 F.2d at 1121 (asserting that in the past, litigation relief has been granted for color trademark status when the product feature proved to be non-functional and had attained a secondary meaning in the market).
whether to follow Owens-Corning would see a resolution in the landmark decision Qualitex Co. v. Jacobson Products Co.95

III. THE IMPACT OF QUALITEX ON SINGLE COLOR TRADEMARKS

The Qualitex Company (“Qualitex”) has manufactured dry cleaning press pads with a particular shade of green-gold since the 1950s.96 In 1989, Jacobson Products (“Jacobson”), one of Qualitex’s competitors, began using a similar shade of green for its own press pads.97 Qualitex brought a claim against Jacobson for unfair competition challenging Jacobson’s use of the green-gold color.98 Subsequently, Qualitex registered the unique green-gold color on press pads with the USPTO in 1991.99 Qualitex added a trademark infringement count to the unfair competition claim after the green-gold was registered.100

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97 Qualitex, 514 U.S. at 161. See generally Main Page, JACOBSON PRODUCTS, http://www.jacobsonproducts.com (last visited Sept. 3, 2014) (explaining that Jacobson Product has been dealing with the apparel and dry cleaning industry since 1951 and has produced numerous products benefitting the dry cleaning enterprise).

98 Qualitex, 514 U.S. at 161. See generally 15 U.S.C. § 1125(a)(1)(A)-(B) (2012) (elaborating on how to establish a claim of unfair competition). A person in connection with a good, service, or container for goods who uses in commerce “any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact” that will likely cause confusion of the source, origin, or sponsorship of the goods or services will face civil liability by any person who believes he or she is or will be negatively impacted by such actions. 15 U.S.C. § 1125(a)(1)(A) (2012). If a person of the same characteristics previously stated does not instigate confusion through terms, symbols, or words relating to the product or service, the same civil liability instead may be incurred by such persons if his or her “commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person’s goods, services, or commercial activities.” 15 U.S.C. § 1125(a)(1)(B) (2012).

99 Qualitex, 514 U.S. at 161. See generally USPTO, supra note 68 (explaining the functions and responsibilities the USPTO exercises in trademark law).

100 Qualitex, 514 U.S. at 161.
The Supreme Court in *Qualitex* determined that an absolute bar on single color trademarks is inconsistent with the Lanham Act after a careful analysis of Jacobson’s four reasons for barring this specific type of trademark. 101 Jacobson argued the following key points in support of forbidding single color trademarks: (1) avoidance of “shade confusion,”102 (2) the color depletion theory,103 (3) legal precedent,104

101 See id. at 160–61, 166–67 (discussing how color alone can be trademarked if the color “meet[s] ordinary legal trademark requirements”).

102 See id. at 167; see also, e.g., Nutrasweet Co. v. Stadt Corp., 917 F.2d 1024, 1027 (7th Cir. 1990) (stating that Nutrasweet is the most “vivid” example of issues with shade confusion). Jacobson’s feared result was that competitors and courts would be perplexed when determining whether the use of a similar color on a product would confuse the consumer and thus infringe a trademark. *Qualitex*, 514 U.S. at 167. The issue of “shade confusion” was rooted in the notion that if the law permits single color trademarks, then “uncertainty and unresolvable court disputes” will ensue over what shades of a certain color a competitor may use. *Id*. The Seventh Circuit in *Nutrasweet* explained the shade confusion issue by stating that “NutraSweet does not contend that the color blue of the ‘Sweet One’ packet is identical to the color blue of the ‘Equal’ packet, but rather, based upon market research, that the shades of blue are confusingly similar. How different do the colors have to be?” *Nutrasweet Co.*, 917 F.2d at 1027.

103 See *Qualitex*, 514 U.S. at 168–69; see also Ellerbrock, supra note 73 (explaining the origin of the color depletion theory and the concerns the theory presents as well as the functionality doctrine); Sreepada, supra note 95, at 1142–44 (explaining how the Supreme Court in *Qualitex* collapsed the color depletion theory into the functionality doctrine). The Court found that issues of color scarcity are too uncommon to “justify a blanket prohibition.” *Qualitex*, 514 U.S. at 168. Even if issues of color depletion should arise, the trademark doctrine of functionality should properly prevent any anti-competitive consequences that concerned Jacobson. *Id.* at 169. The Supreme Court in *Qualitex* showed a more favorable disposition toward the functionality doctrine as a means of preventing the anticompetitive consequences that the color depletion theory was meant to prevent. Sreepada, supra note 95, at 1142–44. The color depletion theory collapses into the functionality doctrine. *Id*.

104 See *Qualitex*, 514 U.S. at 171. The Court pointed out that the Supreme Court cases Jacobson addressed interpreted trademark law before 1946. *Id*. Once the Lanham Act was passed in 1946, the stringent view of trademark law dissipated, effectually liberalizing the common law to dispense of technicalities. *Id*. The Supreme Court cited language in the Lanham Act stating, “‘nothing . . . shall prevent the registration of a mark used by the applicant which has become distinctive of the applicant’s goods in commerce.’” *Id.* (citing 15 U.S.C. § 1052(f) (1988 ed., Supp. V) (current version at 15 U.S.C. § 1052(f) (2006))). The Court deduced that the language of the Lanham Act as applied to the trademark of words that have garnered a secondary meaning can logically apply to colors as well. *Id.* at 171–72. The Court recognized that Congress amended the Lanham Act with the Trademark Law Revision Act of 1988 without changing the language in the Act to establish a bar on single color trademarks. *Id.* at 172. The background Congress used to pass the 1988 Act consisted of the following: (1) the Federal Circuit’s decision in *Owens-Corning*, (2) the USPTO had adopted a policy allowing color registration, and (3) the Trademark Commission had written a report which stated that the language of the Lanham Act should not be limited to preclude registering things like colors, shapes, continued . . .
and (4) trade dress protection. The Supreme Court found that none of these arguments were persuasive enough to rule against Qualitex.

The Supreme Court’s holding in *Qualitex* yielded a victory for color trademarks. The Supreme Court determined that single color trademarks could be registered and afforded protection so long as the color trademarks complied with ordinary legal trademark requirements. Applying said determination, the Supreme Court held smells, sounds, or any combination thereof which could function as a trademark. *Id.*

105 See *id.* at 167–74 (providing Jacobson’s four arguments in favor of forbidding the protection of single color trademarks); see also Theodore H. Davis, Jr., *Copying in the Shadow of the Constitution: The Rational Limits of Trade Dress Protection*, 86 TRADEMARK REP. 223, 225–26 (1996) (defining trade dress, forms of trade dress, and its composition). Jacobson’s final argument relied on the idea that companies already had access to “trade dress” protection for colors as part of a trademark in the sense that the trademark is a colored circle or colored letter. *Qualitex*, 514 U.S. at 173. The Court reasoned that not every competitor can easily use a symbol or word on a product and may simply choose a color to denote its origin. *Id.* at 173–74. Trade dress is the “overall image used to present a product or service to purchasers.” Davis, Jr., *supra*, at 225. Trade dress commonly consists of the packing and labeling for certain goods. *Id.* at 225–26. Additional characteristics of trade dress usually consist of the good, “such as its configuration, color, or fragrance.” *Id.*


108 See 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 3:1 (4th ed. 2012) (detailing the elements of a legal trademark); see also Davey, *supra* note 107, at 261, 261 n.9 (providing that the Supreme Court determined in *Qualitex* that a satisfaction of the elements of legal trademark is sufficient to afford single color trademark protection). Three elements will qualify a word or symbol as a protectable trademark:

1. The tangible symbol: a word, name, symbol or device or any combination of these;
2. Type of use: actual adoption and use of the symbol as a mark by a manufacturer or seller of goods or continued . . .
that the green-gold acts as a symbol because it has achieved a secondary meaning, and thus identifies the source of the product.\textsuperscript{109} The Qualitex green-gold serves no other function than to act as an identifier and, without evidence of a competitive need for the color, there was no reason to deny Qualitex of trademark protection for the use of green-gold.\textsuperscript{110}

IV. CHRISTIAN LOUBOUTIN’S LOSS PAINTED AS A VICTORY

In 2011, discord arose between Louboutin\textsuperscript{111} and Yves Saint Laurent\textsuperscript{112} when Yves Saint Laurent prepared to market a line of monochromatic\textsuperscript{113} shoes.\textsuperscript{114} Louboutin produces red-lacquered heels ranging in price from roughly $625.00 to $3995.00 per pair.\textsuperscript{115} Within

services; (3) the function: to identify and distinguish the seller’s goods from goods made or sold by others.

\textsuperscript{1} McCARTHY, supra.
\textsuperscript{109} Qualitex, 514 U.S. at 166.
\textsuperscript{110} Id.
\textsuperscript{113} See \textsc{The American Heritage Dictionary} 1168 (3d ed. 1992) (defining “monochromatic” as “having or appearing to have only one color”).
the leviathan\textsuperscript{116} that is the business of women’s footwear, Louboutin successfully built a multi-million dollar empire renowned for the red lacquer gracing the bottom of every heel produced.\textsuperscript{117}

In January 2011, Louboutin became aware that Yves Saint Laurent was marketing and selling a monochromatic red shoe with a red sole and requested the removal of the shoe from the market.\textsuperscript{118} Yves Saint Laurent produced a monochromatic line of shoes featured in the colors purple, green, yellow, and red.\textsuperscript{119} Thus, the red shoe had a red insole,\textsuperscript{120} heel, upper,\textsuperscript{121} and outsole (“sole”).\textsuperscript{122} After failed


\textsuperscript{118} \textit{Christian Louboutin II,} 696 F.3d at 213. \textit{See infra} text accompanying notes 119–22.

\textsuperscript{119} \textit{Christian Louboutin II,} 696 F.3d at 213.

\textsuperscript{120} \textit{See} \textit{The American Heritage Dictionary} 665 (2d ed. 1982) (defining “insole” as “the inner sole of a shoe or boot”).

\textsuperscript{121} \textit{See id.} at 1328 (defining “upper” as “the part of a shoe or boot above the sole”).

\textsuperscript{122} \textit{Christian Louboutin II,} 696 F.3d at 213; \textit{see Outsole Definition, MerriamWebster Online}, http://www.merriam-webster.com/dictionary/outsole (last visited continued . . .
negotiations between Louboutin and Yves Saint Laurent, Louboutin initiated legal action against Yves Saint Laurent.\footnote{123}

In 2011, Louboutin filed suit against Yves Saint Laurent alleging that Yves Saint Laurent violated the Lanham Act and New York law by producing shoes with Louboutin’s trademarked, red-lacquered soles.\footnote{124} Louboutin asserted claims under the Lanham Act including trademark infringement.\footnote{125} Yves Saint Laurent stressed that it had previously produced monochromatic footwear lines, and, since the 1970’s, had used red and other colors for the soles of shoes.\footnote{126} Yves Saint Laurent filed counterclaims seeking the cancellation of Louboutin’s red sole trademark on the grounds that it was not distinctive and merely ornamental, it is functional, and the trademark was procured by fraud on the USPTO.\footnote{127} In response to Yves Saint Laurent’s counterclaims, Louboutin moved for a preliminary injunction against Yves Saint Laurent.\footnote{128}

The United States District Court for the Southern District of New York (the “District Court”) denied Louboutin’s motion for a preliminary injunction and Louboutin appealed.\footnote{129} The District Court cited the \textit{Qualitex} decision explaining that a single color trademark is only protectable if “it acts as a symbol that distinguishes a firm’s goods and identifies their source, without serving any other function.”\footnote{130} Without citing to any authority discussing the interplay between trademarks and the fashion industry, the District Court asserted that commercial purposes for extending trademark protection to single colors did not necessarily translate well to the fashion

\footnote{123}{Christian Louboutin II, 696 F.3d at 213.}


\footnote{125}{Christian Louboutin II, 696 F.3d at 213. In addition to trademark infringement, Louboutin filed claims alleging counterfeiting, false designation of origin, and trademark dilution in addition to violations of state law trademark infringement, trademark dilution, unfair competition, and unlawful deceptive acts and practices. \textit{Id}.}

\footnote{126}{\textit{Id}.}

\footnote{127}{\textit{Id}. at 214. \textit{See generally USPTO, supra} note 68 (explaining the function of the USPTO).}

\footnote{128}{\textit{Christian Louboutin I}, 778 F. Supp. 2d at 447.}

\footnote{129}{\textit{Christian Louboutin II}, 696 F.3d at 214.}

\footnote{130}{\textit{Id}. at 214 (quoting \textit{Qualitex Co. v. Jacobson Prods. Co.}, 514 U.S. 159, 166 (1995)).}
industry due to the unique characteristics and needs such as the creativity, aesthetics, taste, and seasonal change.\textsuperscript{131} The District Court found that a single color in the fashion industry is functional.\textsuperscript{132} Therefore, the District Court held that Louboutin’s red-lacquered sole trademark was unlikely to be afforded trademark protection, and denied Louboutin the preliminary injunction against Yves Saint Laurent.\textsuperscript{133} Louboutin appealed to the United States Court of Appeals for the Second Circuit (the “Second Circuit”).\textsuperscript{134}

On appeal, the Second Circuit analyzed the District Court’s decision by looking to the two steps in a trademark infringement claim and the functionality defense to such a claim.\textsuperscript{135} The Second Circuit looked first to whether Louboutin’s trademark is protectable.\textsuperscript{136} A trademark is granted protection if it is inherently distinctive or has acquired a secondary meaning.\textsuperscript{137} The Second Circuit then addressed

\begin{footnotesize}
\begin{enumerate}
\item Id. See Belinda White, \textit{Christian Louboutin Loses Round One of Red Sole Battle with Yves Saint Laurent}, TELEGRAPH.CO.UK (Aug. 10, 2011), http://fashion.telegraph.co.uk/news-features/TMG8694008/Christian-Louboutin-loses-round-one-of-red-sole-battle-with-Yves-Saint-Laurent.html (describing Federal Judge Victor Marrero’s rationale for denying Louboutin’s motion for a preliminary injunction); see also \textit{Fashion Industry}, BRITANNICA ONLINE ENCYCLOPEDIA, http://www.britannica.com/EBchecked/topic/1706624/fashion-industry (last visited Sept. 9, 2014) (detailing a comprehensive overview of the fashion industry and its development). The fashion industry is a modern product of the twentieth century. \textit{Fashion Industry}, supra. Fashion shifted from the mid-nineteenth century custom of handmade clothes for individuals by home production or tailors and dressmakers to the modern age of mass production and fixed prices with the rise of new technologies such as sewing machines, the boom of global capitalism, and department stores. \textit{Id}. The fashion industry has grown into a multi-billion dollar global enterprise dedicated not only to the buying and selling of high fashion clothing but also to its large subpart known as the “apparel industry.” \textit{Id}. While the fashion industry is most notably associated with expensive designer fashions emerging from Paris and New York, the apparel industry has merged into the fashion industry and is considered the source of “ordinary” clothes or “mass fashion.” \textit{Id}. In explaining the District Court’s decision in \textit{Christian Louboutin}, Judge Marrero explained reasoned that:

Because in the fashion industry colour serves ornamental and aesthetic functions vital to robust competition, the court finds that Louboutin is unlikely to be able to prove that its red outsole brand is entitled to trademark protection, even if it has gained enough public recognition in the market to acquire secondary meaning.

\textit{White, supra.}
\item Christian Louboutin II, 696 F.3d at 214.
\item Id.
\item Id.
\item Id. at 216–17.
\item Id. at 216.
\item Id. at 216 (quoting Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 768
\end{enumerate}
\end{footnotesize}
the second step, which is that if, and only if, the trademark is considered distinctive will it then determine whether the competitor’s product is likely to cause customer confusion.\(^{138}\) Finally, if the competitor can prove in its defense that the trademark is functional, be it utilitarian functionality or aesthetic functionality, then the competitor will succeed.\(^{139}\)

The Second Circuit first addressed the functionality defense.\(^{140}\) The Court invoked language from *Qualitex* stating that the doctrine of functionality fosters fair competition in the market.\(^{141}\) The relevant types of functionality the court hone in on are traditional or “utilitarian”\(^{142}\) functionality and aesthetic\(^{143}\) functionality.\(^{144}\)

Although the Second Circuit briefly explained traditional functionality,\(^{145}\) it appears that the Court focused on aesthetic functionality and how functionality affected the District Court’s decision.\(^{146}\) The Second Circuit addressed the Supreme Court’s holding in *Qualitex*, which asserted that the aesthetic design of a product for which protection is sought could be deemed functional if it

\(^{(1992)}\) (providing the requirements for a protectable trademark and an explanation of “inherently distinctive”). A trademark is considered inherently distinctive “if its intrinsic nature serves to identify a particular source.” *Id.*

\(^{138}\) *Christian Louboutin II*, 696 F.3d at 217; cf. J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 23:76 (4th ed. 2012) (“The confusion necessary for the trademark infringement of federally registered marks is not purely limited to confusion of purchasers as to the source of goods, but to any kind of confusion, such as confusion between the products themselves”). The possessor of a trademark can prove customer confusion to prevail in a trademark claim. *Christian Louboutin II*, 696 F.3d at 217. The Second Circuit determined that after analyzing whether Louboutin’s trademark was protectable, it was unnecessary to address customer confusion. *Christian Louboutin II*, 696 F.3d at 217.

\(^{139}\) *Id.*

\(^{140}\) See *id.* at 218–24 (analyzing utilitarian and aesthetic functionality in relation to Louboutin’s trademarked, red-lacquered soles).

\(^{141}\) See *id.* at 218 (describing how the Supreme Court in *Qualitex* stated that the functionality doctrine prevents companies from monopolizing useful products and thus hindering fair competition).

\(^{142}\) See *Webster’s II New College Dictionary* 1216 (Houghton Mifflin Co. ed. 1995) (defining “utilitarian” as “stressing the value of practical over aesthetic qualities”).

\(^{143}\) See *id.* at 18 (defining “aesthetic” as “of or relating to the sense of the beautiful”).

\(^{144}\) *Christian Louboutin II*, 696 F.3d at 218–24.

\(^{145}\) See *id.* (explaining how under traditional functionality, a product feature is functional if it is essential to the use or purpose of the product or if the feature affects the cost or quality of the product as a whole).

\(^{146}\) See generally *id.* at 219–25 (explaining the development and composition of aesthetic functionality and how the functionality defense was misapplied in the District Court).
significantly disadvantaged competitors. A threefold aesthetic functionality test is laid out by the Second Circuit to determine whether a product feature is aesthetic and functional. If it is determined that that a product feature is aesthetic and functional, then trademark protection is denied.

Under the first two prongs, it must be ascertained whether: (1) the design feature is essential to the use or purpose of the product, or (2) the design feature affects the overall cost or quality of the product. If one of the first two questions is answered in the affirmative, the inquiry ends, and the design feature is considered functional and ineligible for trademark protection. However, if a product feature does not meet either of the first two prongs, then it is necessary to move on to the third prong, whether protection of a product feature will not result in a significant, negative effect on competition.

The Second Circuit addressed the District Court’s determination that Yves Saint Laurent’s functionality defense was proper, and the District Court’s adoption of a per se rule against color trademarks in the fashion industry because of their alleged functionality. The Second Circuit recognized that the Supreme Court in Qualitex forbade the implementation of a per se rule denying legal protection for single color trademarks. Thus, the District Court erred when it effectively created a per se rule prohibiting

147 Id. at 219–20. See Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 165 (1995) (describing how a functional component will not be afforded protection after the patent for the component has expired if it would hinder competition by frustrating a competitor’s efforts to improve their own equivalent product).

148 Christian Louboutin II, 696 F.3d at 220.

149 Id.

150 Id.

151 Id. (demonstrating how the first two prongs of the functionality test are also the first two prongs of the aesthetic functionality test). See generally Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844 (1982) (establishing a two prong test which determines if a product feature is functional).

152 See Christian Louboutin II, 696 F.3d at 222 (explaining that when determining whether the protection of an aesthetically functional trademark significantly undermines a competitor’s ability to compete in the market, a court must weigh “the competitive benefits of protecting the source-identifying aspects’ of a mark against the ‘competitive costs of precluding competitors from using the feature’” (quoting Fabrication Enters., Inc. v. Hygenic Corp., 64 F.3d 53, 59 (2d Cir. 1995))).

153 Id. at 220. See Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 165 (1995) (providing the third prong of the three prong aesthetic functionality test which is used to analyze whether the trademark of a product feature is detrimental to competitors).

154 See Christian Louboutin II, 696 F.3d at 222.

155 See id. at 223.
protection for single color trademarks in the fashion industry.\textsuperscript{156} The functionality defense is meant to remove hindrances on fair competition within a certain market, not guarantee a competitor a vast range for creativity.\textsuperscript{157}

After rejecting the District Court’s per se rule against color trademarks, the Second Circuit turned to the two-step process within a trademark infringement claim: (1) whether the trademark is protectable, and (2) whether the trademark is distinctive.\textsuperscript{158} A certificate of registration of a trademark with the USPTO is prima facie evidence of a valid and protectable trademark.\textsuperscript{159} The District Court erroneously found that Yves Saint Laurent rebutted the presumption that Louboutin’s red-lacquered soles were protectable based on the trademark registration because “a single color can never achieve trademark protection in the fashion industry.”\textsuperscript{160} The Second Circuit found that the District Court’s rationale was improper, but recognized that Louboutin’s trademark on red-lacquered heels was ineligible for protection as it was because it precluded competitors from using red soles in all situations.\textsuperscript{161} However, it was the second step of the trademark infringement analysis, on distinctiveness, that pushed the Second Circuit to protect Louboutin’s trademarked red-lacquered heels in a modified form.\textsuperscript{162}

The Second Circuit provides that distinctiveness may be shown either by proof that the trademark is inherently distinctive,\textsuperscript{163} or by showing that the trademark has garnered a secondary meaning\textsuperscript{164} in the public eye.\textsuperscript{165} The Second Circuit notes that a single color can almost never be inherently distinctive, but a single color can surely acquire a secondary meaning.\textsuperscript{166} If a single color is used so “consistently and

\textsuperscript{156} See id.
\textsuperscript{157} See id.
\textsuperscript{158} See supra text accompanying notes 135–38.
\textsuperscript{159} Christian Louboutin II, 696 F.3d at 224.
\textsuperscript{160} Id. at 225.
\textsuperscript{161} Id.
\textsuperscript{162} Id.
\textsuperscript{163} See supra note 137 and accompanying text.
\textsuperscript{164} See supra note 92 and accompanying text; see also infra note 166 and accompanying text.
\textsuperscript{165} Christian Louboutin II, 696 F.3d at 225.
\textsuperscript{166} Id. See Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 162–63 (1995) (elaborating on the notion that color is almost never inherently distinctive by contrasting a color trademark that may become distinct through secondary meaning to the trademark of words or designs that are capable of automatically communicating the brand to a customer).

[O]ver time, customers may come to treat a particular color on a product or its packaging (say, a color that in context seems

\textit{continued} \textellipsis
prominently” by a fashion designer that it becomes a symbol of “primary significance” that acts as an identification of the source of the product, then there appears to be no valid reason to restrict single color trademarks in the fashion industry.\footnote{Christian Louboutin II, 696 F.3d at 226.}

The Second Circuit notes that an examination of a trademark’s secondary meaning probes whether consumers are more compelled to purchase a product because of the source.\footnote{Id. (noting that some factors analyzed to show a product source may induce purchase include: “(1) advertising expenditures, (2) consumer studies linking the mark to a source, (3) unsolicited media coverage of the product, (4) sales success, (5) attempts to plagiarize the mark, and, (6) length and exclusivity of the mark’s use.” (quoting Centaur Commc’ns., Ltd. v. A/S/M Commc’ns., Inc., 830 F.2d 1217, 1222 (2d Cir. 1987))).} The Second Circuit recognized that the District Court was situated with an abundance of evidence of “Louboutin’s advertising expenditures, media coverage, and sales success,” showing that Louboutin had created a “symbol” with its red-lacquered sole just as Qualitex had with green-gold.\footnote{See id. See supra text accompanying notes 109–10.} Without question, the evidence showed that Louboutin red soles had become globally associated with Louboutin.\footnote{Christian Louboutin II, 696 F.3d at 226–27. Chief Executive Officer of Yves Saint Laurent’s parent company, François-Henri Pinault, acknowledged in the world of high fashion it is certain that the signature red sole is associated with Louboutin especially when the upper of the shoe contrasts with the red sole. Id. at 227.} However, the Second Circuit found that the record did not support the idea that secondary meaning of the red-lacquered sole extended to shoes where the body of the shoes did not contrast with the red sole.\footnote{Id. at 228.} Therefore, the Second Circuit determined that Louboutin’s sole trademark only carried secondary meaning when the body of the shoe was in contrast to the red-lacquered sole.\footnote{Id.}

The Second Circuit modified Louboutin’s red-lacquered sole trademark, instructing the USPTO to limit the registration of the trademark to instances only where the body of the shoe contrasted with the red-lacquered sole.\footnote{Id.}

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\textit{Id.} at 163.
\textit{Id.} at 226.
\textit{Id.} at 227.
trademark would be considered valid and enforceable.\textsuperscript{174} The Second Circuit affirmed the District Court’s decision to deny Louboutin’s motion for a preliminary injunction based on the rationale that the red sole on the Yves Saint Laurent monochromatic shoe was neither a use of Louboutin’s trademark nor was it confusingly similar to the Louboutin trademark.\textsuperscript{175} With the Second Circuit’s decision in Louboutin’s case against Yves Saint Laurent, it is now questionable as to how much protection single color trademarks will be afforded in future trademark decisions.\textsuperscript{176}

V. RECOMMENDATIONS

A. Amend the Lanham Act

The Supreme Court determined in \textit{Qualitex} that single color trademarks are within the scope of trademark protection provided by the Lanham Act.\textsuperscript{177} If the Lanham Act provides protection for words and symbols because they can garner secondary meaning and the Supreme Court has determined that, logically, single colors can achieve secondary meaning as well,\textsuperscript{178} the next reasonable step would be to explicitly include single color trademarks in the Lanham Act. By amending the Lanham Act, legislative clarity may prevent cases such as \textit{Christian Louboutin} where the District Court effectively created a per se rule against single color trademarks in fashion despite the Supreme Court having already held that such a per se ban against single color trademarks was impermissible.\textsuperscript{179} Express protection for single color trademarks in the Lanham Act will yield uniformity in the law as well as clear justification in the judicial system for granting, enforcing, and renewing single color trademarks.

B. Secondary Meaning . . . \textit{with a Bite}

Due to the peculiar nature of single color trademarks, if the Lanham Act were amended as proposed, it would require supreme clarity in lieu of the current law on single color trademarks.\textsuperscript{180} Functionality must remain crucial in the process of approving a single

\textsuperscript{174} Id.
\textsuperscript{175} Id.
\textsuperscript{176} See \textit{Christian Louboutin II}, 696 F.3d at 228 (holding that Yves Saint Laurent is permitted to produce a monochromatic red shoe featuring a red sole).
\textsuperscript{177} See supra text accompanying note 104.
\textsuperscript{178} See supra text accompanying note 104.
\textsuperscript{179} See supra text accompanying notes 154–55.
\textsuperscript{180} See supra text accompanying notes 96–176.
color trademark. However, it is with secondary meaning that clarification is needed in the law.

Single color trademarks, unlike tangible symbols, should be analyzed differently under secondary meaning. It should be more difficult for companies to trademark single colors for reasons that implicate the color depletion theory, unfair competition, and functionality. The color depletion theory is virtually an outdated idea; however, the dust must be blown off of this notion and brought back to the forefront if the Lanham Act should be amended. The Supreme Court has determined that single colors can be worthy of trademarks, but this determination should be modified so that single color trademarks can only be granted where the color is the focal point of the business. The idea could be termed secondary meaning with a bite. The rationale is that if the single color trademark is the focal point of the company, then the company must pass secondary meaning with a bite. Secondary meaning with a bite would require a showing that the single color alone communicates the source to the consumer. The following factors would remain in place to examine how the product’s source has been proved to induce purchase due to secondary meaning: “(1) advertising expenditures, (2) consumer studies linking the mark to a source, (3) unsolicited media coverage of the product, (4) sales success, (5) attempts to plagiarize the mark, and, (6) length and exclusivity of the mark’s use.” The aforementioned factors will assist in determining whether a single color is considered the focal point of the business.

The “bite” under secondary meaning for single color trademarks would be dedicated to innovation. Companies have used particular colors to take their businesses to a level of worldwide recognition. By using certain colors, these companies have established secondary meaning so that within the minds of people it has come to a point where a robin’s egg blue box is certainly from Tiffany & Co. and a brown delivery truck must be a UPS truck. The “bite” would prevent the primary colors from being trademarked in one stroke of a judicial pen. The innovation of utilizing a certain color as the focal point of an entire company has proved to be successful. Analyzing the secondary meaning of a product must go beyond the factors in

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181 See supra text accompanying notes 86, 89, 146.
182 See supra text accompanying note 92.
183 See supra text accompanying note 87.
184 See supra text accompanying note 108.
185 See supra text accompanying note 168.
186 See supra text accompanying notes 21–36.
187 See supra text accompanying notes 25, 36.
188 See supra text accompanying notes 21–36.
place and look to the “effectiveness of this effort to create it.”\textsuperscript{189} The “level of innovation” should be a factor that supports innovative effort by including four sub-factors: (1) whether the product been manufactured or produced previously by another company with this particular color, (2) if the product in combination with the specific color or a shade very similar has been produced in this fashion before, how many times was it produced in this fashion and/or for what length of time was it produced, (3) whether the producer or manufacturer of the product using the contentious single color established secondary meaning at the time the product was in circulation, and (4) whether the use of the color by the company is so novel that to deny the trademark, deny enforcement, or deny renewal would unduly prejudice the company.

C. Time Limitations

Where a company uses a single color trademark as the focal point of the business, stricter time limitations for the trademark should be imposed on a case-by-case basis.\textsuperscript{190} Companies should not be hindered from establishing their name in a manner similar to Tiffany & Co. and UPS.\textsuperscript{191} However, the length of time allotted to a trademark should be substantial and renewable as it relates to the innovation, history, and length of time the trademark has been in place. There is no sense in revoking the single color trademarks of globally recognized institutions that have been in place for over 100 years.\textsuperscript{192} Simply, there must be a manner in which newer businesses can venture into color creativity without unjustifiably allowing a monopoly on a color that is not the crux of their business or can no longer be considered as such. If a company fails to sustain innovation and recognition of their trademark, renewal of the trademark should be denied. The law should foster creativity and innovation in the use of single color trademarks rather than facilitate the misappropriation of trademarks or keep afloat trademarks no longer carrying the weight of recognition they once did.

\textsuperscript{189} See Int’l Jensen, Inc. v. Metrosound U.S.A., Inc., 4 F.3d 819, 824 (9th Cir. 1993) (“[T]he true test of secondary meaning is the effectiveness of [the] effort to create it.”) (citing First Brands Corp. v. Fred Meyer, Inc., 809 F.2d 1378, 1383 (9th Cir. 1987)).

\textsuperscript{190} See generally 15 U.S.C. § 1058(a) (2012) (providing that a registered trademark is enforceable for ten years and may be renewed at the end of each ten year period).

\textsuperscript{191} See supra text accompanying notes 21–36.

\textsuperscript{192} See, e.g., supra text accompanying notes 23, 45.
VI. CONCLUSION

Gloria Steinem once stated, “[w]ithout leaps of imagination, or dreaming, we lose the excitement of possibilities.”\(^{193}\) Imagination and innovation are intertwined with creativity. The possibilities imagined by great designers, thinkers, and business entrepreneurs will soon falter if innovation becomes endangered by the law. The Lanham Act was intended to expand the possibilities of trademarks in the future.\(^{194}\) To ignore the intent of the Lanham Act would be to dispose of a crucial turning point in the history of trademarks in the United States.\(^{195}\)

The purpose of the Lanham Act was to modernize trademark law.\(^{196}\) However, with modernity comes new ideas, new technology, and new views on the law. With cases like *Owens-Corning* and *Qualitex*, it becomes evident that trademark law has grown from new and innovative ideas taking on single color trademarks in a business.\(^{197}\) In lieu of such an evolution of single color trademarks in the law, it is only sensible that the law should adapt to a changing world where colors can communicate more than a source, but also a sense of quality and trust in the creator’s craft. The powerhouses Tiffany & Co. and UPS have stood the test of time, arguably, because of the time, effort, and creativity used to make a single color the focal point of the companies.\(^{198}\)

In *Christian Louboutin*, the Louboutin fashion house faced a loss masked as a victory. By permitting Yves Saint Laurent and any future designers to create a monochromatic red shoe with a red sole, Louboutin loses the full rights to a trademark that had flourished to worldwide recognition after nearly twenty years of utilizing and promoting the red-lacquered sole.\(^{199}\) If courts begin splitting hairs in the law, longstanding companies like Tiffany & Co. and UPS may fear for their own trademark protections if challenged. Louboutin single-handedly put red soles on the map regardless of contrast as the Second Circuit determined.\(^{200}\) The Second Circuit effectively diminished the

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\(^{194}\) See *supra* text accompanying note 66.

\(^{195}\) See *supra* text accompanying note 66.

\(^{196}\) See *supra* text accompanying note 66.

\(^{197}\) See *supra* text accompanying notes 73–110.

\(^{198}\) See *supra* text accompanying notes 21–36.

\(^{199}\) See *supra* text accompanying notes 116–18, 175.

\(^{200}\) See Louboutin Red Soles Inspire Women to Paint Their Own Shoes, HUFFINGTON POST (July 10, 2012, 1:32 PM), http://www.huffingtonpost.com/2012/07/10/louboutin-shoes-red-soles_n_1662364.html (asserting that “Christian Louboutin shoes are known for two continued . . .
efforts of the Louboutin empire to create a secondary meaning for the red-lacquered soles independent of the body of the shoe by limiting the trademark. Unless and until the law is changed to expand the requirements of secondary meaning on single color trademarks, it appears that Tiffany & Co. and UPS will be the last to build empires of their caliber on a foundation of color. By amending the Lanham Act, changing single color trademarks as only permissible by passing functionality and secondary meaning with a bite, and imposing a new structure to time limitations, the spectrum of single color trademarks will be protected by the law and limited carefully through case by case judicial proceedings. Now is the time to protect and encourage the imagining of improbable or impossible things so that from such fantasies new hues of innovation can grow.

things: bearing those iconic red soles and being incredibly expensive”).

201 See supra text accompanying note 173.
MAKING THE CASE FOR INTERNS: HOW THE FEDERAL COURTS’ REFUSAL TO PROTECT INTERNS MEANS THE FAILURE OF TITLE VII

Hannah Nicholes†

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I. INTRODUCTION, CASE IN POINT: WANG v. PHOENIX SATELLITE TELEVISION, US, INC.

In December of 2009, Lihuan Wang did something many of today’s college and graduate students do:¹ she got an unpaid internship with the hopes of receiving both job training and an offer for permanent employment when she graduated.² Like most of today’s interns,³ Ms. Wang’s responsibilities at the New York office of Phoenix Media Group (the Defendant in this case⁴) put her directly in the middle of the work environment, giving her the opportunity to experience what it meant to be an employee at Phoenix.⁵

Ms. Wang’s internship came with something more than on-the-job experience, however, as she began to receive unwanted sexual attention from a supervisor, Mr. Liu.⁶ From sexually explicit comments to unwanted touching, Mr. Liu took advantage of his supervisory position to sexually harass Ms. Wang.⁷ When Ms. Wang made it clear that his advances were unwelcome,⁸ Mr. Liu stopped harassing her, but he also stopped expressing an interest in hiring Ms. Wang after she graduated.⁹ Instead, Mr. Liu began to tell Ms. Wang to go to Atlantic City for the weekend with him, so that they could “discuss job opportunities.”¹₀

¹ See Eve Tahmincioglu, Working for Free: The Boom in Adult Interns, TIME (Apr. 12, 2009), http://content.time.com/time/magazine/article/0,9171,1977130,00.html (explaining that, in the midst of the “Great Recession” when the unemployment rate was near 10% there were an increasing number of people, including college graduates, who were willing to work for free in the hopes that it would lead to a permanent job).

² Wang v. Phoenix Satellite Television US, Inc., 976 F. Supp. 2d 527, 529 (S.D.N.Y. 2013). Within the first two weeks of her internship Ms. Wang asked her supervisor, Mr. Liu, about the possibility for permanent employment with Phoenix, and she later discussed this hope to other employees at Phoenix. Id.

³ See How Interns and Co-Ops Spend Their Time, NAT’L ASS’N OF COLLEGES & EMPLOYERS (June 12, 2013), https://www.naceweb.org/s06122013/intern-co-op-time-on-the-job.aspx?terms=how%20interns%20spend%20their%20time [hereinafter How Interns and Co-Ops] (stating that in a survey of 306 organizations from November 15, 2012 – February 1, 2013, it was reported that interns spend 98.1% of their time doing essential functions).

⁴ Wang, 976 F. Supp. 2d. at 527.

⁵ Id. at 529. Ms. Wang assisted reporters, drafted scripts, edited video, proposed stories, and even appeared on camera to report her stories. Id.

⁶ Id. at 530.

⁷ See id. (stating that Ms. Wang felt compelled to remain in Mr. Liu’s presence when he began to harass her “because he was her supervisor.”).

⁸ Id. (telling him to stop, that she did not want this, and then finally leaving his presence).

⁹ Id. Although Mr. Wang stopped sexually harassing Ms. Liu for the remainder of her internship, in the summer of 2010, after her internship, Mr. Liu asked Ms. Wang to go to Atlantic City for the weekend with him, so that they could “discuss job opportunities.” Id. at 531. Scared of what might happen, she told Mr. Liu she continued . . .
that they would not be able to sponsor her\textsuperscript{10} due to a timing issue related to the expiration of her student visa.\textsuperscript{11} The detail regarding the timing issue was a fact that Mr. Liu had never before brought up when he and Ms. Wang had previously discussed the possibility of permanent employment.\textsuperscript{12} Although Ms. Wang later sued Phoenix for employment discrimination under the New York State Human Rights Law\textsuperscript{13} and the New York City Human Rights Law,\textsuperscript{14} because Ms. Wang was an unpaid intern, and thus not an employee under employment discrimination statutes,\textsuperscript{15} the District Court for the Southern District of New York dismissed the claim.\textsuperscript{16}

Ms. Wang’s unfortunate plight comes as the direct result of federal courts declaring that under Title VII of the Civil Rights Act of 1964\textsuperscript{17} ("Title VII"), interns are not employees, and therefore Title VII does not apply to them.\textsuperscript{18} The logic behind this declaration comes as a result of applying the agency definition of “employee” to Title VII cases.\textsuperscript{19} At first glance, this theory makes sense: interns by definition are not employees, but rather individuals who are trying out the field for a few months. Furthermore, applying the same definition of “employee” across all of employment law creates consistency and predictability. However, upon closer inspection, this superficial logic falls apart and we find ourselves with individuals like Ms. Wang, who have been sexually harassed and who have suffered an adverse employment action, but who are left unprotected by Title VII.

This paper argues that applying the agency-based test when defining the meaning of intern under Title VII is contrary to the purposes of Title VII, and proposes that we instead look to the purposes of Title VII for guidance. By using the modern intern as an

\textsuperscript{10} Because Ms. Wang was a Chinese citizen in America on a student visa, a necessary part of her employment process was to find a hiring company that would also be willing to sponsor her for a work visa. \textit{Id.} at 529.

\textsuperscript{11} \textit{Id.} at 530.

\textsuperscript{12} \textit{Id.}

\textsuperscript{13} N.Y. EXEC. LAW § 290 (McKinney 2013).

\textsuperscript{14} N.Y. CIV. RIGHTS LAW § 8-101 (2013).

\textsuperscript{15} Although Ms. Wang only sued under state law claims the district court looked to the similar language of Title VII of the Civil Rights Act of 1964 in order to determine whether an intern could be considered an employee. Wang, 976 F. Supp. 2d at 537. The district court found that because Title VII did not protect interns, the same was true for the New York equivalents, leaving Ms. Wang without a cause of action. \textit{Id.} at 532.

\textsuperscript{16} \textit{Id.} at 532.

\textsuperscript{17} 42 U.S.C. § 2000e (2012).

\textsuperscript{18} O’Connor v. Davis, 126 F.3d 112, 116 (2d Cir. 1997).

\textsuperscript{19} \textit{Id.} at 115.
example, one can see that when the court’s focus is not on upholding the purpose of Title VII, which leads courts to conclude that interns should not be covered, Title VII fails. Part I of this paper looks to the purpose of Title VII, the current definition of employee under Title VII, and the problems that arise in applying this definition to Title VII cases; Part II looks specifically at the modern internship, and using the purposes of Title VII as guidance, determines whether interns ought to be covered. Using interns as an example, this paper finds that when courts ignore the purposes of Title VII and find that Title VII does not cover interns, discriminatory hiring practices and discriminatory workplaces are allowed to go unchecked, and Title VII fails to prevent future workplace discrimination.

II. OVERVIEW OF LEGAL LANDSCAPE

A. The Purpose of Title VII

1. Prohibition of Workplace Discrimination

Congress created Title VII of the Civil Rights Act of 1964 to: (1) eliminate discrimination in the workplace; and (2) make the victims of such workplace discrimination whole. In order to eliminate workplace discrimination, Congress sought, through Title VII, to ensure equal employment opportunities for all qualified applicants, regardless of the applicant’s race, sex, color, religion or national origin. Congress’s intention was not to guarantee a job for all who applied, but rather to remove all arbitrary and artificial boundaries, no matter how subtle, that had been erected solely for the purpose of invidious discrimination on the basis of the applicant’s race, sex, religion, color or national origin (otherwise known as a person's protected trait). Congress did so by making it illegal for an employer or a potential employer to make decisions—intentionally or unintentionally—about hiring or firing; or otherwise changing the employee's compensation, terms, conditions or privileges of employment, based solely or partially on that person’s protected trait.

More than once the Supreme Court has stated that Title VII’s prohibition is not limited to such discrimination that has an economic

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21 Id. at 418.
23 Id. at 800-01.
or otherwise readily tangible impact. Instead, the Court has interpreted the phrase “terms, conditions or privileges” broadly, stating that it “evinces a congressional intent ‘to strike at the entire spectrum of disparate treatment of men and women’ in employment, which includes requiring people to work in a discriminatorily hostile or abusive environment.”

In doing so, the Court extended the reach of Title VII to qualify “the creation or perpetuation of a discriminatory work environment” as an actionable harm. Their intent was to prevent a workplace that is “so heavily polluted with discrimination as to destroy completely the emotional and psychological stability of minority group workers[,]” which would, by extension, alter the terms and conditions of employment, thereby violating Title VII’s express language.

Included in this category of harm is sexual harassment that is “so ‘severe or pervasive’ as to ‘alter the conditions of [the victim’s] employment and create an abusive working environment.’” Therefore, had the courts considered Ms. Wang an employee for the purposes of Title VII, she likely would have had a successful cause of action based on the sexual harassment to which Mr. Liu subjected her.

Employers become liable under Title VII when they knowingly or negligently allow a work environment to become “heavily charged” with discrimination. Employers will be held directly liable for an employee’s unlawful discriminatory harassment, and vicariously liable when the harasser was the victim’s supervisor. In situations of supervisor harassment, Title VII holds the employer vicariously liable when it was the principal agent relationship shared by the supervisor and the employer that enabled the harassment. Thus, in Ms. Wang’s case, because Mr. Liu was her supervisor, and because he was arguably able to take the harassment as far as he did because he was

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28 Id. (quoting Rogers v. EEOC, 454 F.2d 234, 238 (1971)).
29 Id. at 2441.
30 Faragher, 524 U.S. at 786.
31 Rogers v. E.E.O.C., 454 F.2d 234, 238 (5th Cir. 1971).
32 Vance, 133 S. Ct. at 2441.
33 Id.
34 Id.
her supervisor, Phoenix would likely have been held vicariously liable under Title VII for Mr. Liu’s sexual harassment.

2. **Deterring Future Discriminatory Actions**

In passing Title VII, Congress intended to both eliminate discrimination on a case-by-case basis, and deter employers who may discriminate in the future. Rather than rely on the threat of litigation alone to deter such employers, Congress instituted such remedies as injunctions and back-pay, thereby making any employer think twice before engaging in discriminatory employment behaviors.

The “make whole” purpose of Title VII, done in part through the award of back-pay, serves two purposes: (1) to make the victim a whole; and (2) to penalize the employer in such a way as to deter further discriminatory actions. The first purpose is both self-explanatory and the most obvious result. However, it is the second purpose that serves Title VII’s goal of eliminating discrimination in the workplace the most. Back-pay under Title VII is not a remedy given randomly, but rather is a remedy given as “a matter of course,” and the Supreme Court has made it clear that it should be “denied only for reasons which, if applied generally, would not frustrate the central statutory purposes of eradicating discrimination” in the workplace.

When a victim is awarded back-pay, the employer is required to pay the victim whatever she would have made, absent the discriminatory action. Presumably, the victim is suing because she was passed over for a promotion, was not hired, was fired or was forced to quit for reasons based on unlawful discrimination; in any of these situations the employer likely promoted/hired another employee to take the victim’s place. Thus, while an employer may have already paid one employee for the job, he must now pay the victim as well; in effect, discriminatory employers are required to pay twice as much as

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35 See Wang, 976 F. Supp. 2d at 530 (stating that Ms. Wang felt compelled to remain in Mr. Liu’s presence when he began to harass her “because he was her supervisor.”).


38 Moody, 422 U.S. at 417-19.

39 See supra Part. II A(a).

40 Moody, 422 U.S. at 419.

41 Id. at 421.

42 See id. at 421 (quoting the portion of the Congressional record which describes the purpose of Title VII as, in part, to restore the victim of unlawful employment discrimination to “a position where they would have been were it not for the unlawful discrimination.”).
they would have, had they chosen not to discriminate. It is back-pay’s ability to place an actual price tag on discrimination that gives Title VII the most strength to prevent further discrimination. Employers, faced with the “reasonably certain prospect of a backpay award” are forced to “self-examine and to self-evaluate their employment practices and to endeavor to eliminate, so far as possible” discrimination in the workplace.

B. The Legal Definition of Employee Under Title VII

Title VII sought to eliminate discrimination in the workplace by protecting employees who were victims of such discrimination. Congress defined the term “employee” under Title VII to mean, “an individual employed by an employer . . . .” This definition, as the Supreme Court pointed out in \textit{Nationwide Mut. Ins. Co. v. Darden}, is “completely circular and explains nothing.” It fell, therefore, to the

\begin{itemize}
\item See id. at 418-19.
\item Id. at 417.
\item Id. at 418 (quoting United States v. N. L. Indus. Inc., 479 F.2d 354, 379 (8th Cir. 1973)).
\item See 42 U.S.C. § 2000e-2(a) (2012) (making it illegal for an employer to discriminate against his employees on the basis of race, color, religion, sex, or national origin).
\item 503 U.S. 318 (1992).
\item Id. at 323. Although the Court in \textit{Darden} is discussing the definition of employee in the Employee Retirement Income Security Program (ERISA), 29 U.S.C. § 1002(6), because the definition for employee is the same under ERISA and Title VII, every circuit court—save the eleventh, see \textit{Llampallas v. Mini-Circuits, Lab, Inc.}, 163 F.3d 1236, 1243–44 (11th Cir. 1998) (stating that “only individuals who receive compensation from an employer can be deemed ‘employees under the statute.’”)—has applied the \textit{Darden} Court’s discussion regarding the meaning of employee, to Title VII cases. See \textit{Juino v. Livingston Parish Fire Dist. No. 5}, 717 F.3d 431, 434 (5th Cir. 2013) (applying the \textit{Darden} employee-definition analysis to a Title VII claim, and using the “completely circular and explains nothing” quote to describe Title VII’s definition of employee); \textit{Mariotti v. Mariotti Bldg. Prod., Inc.}, 714 F.3d 761, 765 (3d Cir. 2013) (applying Clackamas Gastroenterology Assoc., P.C. v. Wells, 538 U.S. 440 (2003) which applies the \textit{Darden} employee-definition analysis to a Title VII claim, and using the “completely circular and explains nothing” quote to describe Title VII’s definition of employee); \textit{Bryson v. Middlefield Volunteer Fire Dep’t Inc.}, 656 F.3d 348, 352 (6th Cir. 2011) (applying the \textit{Darden} employee-definition analysis to a Title VII claim, and using the “completely circular and explains nothing” quote to describe Title VII’s definition of employee); \textit{Murray v. Principal Fin. Grp., Inc.}, 613 F.3d 943, 945–46 (9th Cir. 2010) (applying the \textit{Darden} employee-definition analysis to a Title VII claim); \textit{Lopez v. Mass.}, 588 F.3d 69, 83 (1st Cir. 2009) (applying the \textit{Darden} employee-definition analysis to a Title VII claim, and using the “completely circular and explains nothing” quote to describe Title VII’s definition of employee); \textit{Smith v. Castaways continued . . .
court system to develop a more user-friendly definition.\textsuperscript{50} The Court in \textit{Darden} upheld the “well established principle”\textsuperscript{51} that when Congress did not provide a meaningful definition of employee, it had intended to use the common law definition, based on agency’s master–servant relationship.\textsuperscript{52} In doing so, the Court adopted the common law test for determining who qualifies as an employee, which the Court had previously summarized in \textit{Cmty. for Creative Non-Violence v. Reid}.\textsuperscript{53} The common law test did not supply a simple formula, or a “magic phrase that can be applied to find the answer”; rather the Court insisted that “all of the incidents of the relationship must be assessed and weighed with no one factor being decisive.”\textsuperscript{54} The Court looked first to “the hiring party’s right to control the manner and means by which the product is accomplished”,\textsuperscript{55} and then considered other relevant factors, including:

\begin{quote}
[T]he skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party's discretion over when and how long to
\end{quote}

\begin{footnotes}
\textsuperscript{50} See, e.g., \textit{Armbruster v. Quinn}, 711 F.2d 1332, 1339-40 (6th Cir. 1983) (looking to the legislative history of Title VII to determine whom the definition of employee was intended to encompass), \textit{abrogated on other grounds by Arbaugh v. Y&Y Corp.}, 546 U.S. 500 (2006).

\textsuperscript{51} \textit{Darden}, 503 U.S. at 322. Although, as mentioned above, the 11th Circuit has chosen not to apply \textit{Darden}, for the purposes of this paper the majority application of \textit{Darden} will be the basis for the working definition of employee.

\textsuperscript{52} \textit{Id.} at 322-23.

\textsuperscript{53} 490 U.S. 730, 751-52 (1989).

\textsuperscript{54} \textit{Darden}, 503 U.S. at 324 (quoting \textit{NLRB v. United Ins. Co. of America}, 390 U.S. 254, 258 (1968)).

\textsuperscript{55} \textit{Id.} at 323.
\end{footnotes}
work; the method of payment; the hired party’s role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party.\textsuperscript{56}

Some circuit courts and the Equal Employment Opportunity Commission (EEOC) have added the matter of remuneration to this analysis,\textsuperscript{57} whereas other circuit courts have attached an economic realities test to the analysis.\textsuperscript{58} The result is a definition that calls for a fact-based analysis for every case where it is not readily apparent that the plaintiff is in fact an employee.

1. The Origins for the Control-Based Test

Prior to Title VII, federal courts had a need to define who was and was not an employee—in other words, who was an employee and who could be characterized as an independent contractor—when dealing with vicarious liability cases in tort law. The reason for this is that, under the Restatement (First) of Torts, “the employer of an independent contractor is not subject to liability for bodily harm caused to another by a tortious act or omission of the contractor or his servants.”\textsuperscript{59} Otherwise, an employer was responsible for the actions of his employees, and could be held vicariously liable for the harm that his employee caused to another.\textsuperscript{60} This theory continued with the publication of the Restatement (Second) of Torts.\textsuperscript{61}

As stated above, the Supreme Court has ruled that the definition of employee, when Congress has not provided one, is to be derived from

\textsuperscript{56}Id. at 323-24.

\textsuperscript{57}See Bryson v. Middlefield Volunteer Fire Dep’t Inc., 656 F.3d 348, 353 (6th Cir. 2011) (listing other circuit court decisions which include remuneration in their analysis and quoting a portion of the EEOC compliance manual which includes the matter of remuneration).

\textsuperscript{58}See, e.g., Schwieger v. Farm Bureau Ins. Co. of Neb., 207 F.3d 480, 484 (8th Cir. 2000) (stating that the \textit{Darden} list is “nonexhaustive” and as such the court also weighs “the ‘economic realities’ of the worker’s situation, including factors such as how the work relationship may be terminated and whether the worker receives yearly leave.”).

\textsuperscript{59}RESTATEMENT (FIRST) OF TORTS § 409 (1934).

\textsuperscript{60}See RESTATEMENT (FIRST) OF TORTS § 877(c) (1939) (stating that a person will be liable for the tortious conduct of another if he “controls, or has a duty to use care to control . . . .”); RESTATEMENT (FIRST) OF TORTS § 317 (1934) (stating that an employer has a “duty to exercise reasonable care so to control his servant while acting outside the course of his employment . . . .”).

\textsuperscript{61}See RESTATEMENT (SECOND) OF TORTS §§ 317, 409 (1965); RESTATEMENT (SECOND) OF TORTS § 877(c) (1979).
the common law agency master–servant principle.\textsuperscript{62} It is through this application of the master–servant definition that the common law theory carries over into employment law.\textsuperscript{63} The definition used to delineate who is and who is not an employee—depending firmly on how much control the employer is able to exercise over the individual—reflects the common law tort origin of this definition.\textsuperscript{64} It is this focus on the amount of control that the employer holds that leads to the control based three factor test outlined in the Restatements (First) and (Second) of Torts. The Restatements (First) and (Second) of Torts were not willing to hold employers vicariously liable for the actions of all people who may work for them; rather, the Restatements limited this liability to those employees: (1) over whom the employer had the power to “order,” or “induce to work”;\textsuperscript{65} (2) whose work the employer “permits to work”;\textsuperscript{66} and (3) who the employer “controls, or has a duty to use care to control[.]”\textsuperscript{67} When one analyzes the factors outlined by the \textit{Darden} court, the same theme of “control” is present, with five of the ten factors referring to the control a hiring employer may have over the individual working for him.\textsuperscript{68}

2. \textit{The Problem of Applying the Control-Based Test to Title VII Claims}

The problem of relying on the agency control based definition for employee is that vicarious liability and Title VII have drastically different purposes.\textsuperscript{69} The agency definition ensures that only


\textsuperscript{63} See id. at 322–23 (applying the agency definition of “employee” to employment law; by doing so the Court adopts the agency principle that an independent contractor is not an employee).

\textsuperscript{64} See id. at 323–24 (listing the “hiring party’s right to control” the potential employee as the first element the court should consider).

\textsuperscript{65} \textsc{Restatement (Second) of Torts} § 877(a) (1979); see also \textsc{Restatement (First) of Torts} § 877(a) (1939) (using almost identical language to the language in the Restatement (Second)).

\textsuperscript{66} \textsc{Restatement (Second) of Torts} § 877(b) (1979); see also \textsc{Restatement (First) of Torts} § 877(b) (1939) (using almost identical language to the language in the Restatement (Second)).

\textsuperscript{67} \textsc{Restatement (Second) of Torts} § 877(c) (1979); see also \textsc{Restatement (First) of Torts} § 877(c) (1939) (using almost identical language to the language in the Restatement (Second)).

\textsuperscript{68} See \textit{Darden}, 503 U.S. at 323–24. The list includes: “the hiring party’s right to control the manner and means by which the product is accomplished; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party’s discretion over when and how long to work; the method of payment”; and “the hired party’s role in hiring and paying assistants.” \textit{Id.}

\textsuperscript{69} Compare \textsc{Restatement (Second) of Torts} § 877(a)–(c) (1979) with \textit{supra} \textit{continued} . . .
employers with the duty and ability to control the employees in question will be held vicariously liable for those employee’s actions.\(^{70}\) Thus, the agency definition serves to limit employer liability.\(^{71}\) Title VII’s purpose is to protect employees by eliminating workplace discrimination, be it in the form of a barrier to employment through the use of discriminatory hiring practices, or a source of problems in the workplace.\(^{72}\) When courts apply the agency definition to Title VII cases, the focus therefore ceases to be on the need to eliminate workplace discrimination, and instead becomes an issue of how much control the employer had over the employee.\(^{73}\)

The problem with this dramatic shift in focus emerges in discrimination cases where the victim is an intern. The primary case on the subject, *O’Connor v. Davis*,\(^{74}\) concludes that an intern does not qualify as an employee for the purposes of Title VII protection.\(^{75}\) Like the *Darden* court, the *O’Connor* court relied on the common law agency definition of employee in reaching this conclusion.\(^{76}\) What the court ignores, or at the very least, fails to discuss,\(^{77}\) is that the purpose of Title VII is not to limit employer liability for the actions of their employees, but rather to eliminate workplace discrimination.\(^{78}\) The facts in *O’Connor* illustrate a work environment polluted with sexual harassment: the plaintiff stated that she was subject to sexually explicit and inappropriate comments while in the workplace;\(^{79}\) that she was not

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\(^{70}\) See [RESTATEMENT (SECOND) OF TORTS § 877 (1979)](https://www.law.cornell.edu/restatements) (limiting an employer’s vicarious liability to those employees over whom an employer had power and control).

\(^{71}\) *Id.*

\(^{72}\) See supra Part II. A.

\(^{73}\) See *Darden*, 503 U.S. at 323–24 (listing the agency based elements courts look to when considering whether a worker is an employee, focusing on the control the employer can exercise over the employee).

\(^{74}\) 126 F.3d 112 (2d Cir. 1997); see *Wang*, 976 F. Supp. 2d at 535–36 (stating that since *O’Connor* courts have applied the two step test created in *O’Connor* to determine whether someone is an employee under Title VII when they are an intern).

\(^{75}\) *O’Connor*, 126 F.3d at 116.

\(^{76}\) *Id.* at 115. The Court in *O’Connor* never actually reached the question of whether the plaintiff was an employee based on the control factors, instead stopping their analysis with the issue of whether she was even hired. *Id.* However, the court’s analysis is still framed in the traditional agency based understanding of what is an employee. *Id.* at 115–16.

\(^{77}\) See *id.* at 114–16 (failing to discuss the purpose of Title VII when discussing whether the plaintiff was an employee).

\(^{78}\) See supra Part II (A).

\(^{79}\) *Id.* at 113–14. The harasser referred to the plaintiff as “Miss Sexual Harassment”; made “inappropriate sexual remarks” about the plaintiff and her boyfriend; suggested that the plaintiff and the other women present engage in an

*continued*
the only one subject to the harasser’s sexually explicit and inappropriate comments, and that when she filed complaints with her supervisors, these complaints went largely ignored. However, the Court’s entire discussion looks not to whether finding for the plaintiff would further the goals of Title VII, but rather focuses almost entirely on whether the plaintiff would be an employee under common law tort liability. In doing so the court fails to uphold the purpose of Title VII, which is to eliminate the type of workplace discrimination taking place.

When the O’Connor court looked to whether the plaintiff is covered under Title VII, its focus was not on eliminating discrimination but rather on determining whether the plaintiff is an employee under the agency-based control test. As has been discussed, Title VII and vicarious liability have radically different purposes, and therefore it is of no great surprise that the test for one would not fulfill the needs of the other. Therefore, in this case, Title VII’s purposes were not fulfilled simply because the court was asking the wrong questions when determining who Title VII should protect. To avoid this problem, courts need to stop looking to the control-based factors, and instead need to look to Title VII’s express purposes: eliminating discriminatory hiring practices, workplace discrimination, and preventing further discrimination. When applied to interns, it becomes clear that when courts do not consider interns employees under Title VII, Title VII fails to fulfill these purposes.

Id. at 114. The harasser also commented about the appearance of several women who worked for the defendant employer and made both sexual jokes and “sexually suggestive noises” that were directed at the other female employees. Id.

Id. Although the defendant finally investigated the allegations, it took four months for the plaintiff’s direct supervisor to even report these complaints to her direct supervisor. Id. The case does not state the outcome of the investigation, leading one to conclude that the harasser was not in fact fired. Id.

O’Connor, 126 F.3d at 114–16.

See Faragher, 524 U.S. at 786 (1998) (stating that Title VII also protects employees against sexual harassment).

O’Connor, 126 F.3d at 114–16.

III. The Realities of Interns Applied to the Purposes of Title VII

A. What Are Interns?

Interns have become a familiar part of the workplace.86 However, that was not always the case, which helps to explain why courts have failed to treat them like the members of the workplace that they are.87 The term “intern” originally applied only to individuals who had earned a medical degree, but were not yet licensed to practice medicine.88

Following the economic downturn in the mid-2000s, internships took on increased importance within the workforce, as employers began to see them as a way to fill positions that had once been held by full time hires.89 For students, internships became a way to make themselves and their resumes stand out in an increasingly competitive job market.90 Today, the term intern refers to individuals who are participating in something described as “pre-job training,”91 “real-world experience,”92 and an “opportunity to ‘test drive’ a career.”93 Gone are the days where internships were confined to one or two industries; today, internships take place within more than 20

86 See Beth Braccio Hering, Why Are Internships so Important?, CNN (Apr. 13, 2010, 11:09 AM), http://www.cnn.com/2010/LIVING/worklife/04/14/cb.why.internships.important (stating that the number of internships is on the rise and that internships have become a key part of the economy); Meena Thiru, How to Turn an Internship Into a Job, BANKRATE.COM (May 29, 2012), http://www.bankrate.com/finance/jobs-careers/turn-internship-into-job-1.aspx (stating that as the unemployment rate remains at 13.2% for 20 to 24 year olds, internships have become an important part of getting a job); Alex Vejar, Unpaid Internships: Are They Beneficial or Exploitative for College Students?, THE SUNDIAL (November 14, 2013), http://sundial.csun.edu/2013/11/unpaid-internships-are-they-beneficial-or-exploitive-for-college-students (stating that internships continue to grow, and were projected to rise by 2% in 2013).
87 See O’Connor, 126 F.3d at 117–18; Wang, 976 F. Supp. 2d at 537.
88 Vejar, supra note 86.
89 Hering, supra note 86.
91 Vejar, supra note 86.
92 Auerbach, supra note 90.
93 Hering, supra note 86.
industries, from legal to finance, and from consulting to zoology.

Although the specific tasks that an intern performs will depend on the industry in which they are working—just as it varies for all other employees—the majority of these interns will all have three things in common: (1) they are also actively seeking employment upon graduation; (2) they represent future employees and (3) their internship places them square in the middle of the workplace. What this means for Title VII purposes, is that these interns: (1) are actively participating in the ongoing interview process known as an internship; (2) are possibly going to work for that employer in the future, and (3) are actively contributing to and participating in the workplace alongside all other employees.

B. Internships: The First Step In the Hiring Process

School career centers tell students that internships are a great way to “work with professionals in a chosen field” and “to showcase their talents and capabilities to a prospective employer.” Likewise, employers are sold on the idea of providing an internship based on the idea that an internship allows employers to “test-drive their employees before making a formal commitment.” Employers see internships as a way to “evaluate how an individual would fare in the actual workplace” before hiring them. According to Paul King, the corporate director of talent acquisition at Caesars Entertainment Corp., having an internship program is similar to the “try before you buy approach.” In essence, internships allow both future employees and

94 See How Interns and Co-Pros, supra note 3 (stating that in a survey of employers who had interns from 2012-2013, “more than 20 industries took part.”).
96 Melissa Korn, Internships are Increasingly the Route to Winning a Job: More Industries Pick From the Summer Talent, Raising the Stakes, WALL ST. J. (June 5, 2013, 8:00 PM), http://online.wsj.com/news/articles/SB10001424127887324423904578525431344927240.
98 Terry, supra note 90.
99 Thiru, supra note 86.
100 Hering, supra note 86.
101 Korn, supra note 96 (internal quotations omitted).
future employers to see whether they are a good fit, and therefore serve as a screening process for both participants.

Finding, selecting, and training new employees takes time and resources. As such, companies want to know in advance if they can expect a return on that investment.  Although an internship program helps to provide that return through the work performed by interns, that return emerges in large part through the well-developed applicant pool that an internship program will create, and from which the employer can later hire employees already known to fit in well within the company.

It is because of this internship-to-applicant pool ideal that today’s students are told that the best way to land a job at the end of the summer is to “treat an internship as a 10-12 week job interview”: if they perform well, they are more likely to land a job. Based on the numbers, internships truly are the key to success, as most internships—particularly those within large companies—offer the possibility of later becoming a full time job. According to the National Association of Colleges and Employers (NACE), in 2011 42% of new hires came from former internship programs. NACE’s study found that in 2012–2013 participating employers made full-time employment offers to 56.7% of former interns. For some companies, this number is reported as high as 69%, according to a recent study from the Graduate Management Admission Counsel, and those numbers are even higher in specific markets such as consulting, finance, and

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102 Hering, supra note 86.
103 Id.
106 Thiru, supra note 86.
107 See NAT’L ASS’N OF COLLEGES & EMPLOYERS, Current Benchmarks, in 2013 INTERNSHIP & CO-OP SURVEY (2013), available at https://www.naceweb.org/internships/benchmarks.aspx. This number only refers to paid interns at graduation and does not include numbers of post-graduation or unpaid interns. Id. Although the hiring rates for unpaid interns were much lower than it was for paid interns, NACE argues that this could be due to several factors, including the fact that NACE did not look at post-graduation hiring numbers. Unpaid Internships: A Clarification of NACE Research, NAT’L ASS’N OF COLLEGES & EMPLOYERS (Oct. 16, 2013), https://www.naceweb.org/s10162013/paid-internship-full-time-employment.aspx.
accounting. In a study of internship-to-employment rates in 2012 for students attending the University of Chicago Booth School of Business, Columbia Business School, Harvard School of Business, University of Virginia Darden School of Business, and Duke University Fuqua School of Business, between 30-50% of students took full-time jobs with their summer internship employer. In some fields, these numbers increase; for example, in the field of finance, an estimated 80-90% of new Wall Street hires in 2012 were interns from the previous summer.

These numbers all make a very clear point: if you do not get an internship with a company over the summer, your chances of later getting a full time job with that company goes down. Although not stated in these studies, it would stand to reason that if you were to get an internship, but were unable to keep it—perhaps because you were forced to quit after your boss made sexually or racially charged comments—you too would be less likely to later get a full time job at that company. The reason for this assumption is based on the rationale that employers are using to employ interns: it allows them to test out future employees before making a firm commitment. Therefore quitting mid-summer or semester would seem to indicate a lack of compatibility with the company, which the company would likely see as a reasonable excuse for not later hiring the individual.

Therefore, when interns go to work for the summer, not only are they gaining valuable work experience, but they are also 'trying out' for a job. It is because of this “try out” element that internships have become an active part of the hiring practice. If the majority of firms and companies hire from a pool of former interns, then the internship is itself part of the hiring process, used to evaluate applicants in the same manner that an employer would evaluate a future employee during a job interview. One employer even goes so far as to call internships a “working interview.” The difference from ordinary interviews, of course, is that this interview does not take hours, but weeks.

One of Title VII’s express purposes is to eliminate discriminatory hiring practices. Internships, in their capacity as a multi-week

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108 Korn, supra note 96.
109 Id.
110 Id.
111 See id. (stating that in areas such as finance, consulting, and technology in particular, getting a job at a company is tough if the student did not first spend a summer interning there).
112 Thru, supra note 86.
113 Korn, supra note 96.
114 McDonnell Douglas Corp., 411 U.S. at 800–01.
interview, can allow employers to engage in two potential discriminatory hiring practices, the types of which Congress intended Title VII to prevent. So long as internships are not covered by Title VII, these problems will continue to emerge, thereby preventing Title VII from fulfilling its purpose of eliminating discriminatory hiring practices.

The first discriminatory hiring issue that can emerge within an internship is during the initial process of choosing the intern. Although this sort of selection process is the type of barrier that Title VII seeks to eliminate, because Title VII does not cover interns, it is unlikely that an intern could sue for not being selected for the internship. Therefore, a company that did not want to employ African Americans, Christians, women, people of Chinese descent, or Buddhists, could ask questions during the interview process that would normally be prohibited because they would serve as a discriminatory hiring barrier. Furthermore, companies could deny interviews based on race, religion, or sex, and the applicants would have no recourse under Title VII because the courts do not consider interns protected under Title VII. Later, when the company hires primarily from its intern pool—as the statistics above indicate it will likely do—it will have a legitimate, and arguably nondiscriminatory, reason for hiring patterns that would otherwise appear quite discriminatory. It is in part because of this glaring loophole in the process that would allow a company to hire in such a discriminatory fashion, that interns should be covered under Title VII.

The second discriminatory hiring problem emerges during the internship itself, when the intern is subject to discriminatory comments or harassment. If a company is one that does not like a specific race, color, religion, or sex, that company can choose to target interns by harassing them and by making discriminatory comments. The interns who find themselves at the center of this discriminatory attention have three options: ignore the comments or harassment, confront the harasser, or quit. When the intern does either of the latter two, their chances of later getting a job will likely drop, based on reasons discussed above.

If an intern quits mid way through their internship, the company will have a valid reason for not hiring that person based on the idea that it did not work out during the internship—otherwise the intern would not have quit—so why should the company invest time and

115 Id.
116 Although there is no case law on the subject, there is no reason to believe that courts would handle this situation any differently than they have handled intern Title VII cases in the past.
effort into hiring this person, when it is just as likely not to work out when the person works there full time.\footnote{Thiru, supra note 86.} If the intern confronts the harasser, like Ms. Wang did in \textit{Wang v. Phoenix Satellite Television, US, Inc.},\footnote{\textit{Wang}, 976 F.Supp.2d at 530.} it is likely that the situation will work out in the same fashion as it did in \textit{Wang}: the employer will come up with a seemingly valid reason why the company will not hire the intern. The probable result is that, at the end of the summer, the interns who were the focus of the discriminatory behavior will either not get a full time job because they quit or confronted their harasser, or will not apply for the job at all. Thus, the only individuals who are likely to apply and get the job will be those former interns who were not discriminated against, or those who were, but were willing to “tough it out.”

It is this weeding out of interns through the presence of workplace discrimination that demonstrates how Title VII fails when it does not protect interns. As discussed, one of the goals of Title VII is to act in a preventative capacity.\footnote{See supra text accompanying notes 31–49.} Interns, if successful, are the future employees of a company, and therefore when Title VII does not protect interns from discrimination, it is also not preventing future discriminatory practices from occurring in the workplace. The reason for this is that if a supervisor discriminates against an intern, why would that supervisor stop discriminating simply because an intern is hired as a full time employee. Therefore, if Title VII is truly going to fulfill its potential, discriminatory practices need to be stopped when they start to protect interns.

Therefore, it is because internships have become such a crucial part of the hiring process, making or breaking a person’s chance of later getting a job, that Title VII ought to cover interns. When Title VII ignores interns, it fails to fulfill its goals of eliminating discriminatory hiring practices, and from preventing future discrimination in the workplace.

\textbf{C. Internships: A Window into the Workplace}

Schools advertise internships not only as an essential part of getting a job, but also as a way to bolster resumes by gaining valuable work experience.\footnote{See Terry, supra note 90 (listing the opportunity to gain “authentic work experience,” and to help “build a strong resume” among the many reasons why a student should get an internship during college).} The reason for this: because employers are using internships as a tool through which to develop a pool of candidates for
full-time employment, they often fully immerse their interns within the workplace. Although employers may have once used interns for the sole purpose of coffee and mail, in NACE’s 2013 survey, employers reported that interns only spend 1.9% of their time doing what is characterized as “non-essential functions.” The other 98.1% of the time, interns were busy working “on meaningful tasks,” which included: Admin/Clerical work (8.9%); Communications work (19.1%); Logistics work (12.2%); Analytical/Problem Solving (35.9%) and Project Management work (22%). Assuming that interns are not working on made up projects, these numbers would imply that 98.1% of the time interns are working with other full-time employees. Therefore, 98.1% of the time interns are working within the same work environment as any other full-time employee who is completing similar work.

As evidenced above, interns once more become relevant to fulfilling the purposes of Title VII; one of Title VII’s purposes is to eradicate workplace discrimination, including the type of discrimination that creates a toxic work environment. Because internships immerse individuals within the workplace, whenever interns are subject to discrimination or harassment, the workplace as a whole is impacted. Ignoring interns thus creates two problems under Title VII: the ignored existence of a toxic work environment, and the possibility of further unreported discrimination.

Title VII prohibits workplace discrimination that serves to create a toxic work environment. As discussed above, the Supreme Court has extended Title VII’s reach to employees who are forced to work in a “discriminatorily hostile or abusive environment” that is “so heavily polluted with discrimination as to destroy completely the emotional and psychological stability of minority group workers.”

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121 See supra text accompanying notes 98–119.
122 See Auerbach, supra note 90 (stating that “[i]nternships provide students with real-world experience in their field”); Terry, supra note 90 (stating that “[i]nternships give students opportunities to work with professionals in a chosen field,” which would suggest that interns are not working in an isolated bubble, but amongst the full time employees working for the employer).
123 See Hering, supra note 86 (implying that making coffee runs in the morning used to be the norm).
124 How Interns and Co-ops, supra note 3.
125 Id.
126 Id.
127 See supra Part II(A)(a).
128 See id.
130 Vance, 133 S. Ct. at 2240 (quoting Rogers v. EEOC, 454 F.2d 234, 238 (1971)).
Because interns are part of the workplace, the discrimination and harassment that they experience also becomes part of the workplace, and therefore when interns are ignored, so too is the impact that the discrimination they face has on the workplace.

Title VII cannot be successful in its goal to prevent the creation of a discriminatory work environment so long as interns are not covered. This argument is based on the reasonable conclusion that the discrimination interns face becomes part of the workplace environment as a whole. Just as interns do not work within an isolated bubble in the workplace, interns are not harassed and discriminated against in an isolated bubble. Therefore, when an intern faces discrimination, it impacts the entire workplace and can lead to “the creation or perpetuation of a discriminatory work environment” that Title VII was created to prevent.

The second way in which Title VII cannot successfully complete its goal of eliminating workplace discrimination when interns are ignored is based on the argument that, when interns are discriminated against, it is likely that they are not the only ones being targeted. Because interns are so immersed in the workplace, their experiences, arguably, reflect the experiences of the full time employees within the workplace. Employees may not feel comfortable stepping forward and filing a formal complaint, but their interests are, by extension, represented by the lone intern, like Ms. Wang, who does step forward.

This argument becomes more likely when one considers that, in several cases where interns complained of harassment, they were not the only ones experiencing such harassment. In *O’Connor v. Davis*, the Second Circuit Court of Appeals found that the plaintiff—an intern—was not the harasser’s “only target,” the other victims of the harasser’s sexual harassment were employees who worked for the defendant. Therefore, not only was the plaintiff’s experience reflective of the experience of other employees, it was also reflective of how the defendant-employer handled such harassment cases. One can assume that, just as the plaintiff’s complaints to her direct supervisor regarding such harassment were not reported, so too was the case for any employee who also complained of the harassment (if any employee in fact did), based on the fact that the harasser was still

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131 Id.
132 See *O’Connor*, 126 F.3d at 114; see also Doe v. Lee, 943 F. Supp. 870, 875 (N.D. Ill. 2013) (stating that the plaintiff was not the only one to experience sexual harassment while working for the defendant employer).
133 *O’Connor*, 126 F.3d at 114.
134 Id.
135 See id.
136 Id.
employed and still engaging in discriminatory behavior.\footnote{See id. (explaining that the defendant had a history of harassing employees in the past, but making no mention of any disciplinary actions taken in response to this fact).} When the Court held that Title VII did not apply to the plaintiff, it allowed for the continuation of workplace discrimination, thereby failing to uphold the purposes of Title VII. Therefore, by not acknowledging that interns offer a window into the workplace as a whole, and that the discrimination they experience is either the same discrimination other employees are experiencing or lending itself to the creation of a discriminatory workplace, Title VII is not able to succeed.

**IV. CONCLUSION: WHEN WE IGNORE THE PURPOSES OF TITLE VII, TITLE VII FAILS**

Although the arguments for applying the agency-based control definition of employee to Title VII are well reasoned—it allows for consistency, and that is the most oft cited legal definition of employee—the application of this definition is leading to the failure of Title VII. Interns provide the perfect example of such: here is a group not legally considered an employee under the agency-based definition and therefore not covered by Title VII. Yet, when interns face workplace discrimination and courts ignore their plight, workplace discrimination, the exact thing Title VII was enacted to prevent, is allowed to flourish. So long as Title VII does not cover interns and other workers like them, Title VII will be unable to complete its goal of preventing employment discrimination based on protected status.
THE ONLINE CROSSROADS OF WEBSITE TERMS OF SERVICE AGREEMENTS AND CONSUMER PROTECTION: AN EMPIRICAL STUDY OF ARBITRATION CLAUSES IN THE TERMS OF SERVICE AGREEMENTS FOR THE TOP 100 WEBSITES VIEWED IN THE UNITED STATES

James R. Bucilla II†

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ABSTRACT

Every day, individuals and businesses are adjusting to the present reality that we live in an online world. An ever-expanding group of adults, teens and young children connect on a regular basis to the Internet through the use of cellular telephones, iPads, personal laptops and work computers. Businesses of all shapes and sizes strive to tap into the unlimited potential in running international border-defying websites (“sites”), typically containing links to terms of service agreements at the bottom of their site webpages.¹ It is these site terms of service agreements that contractually govern the legal relationships between the individual users and the businesses running these sites.² This article examines the findings of an empirical study, evaluating the use of predispute arbitration clauses in the terms of service agreements of the sites most-accessed by United States users. These clauses profoundly affect the individuals and businesses using the Internet.

While online businesses have legitimate reasons to incorporate arbitration clauses in their terms of service, they cannot ignore the impact that these clauses have on their sites’ individual users. Although current United States Supreme Court jurisprudence reflects a relentless willingness of the Court to liberally enforce these executory agreements to arbitrate,³ online international businesses considering whether to include arbitral provisions within their site terms of service must also account for the private and foreign efforts to regulate the fairness of these provisions. This study reveals that while some sites incorporate arbitration clauses in their terms of service through arguably legitimate efforts to select an effective method of dispute resolution, many other sites employ arbitral clauses that raise significant concerns about fundamental fairness. Although Congress may refuse to flatly prohibit predispute arbitration clauses in site terms of service agreements, it should enact federal legislation that is designed to minimize the harsh effects that these clauses have upon the powerless users of the Internet.

¹ See Jack Blum, Offer and Acceptance in Cyberspace: Ensuring That Your Client’s Website is Protected by Enforceable Terms of Service, 47 Md. B.J. 18, 19 (2014).
² Id.
I. INTRODUCTION

Do I believe in arbitration? I do. But not in arbitration between the lion and the lamb, in which the lamb is in the morning found inside the lion.

Samuel Gompers

Individuals enter into contractual relations with online businesses every day on an increasing basis by using the Internet. Websites (“sites”) contain links at the bottom of their web pages to terms of service agreements, setting forth the rights and liabilities of the businesses and individual users interacting on these sites. These terms of service are enforceable even where users do not affirmatively manifest assent, so long as the site provides its users with reasonable notice of these contractual terms. It is not enough to review these terms once, where sites often reserve the right to update the

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5 The Internet is more and more becoming a basic part of the everyday activities of individual consumers. Nearly All Consumers (97%) Now Use Online Media to Shop Locally, According to BIA/Kelsey and ConStat, BIA/KELSEY, (Mar. 10, 2010), http://www.biakelsey.com/company/press-releases/100310-nearly-all-consumers-now-use-online-media-to-shop-locally.asp (announcing that the results of a consumer study indicate that the balance of consumers’ local shopping has now shifted to online purchasing); see also Survey: Two-Thirds of Internet Users Make Online Purchases, THE HEARTLAND INSTITUTE, http://news.heartland.org/newspaper-article/survey-two-thirds-internet-users-make-online-purchases (last visited Sept. 30, 2015) (stating that mainstream consumer purchasing is now conducted over the internet).

6 Site terms of service, typically available at the bottom of a site’s web page through a link entitled “terms of service,” “terms of use,” “terms” or “legal,” may bind Internet users to a site’s standardized terms solely by the user’s browsing or accessing of a site without any other affirmative acts. See ROGER LEROY MILLER & GAYLORD A. JENTZ, FUNDAMENTALS OF BUSINESS LAW: EXCERPTED CASES 272–75 (2d ed. 2010) (explaining how browse-wrap terms do not require users to agree to the terms before using the site).

7 Compare Hubbert v. Dell Corp., 835 N.E.2d 113, 122 (Ill. App. Ct. 2005) (finding reasonable notice sufficient to form mutual assent, where the site had provided a statement that online sales were subject to the site’s terms of use, available via a contrasting blue hyperlink at bottom of the site’s web page), with Specht v. Netscape Commc’ns Corp., 306 F.3d 17, 31–32 (2d Cir. 2002) (refusing to enforce a mandatory arbitration clause in the site terms of service where it was unclear if the consumer had an opportunity to review these terms, located on submerged screen).
substantive terms contained within these agreements.\textsuperscript{8} Often an arbitration clause lies deep within these standardized terms designed by the site.\textsuperscript{9}

Sites and users governed by the terms of service may arbitrate a dispute between them in a proceeding outside of a courtroom.\textsuperscript{10} Arbitration is a contractually defined, private process that affords sites, and to some extent users, the opportunity to shape the rules and procedures that will control the disposition of a later dispute.\textsuperscript{11} There are many reasons why businesses and individuals may find that such a flexible process would be advantageous to resolve a dispute, as opposed to resorting to litigation.\textsuperscript{12} Many sovereigns recognize the utility in arbitrating a dispute and thus enforce these agreements to arbitrate.\textsuperscript{13}

However, there is a high risk that sites may abuse this manipulative method of dispute resolution. Sites unilaterally dictate the terms of arbitral proceedings when they incorporate arbitral provisions in their online terms of service.\textsuperscript{14} Sites are repeat players

\textsuperscript{8} For example, Google contains in its terms of service the provision that the site may modify its terms and make them effective fourteen days after posting them. Google Terms of Service, GOOGLE, http://www.google.com/intl/en/policies/terms/ (last updated Nov. 11, 2013). I began this study on October 11, 2013, and Google updated its terms of service on November 11, 2013. Consider whether individuals should be required once a month to review the terms of service for each of the myriad of sites that they visit on a daily basis.

\textsuperscript{9} The individual user has no say in the drafting of site terms of service. This study revealed that thirty percent of the top sites viewed in the U.S. contain arbitration clauses within their terms of service, located on average seventy-seven percent through the entire agreement after 5,250 words of text. See infra Part II, Finding #7.

\textsuperscript{10} Arbitration is a method of dispute resolution, where a third party “arbitrator” has the authority to consider a dispute and then impose a binding outcome on the parties. JAY FOLBERG ET AL., RESOLVING DISPUTES: THEORY, PRACTICE, AND LAW 5 (Vicki Been et al. eds., 2d ed. 2010).

\textsuperscript{11} See id. at 6–7 (noting that because arbitration is defined contractually, parties shape this dispute resolution process by incorporating desired terms into their agreements to arbitrate). Sites and not users draft the terms of service, allowing sites to dictate most of the shaping of the agreed-upon, arbitral process. However, users retain some say in the molding of this process, where the arbitral clause is silent or explicitly directs the parties to mutually decide a specific term after a dispute arises in the future.

\textsuperscript{12} Businesses as well as individuals may reasonably conclude that arbitration will allow them to resolve their disputes through a faster, less-expensive procedure, where they may benefit from having greater control over who hears the matter, the rules and timing of the process, and the location of the dispute. See id. at 707.

\textsuperscript{13} See id. at 558 (noting that “the great majority of sovereign nations have signed key conventions that provide for arbitration of private disputes.”).

\textsuperscript{14} See infra Part II, Findings #2, #8.
that use their knowledge of the arbitral process to gain a contractual advantage, through the careful placement or omission of key arbitral terms into the agreement. At the same time, users are unaware of these clauses that govern their daily online activities and waive their fundamental rights. Arbitrators cannot ignore the fact that it is the sites that are sending them these disputes. The disparity in bargaining power between the large corporate sites and their individual users gives rise to the potential for manipulation, raising significant concerns about fundamental fairness.

This Article examines the findings of an empirical study, conducted as an expansion upon Professor Michael L. Rustad’s study of the use of predispute arbitration by social networking sites. This empirical study examined the incorporation of predispute arbitration clauses by the top 100 sites viewed in the United States into their terms of service. Part I explains how and why the author selected this particular sample and then categorizes the sites into ten classes, based upon the sites’ key attributes. Part II reveals sixteen noteworthy findings, concerning how the top sites design and incorporate their arbitration clauses in the terms of service. Part III provides the reader and any global online business who is considering the incorporation of an arbitration clause into its terms of service with important information about the relevant laws and private-actor efforts in the United States and in Europe that monitor the use of these clauses. Part IV explains the implications of the statistical data found in light of the relevant laws and private-actor efforts to monitor arbitration agreements in the United States and in Europe. The essential finding is that although some sites employ these clauses through legitimate efforts to select an effective method of dispute resolution, many other sites design these clauses in such a way as to raise significant concerns regarding fundamental fairness. Part V suggests that Congress needs to enact federal legislation that is designed to minimize the harsh effects in form and in substance that standardized, predispute

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15 See infra Part II, Findings #5, #12, #16.
16 See infra Part II, Findings #10, #11.
17 In 2012 Professor Michael L. Rustad conducted an empirical study of the use of predispute mandatory arbitration clauses in the terms of service of 157 social networking sites viewed across the world. Michael L. Rustad et al., An Empirical Study of Predispute Mandatory Arbitration Clauses in Social Media Terms of Service Agreements, 34 U. ARK. LITTLE ROCK L. REV. 643 (2012). I also conducted a study on the use of predispute arbitration clauses in site terms of service but expanded the scope of my inquiry to cover a broader array of sites and not just social networks. Where noteworthy, I mention how my findings compare to those of Professor Rustad.
18 See infra Part I.A.
arbitration clauses have upon online users. While the struggles for reform in the consumer, employment and civil rights contexts inform us that there is not enough of a consensus in the United States for decision makers to flatly prohibit standardized, predispute arbitration clauses, new legislation regulating the design and presentation of these clauses in site terms of service agreements may ameliorate issues of fundamental fairness at a minimum cost to online businesses legitimately exercising their freedom to contract. Finally, this Article concludes with a summary of the key issues that global, online businesses must confront when considering whether to include an arbitration clause in their terms of service.

II. THE SAMPLE

A. Choosing a Sample

In an effort to conduct a study of the arbitration clauses which have the greatest impact on United States users, I selected a sample based on Alexa’s list of the top sites viewed in the United States. The sample consisted of 100 terms of service agreements. The actual sample contained 100 of the 104 most-viewed sites as of the date of the sample selection, because not every site in Alexa’s ranking contains a terms of service agreement.

B. Classification of Websites Within the Sample

The sites in the sample fall into the following categories, described in the order of occurrence and broken down in Table One below.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Number of Sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopping</td>
<td>15</td>
</tr>
<tr>
<td>News</td>
<td>10</td>
</tr>
<tr>
<td>Social</td>
<td>10</td>
</tr>
<tr>
<td>Education</td>
<td>10</td>
</tr>
<tr>
<td>Entertainment</td>
<td>10</td>
</tr>
<tr>
<td>Gaming</td>
<td>10</td>
</tr>
<tr>
<td>Sports</td>
<td>10</td>
</tr>
<tr>
<td>Finance</td>
<td>10</td>
</tr>
<tr>
<td>Travel</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
</tr>
</tbody>
</table>


20 I selected the sample on October 14, 2013. I omitted four of the “top 100 most-viewed sites” from the study, because the four web addresses listed did not contain any links to terms of service agreements. For example, T.co is a domain without its own terms of service link and used as part of Twitter’s micro-blogging service, already accounted for in the sample. See T.CO, http://t.co/ (last visited Sept. 24, 2014). Unlike a domain, Drudge Report is an actual website visited by countless users. However, this site contains no terms of service. See DRUDGE REPORT, http://www.drudgereport.com/ (last visited Sept. 24, 2014). I omitted these four sites, because including them within the sample would not have accurately represented the incidence of arbitration clauses among site terms of service agreements.

21 I defined the categories in a broad manner, in light of the fact that the Internet serves unlimited purposes. When a site displayed characteristics of more than one category, I took a bird’s-eye view and placed the site in the category that best fit its continued...
1. Social Networking

Social networking sites ("SNSs") constituted seventeen percent of the sample. SNSs allow users to build relationships by developing and sharing common interests with each other.\(^{22}\) Coming in many shapes and sizes, these sites attract users through various themes and site layouts.\(^{23}\) For example, Facebook and LinkedIn let users network through user-maintained profiles, but the latter site is narrower in scope and caters to professionals.\(^{24}\) YouTube and Imgur target users who desire to upload, share and view videos or pictures, but WarriorForum and Twitter allow users to capitalize on their blogging and microblogging capabilities.\(^{25}\)

2. Information Delivery

Information delivery sites represented sixteen percent of the sample. These sites compile and display various breeds of user-desired information.\(^{26}\) Most of these sites, such as CNN, NBC News, and The Washington Post, deliver leading news stories to users.\(^{27}\) The remainder of the sites in this category accumulate information pertaining only to special topics. For example, The Weather Channel provides users with updates on forecasts and natural disasters.\(^{28}\)

\(^{22}\) See Rustad, supra note 17, at 647.

\(^{23}\) In his empirical study, Professor Rustad elaborates on the vast range of available SNSs and classifies the sites as falling within the following subcategories: Shared Interests, Friendship and Family, Business and Education, Blogging and Microblogging, Identity-Driven, Dating and Relationship, Language Ethnicity and Culture, and Health and Medical. Id. at 649–52.


\(^{26}\) See infra Table One (explaining how I determined and named the categories and the criteria used to place each website into a category).


3. **Sales & Support**

Sales and support sites also formed sixteen percent of the sample. These sites offer sales or support services for the products or services of brick-and-mortar or online-only businesses.\(^{29}\) Target and Best Buy sell goods online in addition to sales at brick-and-mortar stores, whereas AVG and Adobe allow users to purchase online and then download their software products.\(^{30}\)

4. **Entertainment**

Entertainment sites made up ten percent of the sample. All of these sites appeal to users' need to experience some form of enjoyment.\(^{31}\) The forms of entertainment range from radio streaming through Pandora to downloading pornography at Pornhub.\(^{32}\)

5. **Services of an Online World**

Another ten percent of the sampled were sites categorized as “services of an online world.” These sites all provide functions that would not exist in a world without computers and the Internet.\(^{33}\) GoDaddy is a domain name registrar and web-hosting provider; Dropbox offers cloud-storage services; and OptMD allows users to opt out of an ad server’s placement of cookies on users’ browsers.\(^{34}\)

- **Multimedia**

\(^{29}\) See infra Table One.


\(^{31}\) See infra Table One.


\(^{33}\) See, e.g., DROPBOX, https://www.dropbox.com/ (last visited Sept. 25, 2014) (explaining that the website allows for users to access documents from multiple devices); What We Do, GoDADDY, http://www.godaddy.com/ (last visited Sept. 25, 2014) (explaining that the purpose of GoDaddy is to act as a domain name registrar); OptMD Cookie Opt Out, OptMD.COM, http://optmd.com/ (last visited Sept. 25, 2014) (explaining that the website is a server delivering online advertisements to other websites and that users may opt out of the cookie being placed on their computers).

Multimedia sites made up eight percent of the sample. These sites contain multiple and distinct functions, fulfilling the various needs of a diverse body of users.\textsuperscript{35} Google not only acts as a search engine but also as the primary access point for users seeking to send emails, play games, and obtain news updates, among other tasks.\textsuperscript{36} These sites do not offer just one online tool, and it is better to conceptualize them as “digital leathermans.”

6. Advertising/Intermediary

Sites advertising or acting as intermediaries for users represented seven percent of the sample. These sites bring users together, but users do not contract with each other until after they have met, left the site, and are off on their own.\textsuperscript{37} Yelp provides a forum through which a user may find a nearby, reviewed business, TripAdvisor allows users to browse vacation rental listings, and Craigslist maintains classified ads for those in need of furniture, automobiles or even jobs.\textsuperscript{38}

7. Information Database

Six percent of the sample consisted of sites that contain databases of specific categories of information. Students may browse Dictionary.com for stored definitions and synonyms of indecipherable words while playing an offline game of Scrabble, and movie buffs may find out a favorite actor’s biography or a scheduled movie release date on the Internet Movie Database.\textsuperscript{39}

\textsuperscript{35} See Our Products and Services, GOOGLE, http://www.google.com/about/company/products/ (last visited Sept. 25, 2014) (describing the various services that Google provides for users including: search engine, web browser, and email).

\textsuperscript{36} Id.


\textsuperscript{38} Id.

8. Finance

Sites for financial intermediaries and online payment processors made up five percent of the sample. Bank of America offers online banking for account holders, and PayPal provides a payment-processing tool through which business and consumer users may enter into online transactions.  

9. Marketplace

Five percent of the sample represented sites that provide users with an Internet Marketplace. Users create accounts and then may buy or sell goods or services through the site.  

Users commonly log into Amazon or eBay to buy or sell books, movies or other household goods; other users may buy or sell services on Fiverr for as low as five dollars.  

Table 1. Breakdown of Website Classification within the Sample.

<table>
<thead>
<tr>
<th>Category:</th>
<th>Frequency/Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Networking</td>
<td>17</td>
</tr>
<tr>
<td>Information Delivery</td>
<td>16</td>
</tr>
<tr>
<td>Sales &amp; Support</td>
<td>16</td>
</tr>
<tr>
<td>Entertainment</td>
<td>10</td>
</tr>
<tr>
<td>Services of an Online World</td>
<td>10</td>
</tr>
<tr>
<td>Multimedia</td>
<td>8</td>
</tr>
<tr>
<td>Advertising/Intermediary</td>
<td>7</td>
</tr>
<tr>
<td>Information Database</td>
<td>6</td>
</tr>
<tr>
<td>Finance</td>
<td>5</td>
</tr>
<tr>
<td>Marketplace</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

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III. SIXTEEN EMPIRICAL FINDINGS REVEALED

Thirty percent of the sampled terms of service agreements contained arbitration clauses. None of the sampled sites contained these clauses within their privacy policies. Appendix A provides a list of the links to the agreements containing arbitration clauses. A discussion follows below of the sixteen noteworthy findings of this empirical study.

A. Finding #1: Perceptible Differences Exist Between the Distributions of Sites with Arbitration Clauses and Categories of Sites Sampled

Certain types of sites appear more likely than others to incorporate an arbitration clause in the terms of service. As Table Two indicates, the Entertainment, Multimedia, and Marketplace sites each accounted for a percentage of arbitration clauses that was double their respective portions of the overall sample. Entertainment sites were ten percent of the sample but employed twenty percent of the arbitration clauses found. Multimedia sites were eight percent of the sample but incorporated sixteen percent of the arbitration clauses discovered. Marketplace sites made up five percent of the sample but used thirteen percent of the arbitration clauses sampled.

Contrast the above sites with their Advertising/Intermediary, Sales & Support, Services of an Online World and Information Database counterparts. Advertising/Intermediary sites were seven percent of the sample and yet none of them had an arbitration clause in the terms of service. Sales & Support, Services of an Online World, and Information Database sites constituted sixteen, ten and six percent of the overall sample respectively, but each of these classes of sites utilized just over three percent of the arbitral clauses found. These types of sites appear less likely to contain arbitration clauses than those described in the preceding paragraph, and thus it would seem

43 See supra notes 19–20 and accompanying text.
44 This is the opposite conclusion, albeit in the context of a different studied population, reached by Professor Rustad. See Rustad et al., supra note 17, at 653 (finding “no perceptible differences between the distribution of social network sites with arbitral clauses” and the total sample).
45 See infra Table Two.
46 Id.
47 Id.
48 Id.
49 Id.
50 Id.
that users playing Internet video games are more likely to submit to arbitration than those advertising online for the sale of their used goods.\textsuperscript{51}

Table Two. Presence of Arbitration Clauses by Classification of Website.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency/Percent</th>
<th>Arbitration Clause(s):</th>
<th>Percentage of Arbitration Clauses Found:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Networking</td>
<td>17</td>
<td>5</td>
<td>16.67</td>
</tr>
<tr>
<td>Information Delivery</td>
<td>16</td>
<td>5</td>
<td>16.67</td>
</tr>
<tr>
<td>Sales &amp; Support</td>
<td>16</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>Entertainment</td>
<td>10</td>
<td>6</td>
<td>20.00</td>
</tr>
<tr>
<td>Services of an Online World</td>
<td>10</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>Multimedia</td>
<td>8</td>
<td>5</td>
<td>16.67</td>
</tr>
<tr>
<td>Advertising/Interme diary</td>
<td>7</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Information Database</td>
<td>6</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>Finance</td>
<td>5</td>
<td>2</td>
<td>6.67</td>
</tr>
<tr>
<td>Marketplace</td>
<td>5</td>
<td>4</td>
<td>13.33</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>100</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

B. Finding #2: Most Sites Incorporate Predispute Mandatory Arbitration Clauses

Table Three indicates that sixty-three percent (n=19) of the terms of service agreements containing arbitration clauses unequivocally provided for mandatory arbitration.\textsuperscript{52} In other words, nineteen percent of sites in the entire study contained a pre-dispute, mandatory arbitration clause, regardless of which party brings a claim or the amount of the claim. Over thirteen percent (n=4) of arbitration clauses

\textsuperscript{51} I state this finding just to explain a discovered correlation. No attempt is made to explain why certain types of sites appear more likely than others to incorporate an arbitration clause in the terms of service. Causation is left for the reader to ponder.

\textsuperscript{52} See \textit{infra} Table Three.
were mandatory in nature for users located specifically in the U.S.\textsuperscript{53} Table Four shows that two clauses permitted either party to elect arbitration, while two other provisions limited the right of election to the site alone.\textsuperscript{54} All four of these elective terms are “functionally equivalent to pure mandatory arbitration clauses,” when the site desires an arbitration forum.\textsuperscript{55}

Table Three: Types of Arbitration

<table>
<thead>
<tr>
<th>Type of Arbitration Specified:</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory</td>
<td>19</td>
<td>63.33</td>
</tr>
<tr>
<td>Elective</td>
<td>4</td>
<td>13.33</td>
</tr>
<tr>
<td>Mandatory for Certain Geographic Area</td>
<td>4</td>
<td>13.33</td>
</tr>
<tr>
<td>Mandatory for Claims Under Specified Amount</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>Elective for Claims Under Specified Amount</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>Mandatory if Mediation Fails</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>\textit{Total:}</td>
<td>\textit{30}</td>
<td>\textit{100}</td>
</tr>
</tbody>
</table>

Table Four: Types of Elective Arbitration

<table>
<thead>
<tr>
<th>Type of Elective Arbitration:</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Either Party May Elect</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Only Website May Elect</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Complainant May Elect for Claims Under Specified Amount</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>\textit{Total:}</td>
<td>\textit{5}</td>
<td>\textit{100}</td>
</tr>
</tbody>
</table>

\textsuperscript{53} Id.

\textsuperscript{54} See infra Table Four.

\textsuperscript{55} Professor Rustad hinted at the contradiction in a site utilizing an “elective” arbitration clause, where the site in effect has mandated that the user submit to arbitration at the site’s will. See Rustad et al., supra note 17, at 654.
C. Finding #3: Most Sites Choose the American Arbitration Association

Sixty-three percent (n=19) of sites chose the American Arbitration Association (AAA) to act as the arbitral provider. Two of these sites allowed either party to select the Judicial Arbitration and Mediation Services (JAMS) if the AAA is unable to hear the matter within 160 days. Table Five shows that only two clauses stated that the arbitral provider was to be mutually agreed upon at a later date. One site provided that it alone would choose the provider.

Table Five: Arbitration Providers Selected in the Terms of Service

<table>
<thead>
<tr>
<th>Arbitration Provider:</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Arbitration Association (AAA)</td>
<td>19</td>
<td>63.33</td>
</tr>
<tr>
<td>Arbitrator Selection Not Addressed</td>
<td>4</td>
<td>13.33</td>
</tr>
<tr>
<td>Judicial Arbitration and Mediation Services (JAMS)</td>
<td>3</td>
<td>10.00</td>
</tr>
<tr>
<td>Mutually Agreeable Provider</td>
<td>2</td>
<td>6.67</td>
</tr>
<tr>
<td>Site to Choose</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>Provider Knowledgeable in E-Commerce Disputes</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

An additional thirteen percent (n=4) of arbitration clauses indicate that arbitration would be governed by the AAA Commercial Rules, but did not explicitly address the selection of an arbitral provider. While an educated attorney may posit that this indicates the selection of an AAA provider, the average user may not make such an inference. For example, CBS Sports provides that “[w]e may elect to resolve any controversy or claim arising out of or relating to the Terms or the Services by binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association.” CBS INTERACTIVE (July 2, 2012), https://cbsisecure.force.com/CBSi/articles/FAQ/CBS-Interactive--Terms-of-Use?retURL=%2FCBSi%2Fapex%2Fknowledgehome%3Fprovider%3DmobileTerms.com&popup=false&categories=CBS_Interactive%3AmTOU&template=template_mobileTerms&referer=mobileTerms.com. Those unfamiliar with the world of arbitration may properly conclude that rules adopted by the AAA will apply to their dispute resolution process but not even consider that a provider has been selected.

Although only one site stated that it alone would choose the provider, eighty percent (n=24) of sites in effect chose the provider. The site alone drafts its terms of service, and when these terms contain an arbitral clause setting forth a specific arbitral provider, the site has already chosen the provider on its own without consulting the user.

56 An additional thirteen percent (n=4) of arbitration clauses indicate that arbitration would be governed by the AAA Commercial Rules, but did not explicitly address the selection of an arbitral provider. While an educated attorney may posit that this indicates the selection of an AAA provider, the average user may not make such an inference. For example, CBS Sports provides that “[w]e may elect to resolve any controversy or claim arising out of or relating to the Terms or the Services by binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association.” CBS INTERACTIVE (July 2, 2012), https://cbsisecure.force.com/CBSi/articles/FAQ/CBS-Interactive--Terms-of-Use?retURL=%2FCBSi%2Fapex%2Fknowledgehome%3Fprovider%3DmobileTerms.com&popup=false&categories=CBS_Interactive%3AmTOU&template=template_mobileTerms&referer=mobileTerms.com. Those unfamiliar with the world of arbitration may properly conclude that rules adopted by the AAA will apply to their dispute resolution process but not even consider that a provider has been selected.

57 See infra Table Five.

58 Although only one site stated that it alone would choose the provider, eighty percent (n=24) of sites in effect chose the provider. The site alone drafts its terms of service, and when these terms contain an arbitral clause setting forth a specific arbitral provider, the site has already chosen the provider on its own without consulting the user.
D. Finding #4: No Arbitration Clauses Unequivocally Mandate In-Person Proceedings

Almost half (n=14) of the arbitration clauses specified whether the dispute-resolution process is to be conducted at a meeting in-person or over the telephone, online, or through written submissions. As Table Six indicates, roughly fifty-three percent (n=16) of the provisions did not address whether arbitration was to be structured as appearance or non-appearance proceedings. Only two clauses allowed the user an unqualified right to choose whether arbitration would require appearance or non-appearance-based proceedings. Interestingly, two more clauses allowed the user to select appearance or non-appearance proceedings if the amount in controversy was $10,000 or less, while three other clauses allowed the user this choice if the amount was over $10,000.

Two sites mandated that the parties would not appear in the event of arbitration. One of these gives the complainant a choice whether the process would be done over the phone, online or through written submissions, while the other does not address the means of non-appearance arbitration or which party would choose those means. Only six percent (n=2) of the clauses required that the arbitration be appearance-based, but this could be satisfied over the telephone and either party could choose not to appear for claims valued at $10,000 or less.

Table Six: Who Chooses What Manner in Which to Conduct the Arbitral Proceedings?

<table>
<thead>
<tr>
<th>Mode of Arbitration:</th>
<th>Who Chooses:</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mode Not Addressed</td>
<td>N/A</td>
<td>16</td>
<td>53.33</td>
</tr>
<tr>
<td>Appearance or Non-Appearance</td>
<td>Not Specified</td>
<td>3</td>
<td>10.00</td>
</tr>
<tr>
<td>Appearance or Non-Appearance if Claim &gt; $10,000</td>
<td>User</td>
<td>3</td>
<td>10.00</td>
</tr>
<tr>
<td>Appearance or Non-Appearance</td>
<td>User</td>
<td>2</td>
<td>6.67</td>
</tr>
<tr>
<td>Appearance or Non-Appearance</td>
<td>User</td>
<td>2</td>
<td>6.67</td>
</tr>
</tbody>
</table>

59 See infra Table Six.
60 See infra Table Six.
61 See infra Table Six.
62 Compare this with the findings of Professor Rustad, who concluded that forty-three percent of social networking sites required appearance-based arbitral proceedings. See Rustad et al., supra note 17, at 656.
### Table

<table>
<thead>
<tr>
<th>if Claim ≤ $10,000</th>
<th>Site</th>
<th>2</th>
<th>6.67</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Appearance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appearance if Claim &gt; $10,000</td>
<td>Site</td>
<td>2</td>
<td>6.67</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>N/A</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

#### E. Finding #5: Half of the Arbitration Clauses That May Result in In-Person Proceedings May Lead to Proceedings at A Location Not Based on the User’s Location or “Convenience”

As seen in Table Seven, forty percent (n=12) of arbitration clauses provided for proceedings at the user’s residence or at a location based on the user’s “convenience.”\(^{63}\) Two of these clauses state that the user may alternatively elect to arbitrate in New York.\(^{64}\) One-third (n=10) of arbitration clauses mandated that proceedings would be at a fixed location, regardless of user residence or convenience.\(^{65}\) However, one of these clauses indicated that it may be subject to the AAA Supplementary Procedures for Consumer-Related Disputes requiring a different location, while another one of these clauses allowed the user to demonstrate that the pre-determined location would place an undue burden on the user, in which case the user’s residence is chosen.\(^{66}\) Although twenty percent (n=6) of arbitration clauses did not address location of proceedings, two of these clauses required non-appearance proceedings where location may matter less to a user.\(^{67}\) Half (n=14) of the arbitration clauses that may result in an in-person proceeding could also require the user to arbitrate in a location not based on his or her residence or “convenience.”\(^{68}\)

\(^{63}\) See infra Table Seven.

\(^{64}\) Id.

\(^{65}\) Id. For the most part, these mandated fixed locations in Texas, New York, California, and Louisiana. However, xHamster’s terms unequivocally provide that “arbitration shall be conducted in the Republic of Cyprus.” Terms & Conditions/User Agreement, xHAMSTER, http://xhamster.com/terms.php (last visited Sept. 27, 2014). The reader should wonder how much it would cost a United States user to travel to arbitral proceedings in the Republic of Cyprus.

\(^{66}\) See infra Table Seven.

\(^{67}\) Id.

\(^{68}\) Id. None of these fourteen clauses explicitly based location on the user’s residence or “convenience,” but all of them included terms allowing a party to select either in-person or non-appearance proceedings. See infra Appendix A. The actual location and mode of proceedings is not always known at the time of contract formation. Only after a dispute has arisen will the parties know where and how they would like to proceed in arbitration and have an opportunity to interpret ambiguities within the contract language. In light of this practicality, although only one-third

continued...
F. Finding #6: Arbitration Clauses Tend to Explain Some But Not All of Users’ Rights

The arbitration clauses ranged from 70 to 1415 words in length, with the average clause being 576 words in length and the median clause being 475 words in length. Table Eight indicates that forty-three percent (n=13) of clauses explained some but not all of the user’s rights in arbitral proceedings. These clauses were riddled with legalese that may be indecipherable to the average user and ranged from 311 to 1227 words in length. Over thirty-six percent (n=11) of clauses explained the user’s arbitral rights in great detail. Only one of these clauses was concise, where these clauses ranged from 339 words to 1415 words in length. One fifth (n=6) of the clauses did not explain the rights in clear terms. In fact, these clauses tended to

(n=10) of clauses explicitly chose a fixed location not based on the user’s residence, it would seem that it is more relevant to the user to know that half of the arbitration clauses that may result in in-person proceedings could lead to proceedings at a location not based on the user’s residence or “convenience.” See infra Table Seven. These are the situations most costly to the user.

69 See infra Table Eight.
70 Id.
71 Id.
72 Id.
73 See Conditions of Use, AMAZON, http://www.amazon.com/gp/help/customer/display.html/ref=footer_cou?ie=UTF8&nodeId=508088 (last updated Dec. 5, 2012); see infra Table Eight. Although a user will desire to be informed of his or her rights in arbitral proceedings, at a certain point an arbitral clause may be so detailed that the excessive wording may serve to actually lessen the user’s comprehension of the terms of arbitration.
not explain any of the user’s rights in arbitral proceedings, and they ranged from only 70 to 165 words in length.\textsuperscript{75}

Table Eight: Level of Detail and Length of Clauses

<table>
<thead>
<tr>
<th>Detail of Clause:</th>
<th>Low Word Count</th>
<th>High Word Count</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some Rights in Legalese</td>
<td>311</td>
<td>1227</td>
<td>13</td>
<td>43.33</td>
</tr>
<tr>
<td>Rights Explained in Detail</td>
<td>339</td>
<td>1415</td>
<td>11</td>
<td>36.66</td>
</tr>
<tr>
<td>Rights Not in Clear Terms:</td>
<td>70</td>
<td>165</td>
<td>6</td>
<td>20.00</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>N/A</strong></td>
<td><strong>N/A</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

G. Finding #7: Most Arbitration Clauses Appear Towards the End of the Terms of Service

Not a single arbitration clause appeared in the first half of the terms of service. The clauses varied from being situated at fifty-two percent to ninety-five percent through the terms of service.\textsuperscript{76} The average arbitral clause appeared beginning at seventy-seven percent through the entire agreement after 5250 words of text, and the median clause lay after 4443 words of text.\textsuperscript{77}

\textsuperscript{75} See infra Table Eight.

\textsuperscript{76} See AMAZON, supra note 73 (showing that for Amazon.com the clause is situated at fifty-two percent).

\textsuperscript{77} See supra note 9. The median figure of 4443 words may be a more appropriate estimate of the average number of words a user would need to read prior to coming upon an arbitration provision. The findings reveal that 28 of 30 arbitration clauses appeared at 1432 to 9784 words into the terms of service, with these agreements spanning from 2223 to 10,750 total words in length. Two potential outliers, both pertaining to Finance sites, had arbitration clauses situated at 17,737 of 21,265 words into the terms of service spanning from 19,250 of 24,395 total words in length. See infra Appendix A.
H. Finding #8: Most Arbitration Clauses Attempt to Specify Which Rules Will Apply to A Future Dispute

As Table Nine indicates, eighty-seven percent (n=26) of arbitration clauses addressed the question of which rules and procedures are to be applied to dispute proceedings.\footnote{See infra Table Nine.} Half (n=15) of the terms of service require application of both the American Arbitration Association (AAA) Commercial Rules and the Consumer-Related Disputes Supplementary Procedures.\footnote{Id.} An additional five arbitration clauses only mentioned that they required the application of the AAA Commercial Rules alone.\footnote{Id.} Two more clauses only mentioned the application of the AAA Consumer-Related Disputes Supplementary Procedures alone.\footnote{Id.} One last clause mentioning the AAA did not attempt to specify which AAA rules or procedures were applicable.\footnote{Id.} As opposed to the seventy-three percent (n=22) of arbitration clauses favoring AAA rules or procedures, only three clauses incorporated rules adopted by the Judicial Arbitration and Mediation Services.\footnote{Id.}

\footnote{78 See infra Table Nine.} \footnote{79 Id.} Only eight arbitration clauses explicitly specified that they required application of the AAA commercial rules and supplementary procedures for consumer-related disputes. However, an additional four clauses required AAA “rules” and supplementary procedures for consumer-related disputes, leading to the reasonable inference that both commercial and consumer rules were to apply. The other three clauses within this category explicitly required the application of the AAA Commercial Rules to future proceedings, however these also stated that the supplementary consumer procedures would apply to proceedings in value ≤ $75,000, a stipulation already included in the AAA supplementary procedures. I placed all of these clauses in the same category, because they in effect required the application of both commercial and consumer-related rules and procedures to future disputes.\footnote{80 Id.} Although a site may only mention the AAA’s commercial rules in its arbitration clause, the AAA will have the discretion to apply its Supplementary Procedures for Consumer-Related Disputes, whenever the AAA or its rules are used in a non-negotiated agreement between consumers and businesses that make use of the standardized and systematic application of arbitration clauses. AM. ARBITRATION ASS’N, CONSUMER-RELATED DISPUTES: SUPPLEMENTARY PROCEDURES 4 (2005), available at http://www.adr.org/cs/ideplg?idcService=GET_FILE&dDocName=ADRSTAGE2009997&Revision Selection Method=LatestReleased.\footnote{81 See infra Table Nine.} \footnote{82 Id.} \footnote{83 Id.}
Table Nine: Arbitration Rules and Procedures Selected

<table>
<thead>
<tr>
<th>Arbitration Rules/Procedures</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA Commercial Rules and Consumer-Related Disputes Supplementary Procedures</td>
<td>15</td>
<td>50.00</td>
</tr>
<tr>
<td>AAA Commercial Rules</td>
<td>5</td>
<td>16.67</td>
</tr>
<tr>
<td>Rules Not Addressed</td>
<td>4</td>
<td>13.33</td>
</tr>
<tr>
<td>AAA Consumer-Related Disputes Supplementary Procedures</td>
<td>2</td>
<td>6.66</td>
</tr>
<tr>
<td>AAA “Rules and Procedures”</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>JAMS “Rules and Procedures”</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>JAMS Comprehensive Arbitration Rules</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>JAMS Streamlined Arbitration Rules</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>Total:</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

I. Finding #9: A Majority of Arbitral Clauses Were Presented in A Conspicuous Manner

Based on the Uniform Commercial Code (UCC)'s definition of conspicuous, 84 one-third (n=10) of arbitration clauses were presented in an inconspicuous manner. Table Ten confirms that these ten clauses contained text in the same font as the rest of the terms of service. 85 Nothing else in these ten agreements called the arbitral clause to the attention of reading users. However, arguably two-thirds (n=20) of sites did present arbitral clauses in a conspicuous manner. 86 Fifty-six percent (n=17) of sites used clauses in either bold-faced and/or all-caps font. 87 Another three sites included a statement in contrasting font at the top of their terms that noted the presence of an otherwise inconspicuous arbitration clause. 88 Although almost fifty percent (n=14) of sites warned users at the beginning of the terms of service of the arbitration clause placed deep within the document, only three of these “warn” clauses were in the same font as the remainder of the agreement. 89

84 A clause may be presented conspicuously if it contains typeface that is in contrast to the surrounding document, such as through the use of bold or all-caps text, a separate font or color, or, if marks or symbols are otherwise present in the document and call the reader’s attention to the term. See U.C.C. § 1-201(b)(10) (2013).
85 See infra Table Ten.
86 Id.
87 Id.
88 Id.
89 Id.
Table Ten: Typeface of Arbitration Clauses and Notation of Clause Presence in Agreement

<table>
<thead>
<tr>
<th>Contrasting Format Used:</th>
<th>Clause Noted at Top of TOS:</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>No</td>
<td>10</td>
<td>33.33%</td>
</tr>
<tr>
<td>Some Bold and Some All Caps Type</td>
<td>Yes</td>
<td>6</td>
<td>20.00%</td>
</tr>
<tr>
<td>Some Bold or Some All Caps Type</td>
<td>Yes</td>
<td>5</td>
<td>16.67%</td>
</tr>
<tr>
<td>Some Bold or Some All Caps Type</td>
<td>No</td>
<td>5</td>
<td>16.67%</td>
</tr>
<tr>
<td>None</td>
<td>Yes</td>
<td>3</td>
<td>10.00%</td>
</tr>
<tr>
<td>Some Bold and Some All Caps Type</td>
<td>No</td>
<td>1</td>
<td>3.33%</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>N/A</strong></td>
<td><strong>30</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

J. Finding #10: Forty Percent of Arbitral Clauses Do Not Even Mention That Rights Are Waived

Forty percent (n=12) of clauses did not even mention that rights are waived or limited by agreeing to submit to arbitral proceedings.\(^90\) Table Eleven shows that all other arbitration clauses at least informed the user that he or she would be waiving the right to a jury trial.\(^91\) Forty percent (n=12) of clauses mentioned that there was no judge presiding over proceedings.\(^92\) Thirty percent (n=9) of clauses mentioned the limited rights to appeal an arbitrator’s decision.\(^93\) Only two of the thirty sampled clauses mentioned that users waived the right to traditional discovery procedures.\(^94\)

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\(^90\) See infra Table Eleven. However, one of these sites, Hulu, did kindly hint: “If you’re not sure what all of this means, of course please feel free to ask an attorney.” Terms of Use, HULU (last visited Aug. 7, 2014), http://www.hulu.com/terms. This is practical advice for the user; perhaps he or she can take heed of it right before streaming his or her favorite television show on a Sunday evening, when there is no better time to call an attorney and incur legal expenses.

\(^91\) See infra Table Eleven.

\(^92\) Id.

\(^93\) Id.

\(^94\) Id.
Table Eleven: Rights Clauses Explained That May Be Waived or Limited

<table>
<thead>
<tr>
<th>Rights Clauses Mention That May Be Waived or Limited</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Rights Mentioned</td>
<td>12</td>
<td>40.00</td>
</tr>
<tr>
<td>Jury Trial, Judge, Appeal</td>
<td>7</td>
<td>23.33</td>
</tr>
<tr>
<td>Jury Trial</td>
<td>5</td>
<td>16.67</td>
</tr>
<tr>
<td>Jury Trial, Judge</td>
<td>4</td>
<td>13.33</td>
</tr>
<tr>
<td>Jury Trial, Judge, Appeal, Discovery</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>Jury Trial, Appeal, Discovery</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td>Total:</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

K. Finding #11: Users Waive Their Right to Class Action Proceedings in Over Seventy-Six Percent of Agreements to Arbitrate

Users waived the right to class action proceedings in over seventy-six percent (n=23) of the arbitration clauses.\(^95\) Table Twelve indicates that in two of these clauses this waiver was inconspicuous and explicitly limited just to the user.\(^96\) Sites noted at the top of the terms the presence of a class waiver deep within the document in slightly over forty-three percent (n=10) of cases.\(^97\) Five additional class action waivers were printed in either bold or all-caps font.\(^98\) Thus thirty-five percent (n=12) of the sites presented class action waivers in an inconspicuous manner.

Table Twelve: Who Waives the Rights to Class Action Proceedings?

<table>
<thead>
<tr>
<th>Who Waives Class Actions:</th>
<th>Noted at Top of TOS Agreement:</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutually Waived</td>
<td>No</td>
<td>11</td>
<td>36.67</td>
</tr>
<tr>
<td>Mutually Waived</td>
<td>Yes</td>
<td>10</td>
<td>33.33</td>
</tr>
<tr>
<td>Neither Party</td>
<td>N/A</td>
<td>7</td>
<td>23.33</td>
</tr>
<tr>
<td>User Alone Waives</td>
<td>No</td>
<td>2</td>
<td>6.67</td>
</tr>
<tr>
<td>Total:</td>
<td>N/A</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

\(^{95}\) See infra Table Twelve.
\(^{96}\) Id.
\(^{97}\) Id.
L. Finding #12: Almost Half of the Sites Did Not Mention Relief in Small Claims Court

Only sixteen arbitral clauses explicitly gave users the right to pursue small claims actions. 99

M. Finding #13: Half of the Arbitration Clauses Did Not Advise the User on How to Obtain More Information on Arbitration Proceedings

Over half (n=16) of the arbitration clauses provided users with no means by which the user may obtain additional information regarding arbitral proceedings. Table Thirteen shows that all of the sampled clauses informed the user whether arbitration would be mandatory or optional. 100 However within each subset of mandatory or optional arbitration, over half (n=13 or 3, respectively) of those clauses provided no means by which the user may obtain more information on arbitration. 101 Fourteen arbitral clauses instructed the user to review the AAA’s website for additional information on arbitration. 102 Apart from the AAA, sites provided users with no other sources that would assist the user in finding out more information on arbitration proceedings.

99 Id. (providing an example).

100 There is room for the argument that some of the sampled clauses were indefinite and did not in fact advise the user whether arbitration would be mandatory or optional. For example, LinkedIn provides that “[f]or any claim . . . where the total amount of the award sought is less than $10,000, the party requesting relief may elect to resolve the dispute . . . through binding non-appearance-based arbitration.” User Agreement, LINKEDIN, (Sept. 12, 2013), http://www.LinkedIn.com/legal/user-agreement?trk=hb_ft_userag. In this case, where the terms of service are silent in regards to claims of at least $10,000 in value, one may argue that the user is not advised as to whether arbitration of those greater claims would be mandatory or optional. A more reasonable interpretation is one that views those larger claims as falling outside of the scope of the clause. Thus, the user is advised as to whether the proceeding is mandatory or optional in regards to all disputes in fact covered by the arbitration agreement.

101 See infra Table Thirteen.

102 Id.
Table Thirteen: Access to Information Regarding ADR Program

<table>
<thead>
<tr>
<th>Effort to Provide User With Information on Arbitration:</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory Arbitration; No Means Given to Find More Information</td>
<td>13</td>
<td>43.33</td>
</tr>
<tr>
<td>Mandatory Arbitration; AAA Website and/or Telephone</td>
<td>12</td>
<td>40.00</td>
</tr>
<tr>
<td>Optional Arbitration; No Means Given to Find More Information</td>
<td>3</td>
<td>10.00</td>
</tr>
<tr>
<td>Optional Arbitration; AAA Website</td>
<td>2</td>
<td>6.67</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

N. Finding #14: A Majority of Clauses Do Not Explain How to Initiate Arbitral Proceedings

Table Fourteen indicates that seventy percent (n=21) of arbitration clauses did not address how the parties would go about initiating arbitral proceedings. However, five of these clauses did provide the user with the AAA’s website, affording the user an opportunity through which he or she may conduct research and learn on his or her own how to initiate proceedings.103 Less than one-quarter (n=5) of these clauses, not stating how to initiate arbitral proceedings, at least informed the user how to go about initiating a claim against the website.104

Table Fourteen: Exercising the “Option” to Arbitrate

<table>
<thead>
<tr>
<th>Clause Coverage of Initiation of Claims and Proceedings:</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did Not Address Initiation of Claims or Proceedings</td>
<td>16</td>
<td>53.33</td>
</tr>
<tr>
<td>Explained How to Initiate Arbitration Proceedings</td>
<td>9</td>
<td>30.00</td>
</tr>
<tr>
<td>Explained How to Raise Claims Against Website</td>
<td>5</td>
<td>16.67</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

103 See infra Table Thirteen.
104 Id. A user may initiate an informal claim against a site by filing a grievance with the site itself but not go so far as to initiate formal arbitral proceedings. These clauses explained how to proceed in just the former case.
O. Finding #15: Two-Fifths of Arbitration Clauses Did Not Address The Costs of Arbitration

Forty percent (n=12) of arbitration clauses in the sample did not address the parties’ responsibilities for the costs of proceedings. Of the provisions that did mention costs, Table Fifteen indicates that two thirds (n=12) of these clauses mentioned that payment of costs would be governed by AAA rules.105 No arbitration agreement provided any estimated costs of arbitration. However, eight terms of service agreements did provide that the site would cover or reimburse the costs of arbitration for certain non-frivolous claims; while five sites agreed to this for claims under $10,000 in value, an additional three sites agreed to this for claims up to $75,000 in value.106 Two arbitration clauses unequivocally required the user bear the costs of arbitration.107

Table Fifteen: Clauses Addressing the Costs of Arbitrating a Dispute

<table>
<thead>
<tr>
<th>Who Bears Costs of Arbitrating the Dispute</th>
<th>Frequency:</th>
<th>Percent:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs Not Addressed</td>
<td>12</td>
<td>40.00</td>
</tr>
<tr>
<td>Filing and Administrative Fees Governed by AAA Rules</td>
<td>12</td>
<td>40.00</td>
</tr>
<tr>
<td>Website May Cover or Reimburse Costs; no mention of AAA Rules</td>
<td>3</td>
<td>10.00</td>
</tr>
<tr>
<td>User Bears Costs</td>
<td>2</td>
<td>6.67</td>
</tr>
<tr>
<td>Non-Prevailing Party Ultimately Bears Costs</td>
<td>1</td>
<td>3.33</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

105 See, e.g., Conditions of Use, supra note 73 (“Payment of all filing, administration and arbitrator fees will be governed by the AAA’s rules.”).

106 Compare id. (stating that costs for claims under $10,000 will be reimbursed by Amazon unless determined by the arbitrator to be frivolous), with Microsoft Services Agreement, § 10.6.1 “Disputes involving $75,000 or less,” MICROSOFT, http://windows.microsoft.com/en-us/windows/microsoft-services-agreement (last updated June 11, 2014) (stating that costs for claims under $75,000 will be reimbursed by Microsoft).

107 See, e.g., Online Access Agreement, § 20(F), WELLS FARGO, https://online.wellsfargo.com/common/html/wibdisc.html#DisputeResolutionProgram (last updated Sept. 17, 2013) (“Unless inconsistent with applicable law, each of us shall bear the expense of our own attorney, expert and witness fees, regardless of which of us prevails in the arbitration.”).
P. Finding #16: Users May Be Explicitly Required to Bring Claims Within a Short Period

Thirty percent (n=9) of arbitration clauses imposed a limitation on the time period that a user would have to bring an action against the site. Eight clauses required users to bring claims against the sites within one year, and an additional site only gave its users six months to act.  

IV. APPROACHES TO ARBITRATION CLAUSES IN THE UNITED STATES AND EUROPEAN UNION

Any global online business that is considering incorporating an arbitration clause into its terms of service must consider the relevant laws and private-actor efforts that will influence the extent to which it will be able to enforce its arbitral clause. This section provides the reader with a summary of the varying public and private approaches that sites, viewed in the U.S. and in Europe, should contemplate when drafting their arbitral clauses. The following section then examines the above-mentioned study findings in light of the legal efforts summarized below.

A. Enforceability of Arbitration Clauses in the United States

1. Federal Arbitration Act

Congress enacted the Federal Arbitration Act (FAA) in 1925 in response to widespread judicial hostility to arbitration agreements. FAA § 2 provides that “a written provision . . . involving commerce to settle by arbitration a controversy thereafter arising out of such contract . . . shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.” When a party to a contract refuses to submit to arbitration in accordance with an agreement to arbitrate, FAA § 4

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108 See e.g. Microsoft Services Agreement, § 10.8, MICROSOFT, http://windows.microsoft.com/en-us/windows/microsoft-services-agreement (last updated June 11, 2014) (stating that claims or disputes not filed within one year of when a claim or notice of claim could have been filed are permanently barred).
111 9 U.S.C. § 2 (2012). FAA § 2 reflects a liberal federal policy in favor of arbitration. See Concepcion, 131 S. Ct. at 1745–46 (noting that courts must place arbitration agreements on equal footing with other contracts and enforce them according to their terms, except when invalid due to general contract defenses).
allows its opponent to seek a court order directing the parties to proceed to arbitration.\textsuperscript{112} Since the FAA is a federal statute, both state and federal courts will find that it pre-empts conflicting state laws.\textsuperscript{113}

2. Supreme Court Jurisprudence

Currently the Supreme Court broadly construes the Commerce power,\textsuperscript{114} subjecting arbitration clauses to the FAA not only in business-to-business contracts but also in consumer contracts.\textsuperscript{115} The Court has undertaken a series of decisions in the past few decades, through which it has used the FAA to enforce arbitration clauses, even where they contain class action waivers in consumer contracts.\textsuperscript{116} In fact, in the past four terms the Court has on six occasions ruled in favor of the enforceability of arbitration clauses.\textsuperscript{117}

In two of its most recent decisions, the Court has worked towards clearing the path of those businesses considering the use of one-sided

\textsuperscript{112} 9 U.S.C. § 4 (2012) (conditioning entry of an order to arbitrate upon satisfaction that “the making of the agreement for arbitration” is not in issue).


\textsuperscript{114} See U.S. CONST. Art. I, § 8, cl. 3

\textsuperscript{115} See Drahozal et al., supra note 3. While it appears that the FAA was meant to apply to business-to-business contracts, the Court interpreted the words “involving commerce” in FAA §2 as reaching the limits on Congress’ commerce clause power. See Allied-Bruce Terminix Cos., Inc. v. Dobson, 513 U.S. 265, 273–74, 282 (1995) (holding that the FAA made enforceable a written arbitration provision in contract between homeowner and termite control company, even where it was argued that the parties contemplated a transaction primarily local and not substantially interstate in nature); see also Rustad et al., supra note 17, at 675 (arguing that the Supreme Court’s expanding interpretation of matters covered by the FAA is affording businesses the opportunity to “routinely include these one-sided clauses in settings that policy-makers and corporations have previously never dreamed possible”).

\textsuperscript{116} See Rustad et al., supra note 17, at 676–79 (outlining recent Supreme Court jurisprudence that has “paved the way for arbitration agreements to be included in consumer transactions”); see also Am. Express Co. v. Italian Colors Rest., 133 S. Ct. 2304, 2309 (2013) (noting that consistent with the FAA, courts must rigorously enforce arbitration agreements according to their terms, including terms choosing an arbitrator and rules, even where claims allege violations of federal statutes).

arbitration clauses in their contracts. In *AT&T Mobility v. Concepcion* the Court held that the FAA preempted California law, declaring unconscionable and thus unenforceable class action waivers in arbitration agreements incorporated into standard, pre-printed wireless consumer contracts. In *American Express v. Italian Colors*, the Court rejected the argument that an arbitration agreement between a major credit card company and a contracting merchant should be unenforceable, where the cost of proving a claim would so exceed the potential recovery that no right-minded plaintiff would pursue the matter. It appears that in case after case, the Court will continue to apply the FAA and to enforce arbitration agreements according to their terms, whether or not they lie in consumer or business contracts, are formed where there is a disparity in the parties’ bargaining power, or come in standard one-sided terms. Defenses singling out arbitration clauses from other types of contracts on substantive grounds will remain to be rejected, while agreements to arbitrate may still be invalidated at the procedural level by “generally applicable contract defenses, such as fraud, duress, or unconscionability.”

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118 See id.


120 See *AT&T Mobility LLC v. Concepcion*, 131 S. Ct. 1740, 1752–53 (2011) (reasoning that enforcement of arbitral clauses according to stated terms was necessary to place arbitration agreements on equal footing with other contracts).

121 133 S. Ct. (2013).

122 *Italian Colors*, 133 S. Ct. at 2310–11 (reasoning that even though it may not be worth plaintiff’s expense in pursuing a remedy, such does not mean an arbitral agreement has eliminated the right to pursue that remedy). The argument rejected by the *Italian Colors* Court is called the “effective vindication rule.” See *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth*, Inc., 473 U.S. 614, 637 (1985) (upholding arbitral clause in an international sales transaction while noting in dicta that the Court was bound to affect the parties’ intentions “so long as the prospective litigant effectively may vindicate its statutory cause of action in the arbitral forum”). Simply put, the *Italian Colors* Court was willing to enforce an agreement where there would be highly prohibitive costs to proving a claim where the clause did not prospectively mandate that the party waive his or her rights to a remedy under federal statute. See *Italian Colors*, 133 S. Ct. at 2310–11.


124 *Concepcion*, 131 S. Ct. at 1746; see *Mills*, supra note 117 (noting that since the holding of *Italian Colors* concerning agreements between businesses in the financial services industry also applies to consumer contracts as well, the decisions of *Concepcion* and *Italian Colors* implicitly combine to constrain businesses and consumers alike from challenging properly formed arbitration agreements).
3. \textit{Consumer Due Process Protocol}

In light of the fact that U.S. statutory and case law presently favors the enforcement of arbitration agreements, private parties are seeking to promote an equitable solution to arbitration involving disadvantaged individuals. The AAA has adopted the Consumer Due Process Protocol (“Protocol”), developed by the National Consumer Disputes Advisory Committee, in an effort to promote “fundamental fairness.”\textsuperscript{125} The AAA will not administer the dispute resolution proceedings if it determines that the arbitral clause does not “substantially and materially” comply with the fairness standards contained within the Protocol.\textsuperscript{126} In making this determination, the AAA refers to the Protocol’s fifteen listed Principles and their respective commentaries.\textsuperscript{127}

Principle 2 states that consumers should be provided with “full and accurate information regarding Consumer ADR Programs.”\textsuperscript{128} It requires reasonable measures, striving to provide a consumer with the information necessary for effective participation once a dispute arises, that include (1) clear and adequate notice regarding the ADR provisions, including an indication of whether participation in the ADR Program is mandatory or optional, and (2) reasonable means by which Consumers may obtain information regarding the dispute resolution program.\textsuperscript{129}

Principle 5 indicates that arbitral agreements should “make it clear that all parties retain the right to seek relief in a small claims court for


\textsuperscript{126} \textit{AAA Review of Consumer Clauses}, AMERICAN ARBITRATION ASSOCIATION, https://www.adr.org/aaa/faces/s/sitesearch?q=review%20of%20consumer%20clause s&_afrLoop=2780344782988&_afrWindowMode=0&_afrWindowId=hxd721vp_1 87%40%3F_afrWindowId%3Dhxd721vp_187%26_afrLoop%3D2780344782988 %26q%3Dreview%2Bof%2Bconsumer%2Bclauses%26_afrWindowMode%3D0%2
continued . . .

\textsuperscript{127} \textit{Id.}

\textsuperscript{128} \textit{Consumer Due Process Protocol, supra} note 125, at Principle 2 (noting that “Consumers should have access to all information necessary for effective participation in ADR.”).

\textsuperscript{129} \textit{Id.}
disputes or claims within the scope of its jurisdiction."130 The AAA recognizes that consumer disputes, well suited to judicial small claims procedures, often involve small amounts of money.131

Principle 6 directs that the dispute resolution program that the site chooses be of reasonable cost to consumers and that “[i]n some cases, this may require the [site] to subsidize the process.”132 While the AAA rejected the establishment of a specific requirement that the business pay the costs of mandated arbitration procedures, it did conclude that the business should ensure the consumer “a basic minimum arbitration procedure appropriate to the circumstances.”133

Principle 7 states that face-to-face arbitral proceedings should take place at a location that is “reasonably convenient to both parties.”134 While recognizing that courts honor agreements to arbitrate at a particular location absent certain contractual formation defenses such as fraud or undue influence, the AAA suggested that if the parties cannot specifically identify a convenient location in the clause, they should not determine location until after a dispute has arisen.135

Principle 11 provides special provisions that are directed explicitly to agreements to arbitrate.136 It incorporates the requirements of Principles 2 and 5.137 It then adds that businesses drafting agreements

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130 Id. at Principle 5.
131 Id. at Principle 5, cmt. (noting that “access to small claims tribunals is an important right of [c]onsumers which should not be waived by a pre-dispute ADR agreement”).
132 Id. at Principle 6 (recognizing the fundamental principle that a person should never be denied access to court due to an inability to pay court costs and noting that various private ADR tribunals have now begun to institute mechanisms to defray the expenses of proceedings).
133 Id. at Principle 6, cmt. (noting that in some cases the need to ensure reasonable costs for the consumer will require a provider of goods or services to subsidize the costs of mandated ADR proceedings). The AAA even included this practical suggestion: “In the event that an ADR procedure is mandated by the [business] and the [c]onsumer demonstrates an inability to pay all or part of the costs of the procedure, the [business] should front such costs subject to allocation in the arbitration award . . . in some cases, it may be possible to fulfill the principle of reasonable cost by the use of the Internet, the telephone, other electronic media, or through written submissions.” Id.
134 Id. at Principle 7 (observing that while some states have enacted laws placing geographical limitations on the locations chosen in arbitral agreements, such laws may be preempted by the FAA).
135 Id. at Principle 7, cmt. (noting that the Advisory Committee was amenable to clauses providing for an agreed-upon process for independent determination of proceeding location if the parties fail to agree, while refusing to set arbitrary mileage limits or choices of near major cities).
136 Id. at Principle 11.
137 Id. at Principle 11. (stating that “[c]onsumers should be given a. clear and adequate notice of the arbitration provision and its consequences, including a continued . . .
should give “a clear statement of the means by which [c]onsumers may exercise the option (if any) to submit disputes to arbitration.”

The AAA gives the practical suggestion that notice of the agreement to arbitrate and its basic consequences should be “conspicuous notice.” Sites viewed in the U.S. and considering the use of the AAA in arbitral proceedings must check whether their proposed arbitral terms comply with the Protocol Principles.

B. Enforceability of Arbitration Clauses in the European Union

I. Directive on Unfair Terms in Consumer Contracts

The European Council Directive 93/13/EEC on unfair terms in consumer contracts (“Unfair Terms Directive”) seeks to harmonize the Member States’ laws governing the terms in consumer contracts, while providing a framework for those laws to remove unfair terms. The Unfair Terms Directive applies to contractual terms between “consumers” and “sellers or suppliers.” Article 3(1) states that a term that “has not been individually negotiated shall be regarded as unfair if, contrary to the requirement of good faith, it causes a significant imbalance in the parties’ rights and obligations . . . to the detriment of the consumer.” Article 3(3) incorporates an Annex to

statement of its mandatory or optional character; b. reasonable access to information regarding the arbitration process . . . ; c. notice of the option to make use of applicable small claims court procedures as an alternative to binding arbitration in appropriate cases . . . ”).

Id.

Id. at Principle 11, Practical Suggestions.


See Council Directive 93/13 (noting that disparities in laws relating to contract terms between consumers and sellers or suppliers of goods and services resulted in distortions of competition among Member States).

Id. at art. 1(1). A consumer is “any natural person who . . . is acting for purposes which are outside of his trade, business or profession.” Id. at art. 2(b). A seller or supplier is “any natural or legal person who . . . is acting for purposes relating to his trade, business or profession.” Id. at art. 2(c).

Id. at art. 3(1). Article 3(2) notes that a term is regarded as “not individually negotiated where it has been drafted in advance and the consumer has therefore not been able to influence the substance of the term, particularly in the context of a pre-formulated standard contract”. Id. at art. 3(2). The “unfairness” of a term is assessed at the time of completion of the contract in light of all of the circumstances surrounding completion. Id. at art. 4(1). In the case of ambiguity, terms are interpreted to have the most favorable meaning for the consumer. Id. at art. 5. The assessment of “good faith” requires particular consideration of the parties’ relative bargaining positions. Id. at pmbl. (noting that seller or supplier meets the requirement of “good faith” where he or she deals fairly and equitably with the

continued . . .
the Unfair Terms Directive that contains a non-exhaustive list of potential unfair terms.\textsuperscript{144} The Annex expressly states that terms that have the effect of hindering a consumer’s right to exercise any legal remedy, “particularly by requiring the consumer to take disputes exclusively to arbitration not covered by legal provisions,” may be regarded as unfair.\textsuperscript{145}

2. Implementation of Directive on Unfair Terms by Member States

Article 6(1) of the Unfair Terms Directive requires the Member States, under their respective national laws, to render unenforceable any terms unfair to a consumer.\textsuperscript{146} Article 7(1) mandates that the Member States also utilize “adequate and effective means to prevent the continued use of unfair terms.”\textsuperscript{147} The Member States’ approach to assessing the unfairness of standard-form arbitration clauses vary.\textsuperscript{148}

\footnotesize
\begin{itemize}
\item \textsuperscript{144} Id. at art. 3(3).
\item \textsuperscript{146} Council Directive 93/13, \textit{supra} note 140, at art. 6(1).
\item \textsuperscript{147} Id. at art. 7(1).
\item \textsuperscript{148} Karin Sein, \textit{Protection of Consumers against Unfair Jurisdiction and continued...}
While some countries regard these clauses as \textit{per se} unfair and thus unenforceable, others assess validity against certain factors under the facts and circumstances of each case.\textsuperscript{149} This variation in approaches is due to the fact that the Unfair Terms Directive is on “minimum harmonization,” where Member States are always free to enact more protective laws for consumers.\textsuperscript{150} Another explanation for these varying approaches to enforceability is that some of the European countries have had issues in implementing the Unfair Terms Directive.\textsuperscript{151}

3. Enforcement of Directive on Unfair Terms by European Court of Justice

The European Court of Justice (“ECJ”) interprets the requirements set forth in the Unfair Terms Directive, but it is ultimately up to a Member State’s national court to decide whether a particular disputed term is unfair and unenforceable.\textsuperscript{152} Moreover in \textit{Mostaza Claro v. Centro Móvil Milenium SL}\textsuperscript{153}, the ECJ held that a national court in an


\textsuperscript{149} Id. (noting that while German law assesses arbitral clauses in consumer contracts against the distance of the arbitral tribunal from residence of consumer and costs of arbitration to consumers, Austrian law prohibits all arbitration clauses contained in standard terms).

\textsuperscript{150} See Novy, supra note 145, at 4.

\textsuperscript{151} See id. at 18–21 (arguing that while German law has not properly implemented the Unfair Terms Directive, where not only have Czech legislators failed to adopt the entire indicative list contained in the Annex to the Unfair Terms Directive, but also Czech courts are not even conscious that arbitration clauses may be unfair terms); see also Guido Alpa, \textit{A Glance at Unfair Terms in Italy and the United Kingdom (What an Italian Lawyer can Learn from the English Experience)}, 15 EUR. BUS. L. REV. 1123, 1128 (2004) (noting that some of the early difficulties in implementing the Unfair Terms Directive in Italy were attributable to an incorrect translation of the Directive).

\textsuperscript{152} Case C-237/02, Freiburger Kommunalbauten GmbH Baugesellschaft & Co. KG v. Hofstetter, 2004 E.C.R. I-3405 (Apr. 1, 2004), available at Case C-237/02, Freiburger Kommunalbauten GmbH Baugesellschaft & Co. KG v. Hofstetter, 2004 E.C.R. I-3403, para. 27. (Apr. 1, 2004), available at http://curia.europa.eu/juris/showPdf.jsf;jsessionid=9ea7d2dc30d63a1b5ce79841487da72eb070289869a.e34KaxilC3qMbr0Ch0Saxu0b3r0?text=&docid=48622&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=387705 (refusing to decide whether a contract term in building contract was unfair and instead deciding that national courts must consider whether a particular term is unfair in light of particular circumstances of the case in question).

action for an annulment of an arbitral award must determine *sua sponte* whether the arbitration agreement in a mobile telephone contract contained an unfair term and if so must void the agreement, even when the consumer-party did not plead unfairness in the arbitral proceedings. This decision imposes an obligation on national courts that is necessary to realize the goals of the Unfair Terms Directive. Member States’ national courts must consider whether arbitral clauses are unenforceable, unfair contract terms, whether or not a consumer challenges them pursuant to the Unfair Terms Directive.

Sites viewed in EU countries and considering the incorporation of an arbitration clause into the terms of service must check whether their proposed arbitral terms would be considered unfair under relevant Member States’ laws.

V. ANALYSIS OF THE STUDY FINDINGS

A. Many Arbitration Clauses Used by the Top Sites Raise Concerns For Fundamental Fairness

This study’s results highlight the concerns that legislatures, courts and private actors should have when considering the enforceability of arbitration clauses contained deep within site terms of service agreements. All but one (n=29) of the clauses sampled gave the sites the power to force arbitral proceedings upon users in certain disputes. One-third (n=10) of the clauses stated that proceedings

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155 See *id.* at para. 37; see also Novy, *supra* note 145, at 9–10 (noting that national courts would not be able to balance interests of consumers and businesses without being able to annul arbitration awards not challenged during arbitration proceedings).

156 See Sein, *supra* note 148, at 54 (observing that while the “European Union legislator does not have general competence to regulate the civil proceedings of the Member States,” judgments of ECJ have considerable impact on those States’ civil proceedings).

157 See *infra* Part II, Finding #2. Eighty-three percent (n=25) of the arbitration clauses explicitly stated that arbitration would be mandatory. *Id.* Four of the five remaining clauses provided the site with an option to elect arbitration, in effect

continued . . .
were to take place at a pre-determined location, without regard to the user’s location or convenience. 158 Almost half (n=14) of the clauses did not mention small claims, an omission that leads reading users to infer that they do not retain the right to seek redress before small claims courts. 159 Over two-thirds (n=16) of sites did not advise users of any rights to have costs of proceedings covered by the sites. 160 Forty percent (n=12) of the sites did not even mention that users would be waiving their rights to a jury trial, a judge, and modern liberal discovery rules or that there would be limited grounds to appeal an arbitral award. 161 Five clauses purported to bind users to commercial arbitration rules, without mentioning whether a user’s status as a consumer would result in the application of a different set of rules and or procedures. 162 While not all of the arbitration clauses were offensive on all of these grounds, a good portion of these clauses contained enough of the above-listed characteristics to raise concerns for fundamental fairness.

For example, CBSSports.com subjects its users to the following dispute resolution process:

We may elect to resolve any controversy or claim arising out of or relating to these Terms or the Services by binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association. Unless we establish a different location, arbitration hearings will be held in San Francisco, California. The arbitrator’s award will be binding and may be entered as a judgment in any court of competent jurisdiction. 163

This arbitral clause, appearing ninety-two percent of the way through the terms of service, grants the site, but not the user, the right to have a matter brought before an arbitrator of the site’s choosing. 164 The site purportedly advises the user that arbitration is to be governed by

binding on the user and thus mandatory in nature. 164 Id. Only one clause provided that the “complainant” might elect for arbitration. Id. If the site is seeking redress, arbitration is again binding on the user and in effect mandatory in nature. Only when the user is the complainant would arbitration truly be elective for the user.

158 See infra Part II, Finding #5.
159 See infra Part II, Finding #12.
160 See infra Part II, Finding #15.
161 See infra Part II, Finding #10.
162 See infra Part II, Finding #8.
163 CBS Interactive, supra note 56. (referring to site as “we” as opposed to both of the contracting parties).
164 Id.
commercial rules. Proceedings are to be conducted in California, unless the site chooses to arbitrate in another location; and there is no consideration of the user’s residence or convenience. The site does not advise the consumer as to whether or not the parties retain the right to avail themselves of proceedings in a small claims court. It also does not advise the consumer whether it may require the user to arbitrate in-person. The clause makes no effort to explain the consequences of a user’s submission to arbitration, nor does it provide the user with any means to obtain additional information on arbitral proceedings. The clause states nothing about the costs of arbitration. A user may never even notice that it could be subject to arbitral proceedings, where this clause appears at the end of the terms of service in the same ordinary font as the rest of the agreement and where there is no language at the top of the terms of service calling the user’s attention to the presence of the clause. This site does not give the user adequate information to understand the significance of the agreement to arbitrate, and the terms that do lie within these mere sixty-nine words are all in favor of the site and make no concessions to the user.

Despite the problematic provisions that sites employ for arbitration clauses within their terms of service, the U.S. Supreme Court’s current jurisprudence affords businesses the opportunity to continue to employ these terms. Over seventy-six percent (n=23) of the sampled arbitration clauses forced users to waive their rights to class action proceedings and required the parties to arbitrate on an individual basis. These sites can now remain confident that these terms will not be invalidated on the basis that it would be unconscionable for users to agree to arbitrate individually, even where it would be cost-prohibitive to seek redress for small claims. When state laws invalidate these terms of service on grounds of “general principle[s] of unconscionability or public-policy disapproval of exculpatory agreements,” the FAA will continue to preempt those state laws and render enforceable agreements to arbitrate.

B. Why These Sites Might Fare Differently if They Are Viewed by European Users?

Sites considering whether to incorporate an arbitration clause within the terms of service must not rely blindly on the liberal federal

165 Id.
166 Id.
167 See supra Part II, Finding #11.
169 Id. at 1747.
policy favoring arbitration. Contrary to the U.S. approach of enforcing arbitration clauses pursuant to the broad mandate of the FAA, European courts in the Member States implementing the Unfair Terms Directive must consider the “unfairness” of these clauses in consumer contracts. 170 Thus, sites accessed by both U.S. and European users must consider whether their prescribed dispute resolution mechanisms are fair.

Many if not all of the sampled arbitral clauses would be subject to the Unfair Terms Directive, if the sites employing them directed their activities to users in Member States. 171 The enforceability of the sampled clauses depends upon the particular Member State’s approach to assessing the “unfairness” of the specific terms at issue. 172 While some European countries would deem the arbitration clauses contained in the sampled, non-negotiated terms of service to be per se unfair terms and consequently unenforceable, other countries would use a more in-depth inquiry to determine whether the terms have resulted in a significant imbalance in the parties’ rights and obligations to the detriment of the consumer. 173 This study’s results highlight the concerns that would be raised by the courts in this latter category when faced with a site seeking enforcement of an arbitral clause contained in its terms of service. 174 With regard to the terms of service agreements that contain arbitration clauses sharing some of the above-described questionable attributes, they operate to alter the rights and obligations of sites and users. 175 The question of whether or not this alteration constitutes a significant imbalance to the detriment of the user will depend upon the particular terms in the clause at issue. 176 This study’s

170 See Case C-168/05 Elisa María Mostaza Claro, at para. 33.
171 While this part of the analysis applies characteristics of the sampled arbitral clauses to the Unfair Terms Directive, I acknowledge that the Unfair Terms Directive will not govern the sampled sites that are not in fact viewed in the EU. Further, the Unfair Terms Directive would not apply in the case of any users who are acting within their trade, business or profession. See Council Directive 93/13 at art. 1(1). However, given that more and more individuals as consumers are using the Internet on a daily basis to fulfill their needs, it is worth considering how the sites sampled would fair under the Unfair Terms Directive. See Nearly All Consumers (97%) Now Use Online Media to Shop Locally, According to BIA/Kelsey and ConStat, supra note 5.
172 See supra notes 146–51 and accompanying text.
173 See id.
174 See supra part IV. B.
175 See id.
176 It is unquestionable that the terms in an arbitration clause akin to that used by CBSSports.com would constitute a significant imbalance in the rights and obligations of the parties to the detriment of the user. See supra part IV. B. However, arbitral terms akin to those used by a site like Warrior Forum may be a closer call. See Terms of Use Agreement, WARRIOR FORUM, continued...
findings suggest that a good portion of arbitral clauses used by the top sites in the U.S. would run afoul of Member States’ laws implementing the Unfair Terms Directive.

C. How does the Sample Fare in Light of the Consumer Due Process Protocol?

Although U.S. judges may have their hands tied to a greater extent than their European counterparts, this does not mean that sites can disregard U.S. private efforts to curb the unfairness in agreements to arbitrate between parties of differing bargaining power. Where a selected arbitral provider conditions the use of its services upon the satisfaction of private administrative standards, the site must be sure to design its arbitration clause so that it accounts for these standards. In light of the fact that over seventy-six percent (n=23) of sampled sites incorporated the rules of the AAA, the below discussion applies the sample findings to the Consumer Due Process Protocol. If the clauses choosing the AAA fail to meet these standards, the AAA has the discretion to refuse to arbitrate the claim. The analysis below leads one to question whether the sampled sites have met the AAA’s standard of administrative review, “substantial and material compliance” with the Protocol.

1. At Least Half of the Clauses Sampled Do Not Comply with Principle 2

Over half of the sampled arbitration clauses did not comply with the minimum requirements set forth explicitly by Principle 2. Recall that compliance with this Principle would require at a minimum not only a statement indicating whether arbitration is mandatory or

http://www.warriorforum.com/tos.html (last visited May 1, 2013) (stating that arbitration is to be elective by either party, proceedings are to be either in-person or non-appearance-based, location is to be based on consumer’s needs if AAA Consumer Rules so require, jury trial rights are explicitly waived, Supplementary Procedures for Consumer-Related Disputes are to be applicable, terms are to be in conspicuous text, the site is to pay for excessive costs of proceedings, and the AAA site is listed with more information on arbitral proceedings).

177 See supra part IV.A.2 and note 124.
178 See supra Part II, Finding #8 and note 80.
179 As a practical matter, one may question the likelihood that an arbitration provider paid to administrate claims would refuse to hear the matter. See Sein, supra note 148, at 56 (noting serious doubts in independence and neutrality of arbitrators having personal interest in conducting proceedings and consequently disregarding voidness of clauses).
180 See supra part IV.A.2 and note 124.
optional but also means by which a consumer may obtain additional information on arbitration.\textsuperscript{181} All sampled clauses at least indicated whether arbitration would be mandatory or optional.\textsuperscript{182} However, fifty-three percent (n=16) of the clauses did not provide the user with means by which he or she may obtain additional information on arbitration proceedings. The fourteen arbitral clauses that did provide such means all directed users to use the AAA website to obtain more information; sites pointed to no other sources of information on arbitration proceedings in their terms of service.\textsuperscript{183} At least a majority of the sampled arbitration clauses did not provide users with “full and accurate information” regarding arbitration, and the sites employing these clauses do not provide users access to all of the information necessary to participate effectively in the case of a dispute.\textsuperscript{184}

2. \textit{Almost Half of the Clauses Sampled Do Not Comply with Principle 5}

Almost half of the sites incorporating arbitration clauses into their terms of service do not satisfy Principle 5, where only sixteen out of the thirty arbitration clauses sampled indicated that the parties retain the right to pursue small claims actions.\textsuperscript{185}

3. \textit{Ambiguities With Respect to Costs of Proceedings May Protect the Clauses from Per Se Running Afoot of Principle 6}

While it is unclear what percentage of the sampled arbitration clauses \textit{per se} run afoot of Principle 6, it was determined that forty-three percent (n=13) of clauses did not incorporate the AAA’s suggestions by which a site may fulfill the “principle of reasonable

\textsuperscript{181} See \textit{supra} part IV.A.2 and notes 126–27. I say “at a minimum” because Principle 2, in addition to these two prongs, actually requires that sites provide users with full and accurate information about arbitration proceedings that is sufficient to enable users to effectively participate in proceedings. \textit{Id}. The analysis in this section is limited to the two prongs that are necessary but not sufficient for compliance with Principle 2, because not only would it be conjecture to estimate how the AAA would administratively evaluate the compliance of each of these sites’ arbitral clauses under the myriad details of arbitral proceedings, but also a consideration properly limited to the two prongs is extensive enough to provide the reader with the main concern raised by the study findings, that over half of the top sites viewed in the U.S. \textit{per se} do not comply with Principle 2.

\textsuperscript{182} See \textit{supra} Part II, Finding #2.

\textsuperscript{183} See \textit{supra} Part II, Finding #13.

\textsuperscript{184} See \textit{supra} part IV.A.2 and note 126.

\textsuperscript{185} See \textit{supra} Part II, Finding #12. See also p.38.
cost.” The Protocol did not adopt an explicit requirement that businesses pay the costs of mandatory arbitration proceedings on behalf of consumers. However, it did provide that the program should be of “reasonable cost” to the consumer. It is debatable whether the forty percent (n=12) of clauses not addressing costs, or even whether the additional twelve clauses stating that costs of procedures were to be governed by AAA rules, operate to deprive users of arbitral proceedings at a “reasonable cost.” For now, one can note that fourteen terms of service agreements afforded the user means of arbitrating in other than in-person proceedings, and an additional three sites provided for circumstances in which the site may pay for some of the user’s responsibility for costs of the proceedings. This appears to be some effort on the sites’ part to meet the AAA’s suggestions. However, one must also note that two clauses unequivocally required the user to bear the costs of arbitral proceedings, appearing to impose potentially unreasonable, one-sided obligations on users regarding the costs of proceedings. Ten clauses required the parties to arbitrate in a fixed location, without regard to the user’s residence or convenience. Terms like these operate to increase the user’s expenses, leading to a cost-prohibitive method of dispute resolution that effectively leaves a reasonable user with no means or redress for nominal injuries.

186 See supra notes 130–31 and accompanying text.
187 See supra note 131.
188 Given that there is no explicit requirement that an agreement to arbitrate cover the responsibility for costs in a certain way, it is difficult to argue that these terms of service agreements constitute a per se violation of Protocol Principle 6. In fact, it may be appropriate to remain silent as to responsibility for costs, where a lot of information is unknown before a dispute has arisen, such as the specific location in which the proceedings would take place or whether proceedings will be in-person or non-appearance based. The reasonableness of the allocation of costs among the parties sometimes cannot be determined until after a dispute has arisen and more information on the proceedings becomes available to the parties. Also, it makes little sense to argue that mere incorporation of the AAA rules would run afoul of its own Consumer Due Process Protocol. See Costs of Arbitration (Including AAA Administrative Fees), AMERICAN ARBITRATION ASSOCIATION, https://www.adr.org/cs/idcplg?IdcService=GET_FILE&dDocName=ADRSTAGE2009593&RevisionSelectionMethod=LatestReleased (last visited Dec. 10, 2013) (providing framework in which consumers bear less of the burden of costs than businesses).
189 See supra Part II, Findings #4, #15.
190 See supra Part II, Finding #15.
191 See supra Part II, Finding #5.
4. **Clauses Unequivocally Requiring Arbitration at a Fixed Location Violate Principle 7**

More than one-quarter (n=8) of arbitration clauses did not follow the advice of Principle 7, which states that face-to-face arbitral proceedings should be at a location reasonably convenient to both parties.\(^{192}\) Specifically, of the clauses where the user may be subject to in-person proceedings, eight mandated that users arbitrate at a fixed location regardless of the user’s residence or convenience.\(^{193}\) The remainder of the sites did not run afoul of this Principle, where fourteen arbitration clauses provided that proceedings would be located at a location based on the user’s convenience or residence, and six clauses did not even address proceeding location.\(^{194}\)

5. **Clauses Tend to Fail to Satisfy Principle 11**

Seventy-three percent (n=21) of the clauses sampled did not meet the minimum requirements of Principle 11, specifically designed to address agreements to arbitrate. Each of these twenty-one clauses failed to meet at least one of the requirements of Principles 2 or 5, both of which are incorporated into Principle 11, or failed to meet the additional requirement that agreements to arbitrate contain a clear statement explaining the means by which consumers may exercise the option to submit a dispute to arbitration.\(^{195}\)

These five conclusions lead one to question whether the sampled sites have met the AAA’s standard of administrative review, “substantial and material compliance” with the Protocol. The author submits that many of the sampled sites have designed clauses in violation of the Protocol, raising significant concerns about fundamental fairness.

VI. **A Suggestion For Congress**

This empirical study confirms that the top sites viewed in the U.S. have designed arbitration clauses in their terms of service that raise concerns for fundamental fairness. Many of the arbitration clauses sampled did not comply with the minimum standards set forth by the Consumer Due Process Protocol, even though over seventy-six percent (n=23) of sampled sites incorporated the rules of the AAA. The U.S.
Supreme Court’s jurisprudence in the past several terms reflects a willingness to liberally enforce clauses like these and affords businesses the opportunity to continue to employ like terms.\textsuperscript{196} This is not surprising in light of the fact that not all agreements to arbitrate are unfair and that arbitration may be beneficial to both parties to a dispute.\textsuperscript{197} U.S. businesses will continue to rely upon this judicial juggernaut at the expense of individuals. This study reveals that it is apparent that private actor efforts to regulate the unfairness in arbitral clauses have not had enough of an impact on questionable arbitrability practices. Congress needs to enact federal legislation that is designed to minimize the harsh effects caused by widespread use of standardized and mandatory, predispute arbitration clauses.

Struggles for reform in the consumer, employment, and civil rights contexts inform us that there is not presently enough of a consensus in the U.S. for decision makers to flatly prohibit standardized predispute arbitration clauses.\textsuperscript{198} In 2011 members of Congress introduced the Arbitration Fairness Act of 2011, intended to amend the FAA so that predispute arbitration agreements are unenforceable in the context of consumer, employment or civil rights disputes.\textsuperscript{199} Although this bill arguably would have restored the rights of Internet users subject to arbitration clauses in site terms of service agreements, it did not make it past the committee stage.\textsuperscript{200} Senator Al Franken (D. Minnesota) has now introduced the Arbitration Fairness Act of 2013,\textsuperscript{201} a bill currently referred to the Senate Committee on the Judiciary and intended to have the same effect as its proposed predecessor.\textsuperscript{202} This author predicts that this bill will also not be approved.

Congress should enact legislation that is not as drastic as the Arbitration Fairness Act but that is still capable of reducing the harsh effects caused by widespread use of standardized and mandatory predispute arbitration clauses. Legislation completely banning predispute arbitration in the consumer, employee and civil rights

\textsuperscript{196} See supra notes113–23 and accompanying text.
\textsuperscript{197} See supra note 12 and accompanying text. Many small and medium-sized businesses would be unable to operate if they were subject to litigation every time a customer filed a grievance.
\textsuperscript{198} See, e.g., infra notes 199–203. and accompanying text.
\textsuperscript{199} See Arbitration Fairness Act of 2011, S. 987, 112\textsuperscript{th} Cong. § 3 (2011), available at https://www.govtrack.us/congress/bills/112/s987; see also Rustad et al., supra note 17, at 680–81 (arguing that Arbitration Fairness Act of 2011 was just the kind of action needed to restore social media users’ rights).
\textsuperscript{202} See id. at § 3.
contexts in the U.S. has been unsuccessful since at least 2005, and its intrusiveness on freedom to contract and the ability to shape a suitable dispute resolution process has attracted strong criticism. The author suggests that, as opposed to completely banning companies from incorporating predispute arbitration clauses into their terms of service, Congress enact legislation regulating these clauses so that their mode of presentation and substantive terms are in substantial conformity with key Principles set forth in the Consumer Due Process Protocol. Online sites should be required to explicitly inform users (1) that they retain the right to pursue relief in small claims courts where in-person arbitral proceedings would be cost-prohibitive, (2) that users give up their rights to a jury trial, administration of proceedings by a judge, and liberal discovery procedures, and (3) how to obtain more information on arbitration proceedings and how to initiate proceedings. If the site is to require face-to-face proceedings, it should either provide that proceedings are to take place at a location based on the user’s residence or convenience or leave the issue up to the mutual agreement of the parties after a dispute has arisen; otherwise, the user should have the option to elect non-appearance based proceedings. Arbitration clauses within terms of service agreements should be conspicuous. Sites should seek an affirmative manifestation of mutual assent for arbitration clauses that are combined with class action waivers, given the extent to which this combination operates to deprive aggrieved consumers of a practical remedy. Even if Congress enacted legislation containing not all but at least some combination of the above suggestions, such legislation would go a long way towards restoring the rights of redress of individual users.

VII. CONCLUSION

Every day more and more individuals and businesses enter into contractual relations on the Internet simply by a site's use of terms of service agreements. This Article has examined the findings of an empirical study of the sites most viewed by U.S. users. Sites of all sorts operate online and deal with consumer, employee and small business users. This study has shown that a vast portion of powerful

online businesses includes arbitration clauses in site terms of service. Through this process, a site is not just selecting its preferred method of dispute resolution; it is altering the rights and liabilities between the site and its users. The empirical findings of this study, aimed at a sample of the site terms of service agreements having the greatest impact on U.S. users, prove that many sites are altering these parties’ rights and liabilities to the detriment of users, raising concerns over fundamental fairness. Every day users waive their rights to litigation without affirmatively manifesting assent to this waiver. This waiver is a problem that is most harmful for those users with small dollar claims.

When applying these top sites’ arbitral agreements to the public and private approaches to enforceability of arbitration clauses in the U.S. and in Europe, it is apparent that public and private actor efforts to regulate the unfairness in arbitral clauses have not had enough of an impact on questionable arbitrability practices. Global online businesses operating in both the U.S. and in Europe must consider the enforceability of their terms under the Unfair Terms Directive.\textsuperscript{204} Where sites incorporate arbitration clauses into their terms of service that select an arbitral administrator like the AAA, these sites must account for standards imposed by the administrators themselves.\textsuperscript{205} Sound business justifications aside, global online businesses must strive to maintain their integrity when it comes to dealing with weaker, individual users. These businesses must consider their terms in light of standards such as the Consumer Due Process Protocol because, ultimately, a dispute resolution process serves the most utility for all where sites design fair clauses with adequate notice to users.\textsuperscript{206} This study has affirmed that many sites are not in compliance with these standards. For now it appears that the global sites most viewed in the U.S. are in need of a small push by Congress, a push that would minimize the harsh effects caused by the widespread use of standardized, predispute arbitration clauses. Only with further remedial action will we be able to help the lambs of the Internet keep out of the mouths of the lions.

\textsuperscript{205}See Supplementary Procedures for the Resolution of Consumer-Related Disputes, supra note 80, at 4.
\textsuperscript{206}See Consumer Due Process Protocol: Statement of Principles of the National Consumer Dispute Advisory Committee, supra note 123.
## VIII. Appendix A: URLs to Terms of Service Agreements with Arbitration Clauses

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Site Name</th>
<th>URL to Site’s Terms of Service Agreement</th>
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</thead>
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</tr>
<tr>
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</tr>
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<td><a href="http://www.warriorforum.com/tos.html">http://www.warriorforum.com/tos.html</a></td>
</tr>
</tbody>
</table>
TRADEMARK PROTECTION IN THE CRAFT BREWING INDUSTRY: A BEER BY ANY OTHER NAME MAY BE AN INFRINGEMENT

Rebecca S. Winder†

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Imagine you have a typical nine-to-five job. You work hard and enjoy what you do, but you live for the evenings and weekends when you can engage in your favorite hobby: home brewing. You have had a passion for beer for years, and you love crafting your own brews. You spend your free time planning your next batch, carefully selecting what ingredients to use and deciding whether to try something new or stick with an old favorite. You spend hours in your garage making sure to get the recipe just right, working carefully through each stage of the process until the last drop of your creation is bottled. Your friends and family greatly appreciate your hobby, and many people have suggested that you could sell your beer. After toying with the idea of making your beer available to consumers, you decide to go all in and try to make it as a craft brewer.

After picking a name and logo, you begin selling your beer to the public. Due to your amazing knack for pairing ingredients, your initial beers are a huge success, and you decide to expand your operation. In the midst of your growth, you receive a call from a fellow brewer who claims you are using a name for your beer that he has been using for many years. As a show of goodwill, you apologize and agree to change the beer’s name. After all, the other brewer was really nice about it, and you are new to the industry and do not want to step on anyone’s toes. As time goes on and you add more and more beers to your portfolio, however, you start to get more calls from other brewers. Before you know it, you are receiving cease-and-desist letters insisting that you change the name of one of your beers, or even the name of the brewery itself. You are stunned that your fellow brewers, who you thought were laid back and collegial, are resorting to legal means to keep you from using certain names.

Unfortunately, one brewer has become particularly bothersome and is making what you believe are unreasonable demands, including threats of a lawsuit. Having just started your own business, you do not have the excess funds necessary to hire an attorney and take the dispute to court. Instead, you can either work with the other brewer, likely being forced to give in to his demands, or you can appeal to your close knit community of supporters via word of mouth and social media in an attempt to get the other brewer to back down. You may even hope that if you publicly shame the other brewer enough, he might drop the dispute. If you decide to engage in a social media campaign to publicly disparage the other brewer and ruin his reputation, he may return the favor and begin doing the same or he may follow through on his threat and file a complaint. Either way, you are likely to end up in a long, bitter conflict with no immediate
end in sight, and even if a resolution is eventually reached, you will not soon forget your sour experience.

Such a scenario is one that almost every modern craft brewer faces. While craft brewing focuses on using unique ingredients to create one-of-a-kind beers, there exists a limited universe of creative names for breweries and their products. The limited naming options have become strained as more and more craft breweries open every day in America and more of the older, well-established craft breweries seek trademark protection for their brand names. By seeking such protection, these breweries are sending a message to the rest of the industry that they are willing to use the legal system to protect their brands.

This article will explore the inherent tension between the attitude and culture of the craft brewing industry and the acquisition and enforcement of trademarks. As the industry continues to grow, this tension has become more pronounced, as evidenced by the many disputes that have recently arisen between industry members. While views on the issue differ throughout the industry, the burgeoning conflict suggests that the industry, through its trade organization, should develop and implement its own standards for trademark protection and dispute resolution.

First, this article will introduce the basics of both the craft brewing industry and trademark registration and enforcement. It will then explore how the nature of the federal trademark system has created tension within the craft brewing industry. This tension will then be illustrated by examining two recent examples of trademark disputes between industry members. Finally, this article will conclude by exploring possible solutions to this tension, including the possibility of industry self-policing through the implementation of a mandatory non-binding mediation scheme required as a condition of membership in the industry’s trade organization and the education of members new to the industry.

II. BACKGROUND

A. An Introduction to Craft Brewing

As a subset of the alcohol industry, the craft beer industry is made up of a wide variety of breweries, each with its own unique focus and style. According to the Brewers Association, the craft brewing industry’s trade organization, a craft brewer is one that is small,
independent, and traditional. A brewery is considered small if it has an annual production of six million barrels of beer or less and independent if less than 25% of the craft brewery is owned or controlled by an alcohol industry member who is not a craft brewer themselves. Finally, a brewery is traditional if the majority of its products are malt based and derive their flavor from fermentation, as opposed to additives that lighten the flavor.

In addition to meeting the Brewers Association’s three-part definition, another key feature of craft breweries is their focus on innovation, with brewers developing new styles, using non-traditional ingredients, or using traditional styles in new ways. For example, Holy City Brewing, a Charleston, South Carolina brewery established in 2011, brews a bacon-flavored beer titled “Notorious P.I.G.” Other brewers have also featured unique ingredients—including jalapeños, peanut butter cups, moon dust, and lobster—and created non-traditional flavors, like key lime pie, ham, and watermelon, just to name a few. This experimentation often results in beer too far afield from what the average beer drinker is used to, so in order to be successful, craft brewers must focus first on building a local fan base instead of mass-producing and distributing their product. It is this regional focus, with an emphasis on connecting individually with their customers and giving back to the local community, that often creates a strong, loyal fan base for craft breweries.

Over the past few years, the craft brewing industry has experienced rapid growth and market expansion. Today a majority

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3 Id.

4 Id.

5 Id.


8 Craft Brewer Defined, supra note 2; Morris, supra note 6.

9 See Craft Brewer Defined, supra note 2.

10 See Morris, supra note 6.
of Americans live within ten miles of a craft brewery. In 2013, there were a total of 2,822 breweries in the United States, 2,768 of which were craft breweries. This number is a steady increase from the 2,033 craft breweries in existence in 2011 and the 2,401 breweries in operation in 2012. A comparison of the number of breweries opening versus the number closing in 2012 also illustrates the industry’s growth. While 450 total craft breweries opened in 2012—110 brewpubs and 340 microbreweries—only 28 brewpubs and 19 microbreweries closed, for a total of 47 closures. Even with this recent boom in the industry, demand still exceeds supply. As a result, in addition to these openings, there are an estimated 1,500 craft breweries in the planning stages. Most interestingly, while sales rates of Anheuser-Busch and MillerCoors products—the “Big Two” breweries in the United States—have consistently fallen, craft beer sales have risen steadily since the recession in 2007.

Anheuser-Busch and MillerCoors have taken notice of the craft brewing industry’s rapid growth and have attempted to capitalize on it. The “Big Two” recognize the unique features of the industry and have tried to enter the market by both buying smaller breweries and producing craft-like beer which they then mass market to consumers as if it is genuine craft beer, as defined above by the Brewers Association. For example, many consumers are unaware that Blue Moon is produced and distributed by MillerCoors, while Anheuser-

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11 Craft Brewer Defined, supra note 2.
13 Id.
14 Id.
15 Id.
17 Id.
Busch markets and sells Shock Top, both of which are commonly thought to be craft beers.\textsuperscript{21} This encroachment by the “Big Two” into the craft beer market is a testament to the industry’s continued success.\textsuperscript{22}

Because of its history and size, the craft brewing industry has a unique culture. The industry started with home brewing in basements and garages and has a long history of and focus on producing high quality, unique products.\textsuperscript{23} Unlike Anheuser-Busch and MillerCoors, who focus on mass production of a limited range of traditional beers, craft breweries focus on experimentation and pushing the limits of what beer can be.\textsuperscript{24} Craft breweries generally do not have the resources to mass market their products, so instead they focus their energy on the local community, tailoring their distribution to local bars, restaurants, and beer festivals.\textsuperscript{25} In addition to a local focus, collaboration is a key part of the industry’s culture, with brewers frequently joining forces to create and brew collaboration beers.\textsuperscript{26} For example, there were more than 250 collaborations between craft brewers in 2012 alone.\textsuperscript{27} Such joint efforts allow breweries to let loose and brew highly experimental concoctions while simultaneously supporting each other by providing access to markets that each brewer would normally be unable to reach.\textsuperscript{28} This culture of collaboration and the cultivation of local community support are key characteristics that have combined to create a close-knit industry with a strong sense of camaraderie.\textsuperscript{29}

\textsuperscript{21} Tuttle, supra note 19.
\textsuperscript{22} See Daykin, supra note 19; Tuttle, supra note 19.
\textsuperscript{24} See Morris, supra note 6.
\textsuperscript{25} See Craft Brewer Defined, supra note 2; See Morris, supra note 6.
\textsuperscript{26} Craft Beer Collaborations Explode, AMERICAN CRAFT BEER (July 24, 2012), http://americancraftbeer.com/item/craft-beer-collaborations-explode.html; Morris, supra note 6.
\textsuperscript{28} Jim Clarke, All Together Now: Sometimes Two (or Three or Four) Brewers are Better than One, IMBIBE, available at http://imbibemagazine.com/Beer-Collaborations (last visited Mar. 6, 2014); Craft Beer Collaborations Explode, supra note 26.
\textsuperscript{29} See Clarke, supra note 28; Craft Beer Collaborations Explode, supra note 26; Morris, supra note 6.
B. Trademark Basics

As defined by the Lanham Act of 1946, a trademark is any word, name, symbol, device, or combination of any of the four used or intended for use in interstate commerce that distinguishes a good or service and identifies its source. Producers use trademarks in marketing and advertising to make it easier for consumers to identify their products or services. A trademark signals to a consumer that this product or service is from a certain source and will be of consistent quality each time it is purchased. Because consumers recognize trademarks and expect consistency, producers have an incentive to maintain a certain level of quality in their goods or services in order to preserve and grow their customer bases. Over time, trademarks can develop a great deal of value because of the positive reactions consumers have to them. Therefore, trademark law serves to reduce consumer confusion by clearly identifying the source of goods and services and encourages competition by giving producers the exclusive right to the use of their trademarks and the goodwill associated with them.

Trademarks are governed by both federal statute and state common law. Federally, trademarks are governed by the Lanham Act, which was intended to promote competition by protecting individuals’ and businesses’ intellectual property rights. Federal trademark registration can be acquired in one of two ways. An applicant can either file a use-based application under 15 U.S.C. § 1051(a) or an intent-to-use application under § 1051(b). If the application is approved, the mark is placed on the United States Patent and Trademark Office’s Principal Register, and the mark holder has an exclusive right to use the mark in connection with its particular good or service. After acquiring the mark, it is up to the mark holder to

32 Id. at § 3:10.
33 Id. at § 3:5.
34 Id. at § 2:15.
35 Id. at § 2:1.
38 Lanham Act § 1051.
defend it by informing users of confusingly similar marks that they must cease their potentially infringing use of the mark. If the infringer does not respond appropriately to the mark holder’s requests, the mark holder may pursue legal action against the infringer. This federal system of self-policing allows mark holders to obtain nationwide injunctions in order to prevent the use of an infringing mark.

Marks not used in interstate commerce, and therefore ineligible for federal protection, can be protected by state registration. Much like federal registration, most states base registration on actual use of the mark and require that the mark continue to be used in order for protection to be maintained. While some states provide state registrants with trademark protection throughout the entire state, most state mark holders can only enforce their rights within a certain geographic area and cannot stop others outside of that area from using similar marks. Therefore, although state trademark protection exists for goods and services not used in interstate commerce, it is not as expansive as the national protection afforded by federal trademark registration under the Lanham Act.

Generally, craft breweries start out small and focus on supplying their products to the local community. As such, few are likely to be engaged in interstate commerce in their early stages, meaning they are ineligible for federal trademark protection. However, the older and more successful a brewery becomes, the more capable it is of distributing its beer in interstate commerce. Therefore, the breweries eligible for the most federal trademark protection are likely to be the ones that have the resources to distribute their products in interstate commerce and also monitor and enforce their trademark rights.

2014).

40 Trademark Basics, supra note 39.
41 Id.
42 Lanham Act § 1116(a).
44 Id.
45 Id.
46 See id.
47 See Morris, supra note 6.
48 Lanham Act § 1051(a).
49 See Morris, supra note 6; Tuttle, supra note 19.
C. Tension Between Craft Brewing Industry and Federal Trademark Law

Since federal trademark law is based on mark holders using the legal system to police and enforce their own marks, there is an inherent tension within the craft brewing industry because of its unique culture of camaraderie and brotherhood.\[^{50}\] While in other industries a business may be able to register a mark and then enforce it without facing any fallout from other industry members, the same is not true for craft brewers.\[^{51}\] What is more important in the craft brewing industry than intellectual property protection is to be perceived by customers and industry members alike as laid back, easygoing, and focused mainly on brewing great beer.\[^{52}\] Therefore, filing a lawsuit against another brewer in order to enforce trademark rights would significantly harm a brewer’s reputation and likely have lasting negative effects.

What may, in another industry, be an ordinary trademark dispute involving cease and desist letters or the filing of a complaint, may appear to craft beer consumers to be a petty attempt to limit creativity by bullying another brewery into stopping its use of a certain mark. As a result, brewers must take extra care in enforcing their trademark rights, being sure to take into account the potential fallout from a marketing standpoint.\[^{53}\] The average beer consumer is not well-informed about intellectual property law, and likely does not care whether one brewery has a registered mark and actual legal rights to use the mark.\[^{54}\] With the advent of multiple social media platforms, breweries of all sizes can now reach consumers directly and attempt to portray themselves in the best possible light, often by berating the other parties’ trademark enforcement actions.\[^{55}\] Because of the craft brewing industry’s culture, trademark disputes serve to simultaneously create animosity between industry members and undermine intellectual property rights.\[^{56}\]

While in many industries the federal trademark registration system furthers the purpose of the Lanham Act by promoting competition and protecting companies’ branding and marketing efforts, it has the opposite effect on craft brewers. Essentially, mark holders in the craft

\[^{50}\] See Craft Beer Collaborations Explode, supra note 26.
\[^{51}\] Telephone Interview with Shauna Barnes, General Counsel, Dogfish Head Craft Brewery (Jan. 17, 2014).
\[^{52}\] Id.
\[^{53}\] Id.
\[^{54}\] Id.
\[^{55}\] Id.
\[^{56}\] See examples infra Parts II.D.1-2.
brewing industry are faced with the choice between taking a significant reputational hit or forgoing enforcing the trademark rights they paid for and to which they are legally entitled.\textsuperscript{57} This reputational hit is especially detrimental in the craft brewing industry because most breweries’ success is based on building a grassroots fan base and support in the local community.\textsuperscript{58} By using social media, the alleged infringer attempts to portray the mark holder as a bully who is focused solely on profits. As a result, many consumers see only that one brewery is trying to take away a mark from another and, therefore, often side with the infringer because of its “victim” status. Thus, the federal system discourages craft brewers from registering marks because enforcing their trademark rights invites substantial backlash from both other industry members and consumers.\textsuperscript{59}

This problem is compounded by the industry’s rapid growth. With more and more brewers entering the market every day, it has become increasingly difficult for brewers to come up with novel, yet unique brands and beer names.\textsuperscript{60} Having already experienced many conflicts between industry members, the craft brewing industry would do well to collectively adopt, through the Brewers Association, an education and dispute resolution initiative in order to reduce the tension inherent between trademark law and the industry’s culture.

D. Examples

This tension between trademark law and the craft brewing industry is clearly visible in disputes arising daily throughout the country. Below are two such disputes that illustrate the trademark issues that frequently arise between craft brewers. These examples and the countless others that have and continue to occur demonstrate the need for corrective action, which should come in the form of an education initiative and mandatory non-binding mediation as a condition to Brewers Association membership.
I. Magic Hat and West Sixth—The tale of the eight-pointed star

The first example involves a dispute between Magic Hat Brewing Company, a Vermont brewery established in 1994, and West Sixth Brewing Company, a Lexington, Kentucky brewery founded in 2012. Magic Hat began selling its #9 beer in 1995 and received federal registration for its #9 mark in 1996. The Magic Hat #9 logo, shown in Figure 1 of the Appendix, is red and orange and features a circle around a number 9, which has an eight-pointed star in its center. Upon opening in 2012, West Sixth introduced its “6” logo. As seen in Figure 2, the logo is green and blue and consists of the number 6 enclosed in a circle with the words “West Sixth Brewing Lexington, Kentucky” along the outside, with an eight-pointed star to the right of the six. In addition to its green and blue logo, West Sixth used its 6 logo on its Amber Ale products in orange. As can be seen in Figure 3, when viewed upside down, West Sixth’s logo bears a striking resemblance to the Magic Hat #9 mark.

After becoming aware of the similarity between the breweries’ marks and the potential for consumer confusion, Magic Hat wrote a letter to West Sixth’s owner on September 26, 2012 explaining its concerns about and rights in the #9 mark and asking West Sixth to stop using the 6 logo. Magic Hat pointed out that both marks were circular, used similar numbers, and contained an eight-pointed star. The letter, sent from Magic Hat’s attorney, assured West Sixth that Magic Hat was serious about protecting its rights, but that it was willing to resolve the matter without resorting to litigation. In response, West Sixth sent a letter from its attorney in October 2012 stating it did not believe that the 6 logo infringed on Magic Hat’s #9 mark and that there was no likelihood of consumer confusion. West Sixth asserted that its logo created an entirely different impression.
from the Magic Hat #9 mark and that consumers could not be confused because the mark included the words “West Sixth Brewing.”\textsuperscript{72} Despite maintaining that its mark did not violate Magic Hat’s rights, West Sixth agreed to remove the “stylized compass design,” or eight-pointed star to the right of the number six, after expending its existing inventory of products with the original 6 logo.\textsuperscript{73}

The breweries then exchanged letters in which they seemingly agreed to resolve the matter.\textsuperscript{74} Magic Hat requested and West Sixth agreed to remove its eight-pointed star (also referred to as a dingbat or compass) and use its 6 logo only in conjunction with the words “West Sixth Brewing.”\textsuperscript{75} However, in February of 2013, West Sixth clarified that it intended to continue use of the eight-pointed star in its logo, but only when accompanied by the words “West Sixth Brewing.”\textsuperscript{76} Shortly thereafter, Magic Hat discovered that West Sixth had released an Amber Ale using its 6 logo in orange, complete with the eight-pointed star.\textsuperscript{77} Concluding that West Sixth was no longer interested in resolving the issue and that litigation was necessary to protect its intellectual property rights, Magic Hat filed its original complaint against West Sixth on May 16, 2013.\textsuperscript{78}

In its amended complaint filed May 25, 2013, Magic Hat alleged that West Sixth’s 6 logo was confusingly similar to Magic Hat’s #9 mark such that it had caused actual confusion among consumers.\textsuperscript{79} Magic Hat alleged that this confusion constituted trademark infringement and had caused the Vermont brewery irreparable harm.\textsuperscript{80} In response, West Sixth took to its website claiming it was the victim of corporate bullying and used social media in an attempt to create pressure from consumers and other industry members to induce Magic Hat to drop the suit.\textsuperscript{81} West Sixth pointed to Magic Hat’s purchase by a conglomerate prior to the dispute as evidence that the suit was corporate bullying.\textsuperscript{82}

\textsuperscript{72} Id. Exhibit F, at 2–3.
\textsuperscript{73} Id. Exhibit F, at 3.
\textsuperscript{74} See id. Exhibits G–I.
\textsuperscript{75} Id. Exhibits G–I, at 1–2.
\textsuperscript{76} Id. Exhibit J, at 1–2.
\textsuperscript{77} Id. at 9.
\textsuperscript{78} Id. at 15.
\textsuperscript{79} Id. at 10.
\textsuperscript{80} Id. at 3, 9–10, 36.
\textsuperscript{81} Erik A. Carlson, Update: West Sixth Alters Logo as Lawsuit with Magic Hat is Settled, BUSINESS LEXINGTON (June 6, 2013), http://bizlex.com/2013/06/west-sixth-and-magic-hat-settle-lawsuit/.
\textsuperscript{82} Id.
Shortly thereafter, the parties resolved the matter, and, as can be seen in Figure 4, West Sixth changed its logo by removing the eight-pointed star. The breweries released a joint statement in June 2013 saying that they had compromised to resolve the dispute and prevent consumer confusion, and that neither would comment further on the matter. In the joint statement, the parties acknowledged that both breweries had an incentive to ensure their brands and products were distinct and not subject to potential consumer confusion, and West Sixth retracted the comments it made on its website and social media in response to Magic Hat’s complaint.

Magic Hat’s dispute with West Sixth is a prime example of the rising tension in the craft brewing industry regarding trademark protection. Magic Hat took legal action to protect its federally registered mark, and West Sixth attempted to use social media to discredit Magic Hat’s actions and paint itself as the victim. The tension is heightened by the fact that there are so many breweries trying to be creative and original, but the universe of names and styles of marks for beer varieties is limited. This limited universe of names and styles further encourages breweries to seek trademark protection if they can, but it also means there are more instances of trademark infringement. As showcased in this dispute, breweries must choose whether to seek such protection and face a reputational hit, or forgo trademark protection and risk that other industry members may use the same or confusingly similar marks.

The dispute between Magic Hat and West Sixth also demonstrates the tension between newer breweries and those that have established themselves in the industry. At the time of the dispute, Magic Hat had been in the craft brewing industry for nineteen years and West Sixth had been in existence for only a year. This is an instance where education about trademark rights and enforcement of those rights might have been effective in preventing the dispute. Had West Sixth understood the nature of trademark law, the protections it provides, and the steps that can be followed to reduce the likelihood of infringement, it likely would have either avoided a dispute altogether or reacted more cooperatively when Magic Hat brought the issue to West Sixth’s attention.

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83 Id.
84 Id.
85 Id.
2. Dogfish Head and Whip In—A very un-namaste dispute

Much like the first example, the second dispute involved a well-established brewery and a recently opened brewery new to the industry. The conflict arose between Dogfish Head Craft Brewery, a Delaware brewery founded in 1995, and Whip In, an Austin, Texas store that opened a brewery on-site in 2013. \(^86\) The dispute centered around the use of the word Namaste as a mark. \(^87\) Dogfish began brewing its Namaste beer in 2009 as a fundraiser to support a fellow brewer after a broken thermostat caused excessive heat and ruined about 100,000 bottles, which was a third of his annual revenue. \(^88\) After filing for federal trademark protection with the United States Patent and Trademark Office in July 2011, the mark was registered to Dogfish in February 2012. \(^89\)

In the summer of 2013, Whip In opened a brewery in its store and decided to name it Namaste Brewing. \(^90\) In September of 2013, after discovering the new brewery, Dogfish emailed Whip In owner Dipak Topiwala requesting that he either change the name of his brewery, pay a licensing fee to use the Namaste mark, or restrict sales of his beer to the Whip In premises. \(^91\) Though Dogfish denies it, Whip In claims Dogfish also sent a cease and desist letter. \(^92\) As a result of this alleged action, Whip In took to social media, calling Dogfish cultural imperialists. \(^93\) In a statement on the Delaware brewery’s website, Dogfish expressed an interest in working out the problem with Whip In without having to resort to litigation, stating that the brewery had


\(^{87}\) Id.


\(^{89}\) NAMASTE, Registration No. 4102198, available at http://tmssearch.uspto.gov/bin/gate.exe?f=searchss&state=4804:76gtoz.1.1 (Search Term: 4102198, select “Serial or Registration Number,” then submit query).

\(^{90}\) Eichmann, supra note 86.

\(^{91}\) McWilliams, supra note 60.


\(^{93}\) Id.
called and emailed Whip In in an attempt to resolve the problem.\textsuperscript{94} In addition, Dogfish pointed out in its statement that the brewery had an existing trademark for Namaste, which is of no value if it is not protected, and that it had offered Whip In a variety of solutions to the problem.\textsuperscript{95} In the end, Topiwala changed the brewery’s name to Kamala Brewing, but his later comments indicate that he remains bitter about the dispute.\textsuperscript{96}

This dispute again illustrates the choices brewers face when deciding whether to seek protection for their trademark rights as a member of the growing craft brewing industry. Dogfish had taken steps to protect its marks and showed a commitment to enforcing its trademark rights, which it is able to do because of its size and success in the market. Whip In, a new brewery, took exception to such action and resorted to using social media to gain public and industry support. Even though Dogfish recognized it had rights worth protecting, the Delaware brewery did not file suit, likely because it recognized the public relations backlash that would flow from such action. As more breweries continue to grow and expand, they will be faced with the choice of seeking legal rights for their intellectual property at the risk of seeming “corporate” and suffering the wrath of consumers and other industry members who frown upon enforcement of such rights through litigation.

As exhibited by the examples above, there exists an inherent tension between the culture and expectations of the craft brewing industry and the requirements for federal trademark protection. This tension has put craft brewers in a difficult position, forcing them to choose between protecting their valuable trademarks and being subjected to industry ridicule or forgoing trademark protection and allowing their marks to be infringed, diluted, or tarnished. Because trademark protection is essential to maintaining good will with consumers and building a brand, this tension must be resolved in order for craft brewers to continue to grow and succeed in their industry.


\textsuperscript{95} Id.

\textsuperscript{96} McWilliams, supra note 60.
III. INDUSTRY SELF-POLICING: A POSSIBLE SOLUTION

Due to the unique nature of the craft brewing industry, the best way to facilitate settlements and promote proper trademark protection among craft brewers would be to task the Brewers Association, the industry’s trade organization, with responsibility for dispute resolution. The Brewers Association should adopt as a condition of membership the use of mandatory non-binding mediation for the resolution of conflicts between industry members and should also work to educate brewers entering the industry on the basics of trademark law.

As a collection of craft brewers that represent the industry members’ interests, the Brewers Association understands the basic functioning of the craft brewing industry. Therefore, the Brewers Association is likely to have the most accurate information about and awareness of the industry’s culture, meaning it will be best able to consider craft brewers’ attitudes, address brewers’ concerns, and develop appropriate policies that have a higher likelihood of success than possible legislation or standards from non-industry sources. The Brewers Association’s ability to respond quickly to changes in the industry and to make policy with full knowledge of the industry culture makes it best suited to attempt to combat the current tension among craft brewers regarding trademark protection.

In addition to having an appropriate understanding of the industry, the Brewers Association can better adjust to the ebbs and flows of the industry, modifying its standards as the industry’s attitude, market, or composition changes. Like many industries, the craft brewing industry’s growth will slow and possibly decline at some point. The Brewers Association is best equipped to respond to such changes because it does not require a lengthy legislative process—only two thirds approval of the full Board of Directors and a 20-day notice period—to initiate changes.97

Although some industry members may call for state or federal legislation to address the issue, having the industry’s trade organization develop industry-wide education and dispute resolution procedures is more appropriate. First, the issue would be difficult to successfully resolve federally, and even if Congress agreed to address the issue, it generally takes a long time for Congress to enact or amend legislation.98 Additionally, the idea of federal legislation might face resistance from those who do not think that the Lanham Act should be

altered for the benefit of a single industry. Congress itself would likely justify its decision not to legislate on the issue by stating that the legislature cannot cater to the craft brewing industry without doing the same for a myriad of other industries and that legislation is not absolutely necessary because the problem is not yet debilitating. Even with the lobbying of the Brewers Association and other craft brewing supporters, the industry would likely be unable to successfully encourage Congressional action.

Second, state legislation would likely cause confusion among industry members if different states adopt varying standards and requirements. As such, the Brewers Association is best equipped to deal with the intellectual property crisis facing the craft brewing industry and should implement an education initiative and a mandatory non-binding mediation program in order to promote harmony within the industry.

To try to avoid problems from the outset, the Brewers Association should educate brewers new to the industry about how trademark law works and brewers’ options for obtaining trademark protection. Providing new brewers with information about the basics of trademark law would likely promote understanding and respect for other brewers’ trademark rights throughout the industry. As a result of this education, brewers would likely be more aware of their actions and be careful to avoid possible trademark disputes. Such preventative measures would cut down on the number of disputes that arise, thus reducing the costs and ill will that go along with such disputes. By taking preventative measures to educate all brewers about trademark rights, the Brewers Association would likely be able to significantly decrease the stigma associated with seeking trademark protection, while also reducing the amount of discord arising from trademark disputes throughout the industry.

In order to limit the number of conflicts and decrease the fallout from disputes, the Brewers Association should implement mandatory non-binding mediation as its required dispute resolution procedure. This mandatory mediation would be a condition of membership that each brewer would agree to use to resolve potential disputes with other industry members upon joining the Brewers Association. By requiring mediation before any brewer could institute litigation, the Brewers Association would encourage brewers to work within the industry to resolve the dispute quietly. The existence of such a procedure would hopefully encourage brewers to go straight to mediation to resolve the problem, instead of using social media to cause reputational harm. Mediation would likely reduce such bullying and thus would preserve both parties’ reputations in the industry. As a result, brewers would no longer have to choose between protecting marks at the expense of their
public image and preserving their image by forgoing trademark protection. By reducing the likelihood of public disparagement, this dispute resolution scheme would encourage brewers to seek trademark registration and enforce their rights in registered marks. Overall, mediation would provide brewers with the opportunity to settle disputes in a cordial manner and as quickly as possible so that both parties could return their focus to maintaining the success of their breweries.

By promoting trademark education and instituting mandatory non-binding mediation, the Brewers Association could likely significantly decrease the amount of disputes between industry members. This decrease in conflict would foster the industry’s collaborative culture and allow brewers to return their main focus to brewing unique, innovative beers. Eliminating minor conflicts from the industry would not only help the industry’s image, but would also cut down on costs associated with disputes, thus contributing to the industry’s growth. By addressing the problem from within the industry, the Brewers Association would be able to cater to the particular needs of the craft brewing industry by using its specialized knowledge of the industry to develop an appropriate, reasonable, and effective dispute resolution mechanism and proper education to prevent disputes.

IV. Conclusion

Now, remember when you took your home brewing hobby and used your unrivaled talent and creativity to transform it into a successful business? As a member of the Brewers Association, you would have access to information about how trademark protection works and how to avoid infringing on other brewers’ trademark rights. If for some reason you ended up in a dispute with another brewer that could not be amicably resolved through a phone call or email, you would turn to the mandatory non-binding mediation, where both parties would work with a mediator to resolve the dispute.

As seen from the examples above and countless others that spring up every week, the current state of federal trademark law continues to cause a great deal of conflict within the craft brewing industry. Due to the industry’s steady and continued growth, it is unlikely that this tension between the industry and trademark law will resolve itself in the near future. As a result, the industry should police itself by allowing the Brewers Association to implement a trademark education initiative and institute mandatory non-binding mediation with which to prevent and settle trademark disputes. By creating such a system, the industry will be able to promote harmony amongst its members, which
will allow brewers to return their focus to providing craft beer lovers with high quality, innovative beers.
V. APPENDIX

Figure 1. Magic Hat’s #9 trademark with the eight-pointed star in the center of the nine (registration applied for in Mar. 2013 and granted in Nov. 2013).

Figure 2. West Sixth’s 6 mark with the eight-pointed star or compass to the right of the six as of the date Magic Hat’s complaint was filed.

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Figure 3. West Sixth’s 6 logo viewed upside down, left, as compared to Magic Hat’s 9 logo, right.  

Figure 4. West Sixth’s updated 6 mark with eight-pointed star removed (applied for Oct. 30, 2013, with approval pending).

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by-magic-hat-over-logo/.  

101 Crowell, supra note 101; Image of Magic Hat #9 Mark, supra note 100.  

THE DIVISIBILITY DOCTRINE: IMPACT ON SPORTS BROADCASTING FOR THE FIFA WORLD CUP

Brittanie Browning†

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Copyright promotes creative arts for the public good by allowing authors exclusive rights to their works. Copyright law requires audiovisual works to be fixed in a tangible medium and contain an original meaning created by the author. Today, copyright protection begins at creation even without notice or registration. Initially, copyright protection under American law was only granted through the Progress Clause of the Constitution, which allows Congress the power “to promote the Progress of Science . . . by securing for limited Times to Authors . . . the exclusive Right to their respective Writings . . . .” This provision has been interpreted to mean that artistic works promote the public good. The Supreme Court expounded upon this principle in 1975, stating that: “the immediate effect of our copyright law is to secure a fair return for an ‘author’s’ creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.” The 1909 Copyright Act, 1 Campbell v. Acuff-Rose Music, 510 U.S. 569, 575 (1994) (stating “copyright’s very purpose, ‘to promote the Progress of Science and useful Arts . . . .’”). 2 See Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 355 (1991) (stating that “[t]he two fundamental criteria of copyright protection [are] originality and fixation in tangible form . . . .”). 3 Xuan-Thai Nguyen, Collateralizing Intellectual Property, 42 GA. L. REV. 1, 7-8 (2007). 4 See Marshall Leaffer, American Copyright Law Since 1945 in A HISTORY OF THE BOOK IN AMERICA VOL. 5: THE ENDURING BOOK, PRINT CULTURE IN POSTWAR AMERICA 151, 151 (David Paul Nord et. al, eds) (stating that “[t]he term “copyright” originated in England with the Statute of Anne (1710), which protected against unauthorized reproduction of a work . . . . American copyright law grew from these English roots and from the patent and copyright clause of the U.S. Constitution”). 5 U.S. CONST. art. I, § 8, cl. 8. 6 Id. 7 See Mazer v. Stein, 347 U.S. 201, 219 (1954) (stating that “[t]he economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in ‘Science and useful Arts.’”). 8 Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975) (emphasis added). Ten years later in Harper Row, Publishers v. Nation Enterprises, the Supreme Court noted “that copyright’s idea/expression dichotomy ‘strikes a definitional balance between the First Amendment and the Copyright Act by permitting free communication of facts while still protecting an author’s expression.’” 471 U.S. 539, 556 (1985).
Act\(^9\) limited the fair return to the author as copyrights gain value through the multiple underlying exclusive rights in the work.\(^{10}\)

Under the 1909 Act, copyright law was indivisible, meaning that all rights associated with a work had to be exclusively sold to one person.\(^{11}\) Yet, this proved to go against the purpose of the “general public good” as emphasized by the Supreme Court.\(^{12}\) Therefore, under the 1976 Copyright Act\(^{13}\), a copyright is divisible so that individual rights could be sold separately.\(^{14}\) For example, the rights could be sold to separate media such as television versus Internet broadcast rights. This principle may assist in promoting the “general public good” but typically broadcasting rights are sought after in exclusivity.\(^{15}\) This proposition will be explored through a case study of the Federation Internationale de Football Association (FIFA) World Cup television broadcast because the United States’ 2014 broadcast was split between two networks: ESPN and Univision, each of which has the exclusive rights to a specific-language broadcast, either English or Spanish.\(^{16}\) The upcoming World Cup 2018 broadcasts will involve Fox and Telemundo\(^{17}\), which is a subsidiary of NBC.\(^{18}\) Notably, NBC is a powerhouse for the Olympic Games and the exclusive broadcaster for the United States since 1988.\(^{19}\) Now NBC has entered the


\(^10\) See generally id.


\(^12\) Id. at 495 (describing the 1976 revision as an action to improve the “frequently unfair legal situation” of indivisibility).


\(^14\) Id. at 495-96.


\(^17\) Smith, supra note 17; see also de la Fuente, supra note 17.

\(^18\) See generally Telemundo, NBC UNIVERSAL, http://www.nbcuni.com/broadcast/telemundo (last accessed September 6, 2014) (stating that Telemundo is a division of NBCUniversal Hispanic Enterprises, and discussing the stations owned by Telemundo).

\(^19\) See Stephen Wilson, NBC Keeps U.S. Olympics Broadcast Rights Through continued . . .
competition, and it will be interesting to see how its policy of outbidding every competitor will play out in future FIFA World Cup bidding processes.

II. THE 1909 ACT: INDIVISIBILITY DOCTRINE

Congress enacted the 1909 Copyright Act\(^\text{20}\) but “[t]he rule of indivisibility is a development of case law.”\(^\text{21}\) Under the indivisibility doctrine, the bundle of rights stemming from a copyright could only be exclusively owned. “[C]opyright is an indivisible thing, and cannot be split up and partially assigned either as to time, place, or particular rights or privileges, less than the sum of all the rights comprehended in the copyright.”\(^\text{22}\) A copyright “could not be assigned (1) for less than its complete term, (2) for a territory less than the jurisdiction conferring the right, and (3) with respect to part rather than all the component rights of the copyright.”\(^\text{23}\) Thus, a copyright could not be divided within the same area or for the same rights. Copyright was limited to either an assignment or a license:

The concept of indivisibility tends to force all sales or transfers of copyrights or rights in copyrights into one of two molds, (a) assignment, a complete transfer of all rights, or (b) license, a transfer of any portion of those rights. An assignment carries all rights; a license is really a contract not to sue the licensee, and the licensee cannot fully enforce his rights against third parties.\(^\text{24}\)

These limitations on copyright make sense in the context of the technology available in 1909.

Originally, only a limited number of materials required a copyright, for example, music, art, and books.\(^\text{25}\) In the late 1890s, film

\(^{20}\) See H.R. 28192, 60th Cong. (1909).

\(^{21}\) STAFF OF S. COMM. ON THE JUDICIARY, 86TH CONG., STUD. ON COPYRIGHT LAW 11 (Comm. Print 1960) (Study prepared by Abraham L. Kaminstein).

\(^{22}\) Id. at 13.

\(^{23}\) Id. at 11.

\(^{24}\) Id. at 1.

\(^{25}\) See LAWRENCE M. FRIEDMAN, A HISTORY OF AMERICAN LAW 256–57 (rev. continued . . .
made its public debut in France with Georges Méliès and the Lumière brothers. 26 Quickly, film crossed the Atlantic Ocean and grew in popularity with the American people. 27 In 1909, the movie industry was still a very new medium, having existed for less than twenty years. With the advent of new technology, including film and eventually television, broadcast rights spawned from copyright and required new legislation to cover the evolving creation of new media. 28 Before drafting such legislation, the judiciary was left with the task of protecting copyright. 29 “Inartfully drafted and lacking important definitions—and enacted before the invention or widespread commercial use of the phonograph, motion pictures, radio and television . . . the 1909 Act was subjected to frequent ad hoc amendment and to unguided judicial interpretation.” 30 The courts were left to interpret the 1909 Copyright Act and its application to new technology and media. 31 In United States v. Paramount Pictures, Inc., the Supreme Court noted: “[n]o film is sold to an exhibitor in the distribution of motion pictures. The right to exhibit under copyright is licensed.” 32 Thus, film and television were limited to licensing of a broadcast indivisibly.

Other problems arose under the 1909 Act; for example, with regards to indivisibility: “[i]ndivisibility’s main problem hinged on standing to sue for infringement, coupled with the distinction between

ed. 1985) (stating that “[t]he first federal Copyright Act became law in 1790. An author might gain sole right and liberty of printing, reprinting, publishing and vending a map, chart, book or books . . . . By [1831] the act covered musical compositions, designs, engravings, and etchings, as well as maps, charts and books." (internal quotations omitted)).


28 See, e.g., BRIAN WINSTON, MEDIA TECHNOLOGY AND SOCIETY, A HISTORY: FROM THE TELEGRAPH TO THE INTERNET 81 (1998) (explaining that “[l]egislation was hurriedly prepared and passed as the 1927 Radio Act. It created the Federal Radio Commission (FRC) as the licensing authority but for one year only. This was renewed in 1928 and became a permanent arrangement in 1929.”).

29 ROBERT A. GORMAN, COPYRIGHT LAW 2 (2d ed. 2006).

30 Id.

31 See United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948) (interpreting the 1909 Copyright Act as it applies to film).

32 Id. at 141.
an exclusive license and an assignment.” In the end, the problems with the 1909 Act stemmed from the lack of clarity regarding which rights were created in the original copyright. For instance, one of the largest issues with problem with “indivisibility has been the determination of which rights could be split off from the bundle of rights and the ability of the grantor to convey title to one or more but not all the rights in the copyright.” Courts were ill equipped to handle the drastic boom of technology and, in fact, yielded to Congress. The Supreme Court noted they had to take the 1909 Act as they found it because altering the terms was left for Congress. The value of these rights increased with the creation of new media, and this necessitated Congress’ intervention. For example, “the subsidiary rights may be much more valuable than what were formerly regarded as the basic rights. Motion picture rights in a book may be worth much more than the publishing rights . . . .” Therefore, Congress enacted the 1976 Copyright Act to deal with the issues that arose as television and motion pictures became more popular and valuable.

III. TREATMENT OF SPORTS BROADCASTS UNDER THE 1909 ACT

Prior to the 1976 Act, motion pictures and television programming were created and sold under the 1909 Act and the indivisibility doctrine. Under the 1909 Copyright Act, copyright holders had a right to control public performances of the work; however, “cable operators’ secondary transmissions of broadcast programs were not regarded as additional performances of those programs under the 1909 Act . . . .” Therefore, copyright authors were not making a profit on the secondary transmission because they sold the rights indivisibly,

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34 STAFF OF S. COMM. ON THE JUDICIARY, 86TH CONG., STUD. ON COPYRIGHT LAW 12 (Comm. Print 1960) (Study prepared by Abraham L. Kaminstein).
35 See, e.g., Fortnightly Corp. v. United Artists Television Inc., 392 U.S. 390 (declining the invitation to render a decision in the case with regard to the Copyright Act because “[t]hat job is for Congress. We take the Copyright Act of 1909 as we find it.” Id. at 401–02.
36 Id. at 401–02.
37 STAFF OF S. COMM. ON THE JUDICIARY, supra note 35.
38 See supra part II.
primarily as licenses. The courts therefore played a major role in
determining a purchaser’s status by placing a label on the rights:

Indivisibility is a rule or theory relied upon by the
court; it is usually applied when a court determines that
a grant is not an assignment but a license. If the grant
is an assignment, the assignee has full rights; if it is a
license, then the doctrine of indivisibility may be used
to bar the licensee from doing some of the things an
assignee could do.\textsuperscript{40}

Therefore, it is important for a broadcaster to acquire the proper form
of ownership, because “[a]ssignments carry the right to transfer the
copyright and to sue. Licenses are usually personal, contractual, rights
and are strictly construed.”\textsuperscript{41} Given the difference in rights and
privileges, it is very important for the copyright holder to contract
using licenses to preserve standing to sue and the right to transfer the
copyright. Yet, “nothing prevents the titleholder from promising to
treat the licensee’s privileges as irrevocable and exclusive.”\textsuperscript{42}
Copyright holders were able to work around the indivisibility doctrine,
however. For example, the titleholder could elect to not exercise his
rights in a particular area.\textsuperscript{43} The discrepancy between a license and an
assignment was clarified in the 1976 Act.

Prior to the 1976 Act clarification, sports broadcasters relied upon
license agreements with the copyright holder. Copyright infringement
pertains to the broadcaster who did not procure a valid license for the
underlying work.\textsuperscript{44} The distinction was drawn by the Supreme Court
between the broadcaster and the at-home viewer.\textsuperscript{45} In \textit{Fortnightly
Corp. v. United Artists Television, Inc.}, the Court noted:
“Broadcasters perform. Viewers do not perform.”\textsuperscript{46} A license is
required for broadcasters to show the underlying copyrighted work,
such as a sporting event. Viewers, on the other hand, only passively
observe the copyrighted work by utilizing their own equipment.
Broadcasters work with the public to transmit the shows; “[t]he

\textsuperscript{40} \textit{Staff of S. Comm. on the Judiciary, 86th Cong., Stud. on
Copyright Law} 12 (Comm. Print 1960) (Study prepared by Abraham L.
Kaminstein).

\textsuperscript{41} \textit{Id.} at 13.

\textsuperscript{42} Christopher M. Newman, \textit{An Exclusive License Is Not an Assignment:
Disentangling Divisibility and Transferability of Ownership in Copyright, 74 L.A. L.
Rev.} 59, 80 (2013).

\textsuperscript{43} \textit{Id.}

\textsuperscript{44} See generally \textit{Fortnightly}, 392 U.S. 390 (1968).

\textsuperscript{45} \textit{Id.} at 397–98.

\textsuperscript{46} \textit{Id.} at 398.
broadcaster selects and procures the program to be viewed. . . . He then converts the visible images and audible sounds of the program into electronic signals, and broadcasts the signals at radio frequency for public reception.”47 Then, the viewers must provide their own equipment to receive the signal and watch the programming.48 This interaction shows the “general public good” goal of copyright in broadcasting because the public benefits from enjoying and viewing the copyrighted work at home.

Even with evolving technology, however, the Court, as mentioned above, declined to interfere with the legislative process by creating a compromise for the changing technology by stating, “[t]hat job is for Congress. We take the Copyright Act of 1909 as we find it.”49 Congress addressed sports broadcasts specifically with the Sports Broadcast Act of 1961. However, the Act only “immunizes from antitrust liability the pooled sale of telecasting rights by certain of the professional sports leagues.”50 It does not address the right to divide copyright between media and languages. Also, it does not expressly state the ownership of copyright in sports broadcasting. Therefore, the copyright for sports is encompassed as an audiovisual work under the 1976 Copyright Act.

IV. CURRENT LAW: DIVISIBILITY DOCTRINE

The Copyright Act of 1976 allowed for the division of rights in a copyrighted work.51 The doctrine of indivisibility is abrogated in Section 201(d)(2): “[c]opyright is made completely divisible.”52 Essentially, “[d]ivisibility permits a copyright owner to split off some subset of exclusive rights to the work and assign it separately, thus relinquishing all authority over it and effectively creating an entirely separate object of ownership.”53 The limitations of the rights are outlined in Section 106, which confers a bundle of rights to the owner. “Under the Copyright Act, these rights—to publish, copy, and distribute the author’s work—vest in the author of an original work from the time of its creation.”54 The Supreme Court noted that the

47 Id. at 397.
48 Id. at 397–98.
49 Id. at 401–02.
54 Harper Row, 471 U.S. at 546–47.
1976 Act recast copyright as a discrete bundle of exclusive rights that can be transferred separately.\textsuperscript{55} Therefore, the author can now sell individual rights for different pieces of the bundle of rights. The Copyright Act of 1976 covers exclusive rights and authorizes any of the following enumerated rights:

(1) to reproduce the copyrighted work in copies or phonorecords; . . .
(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
(4) in the case of . . . motion pictures and other audiovisual works, to perform the copyrighted work publicly;
(5) in the case of . . . individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.\textsuperscript{56}

These enumerated rights are the scope of divisibility and can be sold separately.\textsuperscript{57} Any of these rights can be divided between multiple copyright holders.\textsuperscript{58}

Divisibility is encompassed in Section 201(d)(1) of the Copyright Act: “The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law . . . .”\textsuperscript{59} Furthermore, “[a]ny of the exclusive rights comprised in a copyright . . . may be transferred . . . and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.”\textsuperscript{60} So the copyright holder of an exclusive right has full use and enjoyment of that right to the exclusion of all other people. The exclusive-rights holder can enforce his rights to the exclusion of all others. To achieve the divisibility of copyright, the copyright author

\textsuperscript{55} Tasini, 533 U.S. at 495–96.
\textsuperscript{56} 17 U.S.C. § 106 (2012) (omitting the second enumerated right as it does not pertain to broadcasting).
\textsuperscript{57} Tasini, 533 U.S. at 495–96.
\textsuperscript{58} Id.
\textsuperscript{59} 17 U.S.C. § 201(d)(1) (2012). See also Natke, supra note 34, at 496 (explaining that “[d]ivisibility allows for multiple owners of a single copyrighted work, each with a different slice of the copyright bundle of rights.”).
\textsuperscript{60} 17 U.S.C. § 201(d)(2).
can transfer a portion of his rights to a licensee or assignee. Section 101 defines a “transfer of copyright ownership” under the current Act as “an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.” Based upon section 101, assignment and license are two of the possible ways to divide the copyright that remained from the 1909 Act. An exclusive license or an assignment must be in writing. This writing requirement makes the terms and rights clearer for the copyright holder of his rights. “[T]he licensor remains the owner of the copyright, and the licensee is the owner only of the exclusive rights that are the subject of license . . . .”

Although “license” is undefined in the Act, one definition of a “license” is “an interest, granted by a titleholder, that relieves the licensee of the duty to refrain from some action or actions that would otherwise violate the titleholder’s rights of noninterference.” Therefore, the licensee will not be sued for copyright infringement for the scope of rights he purchased from the copyright holder. The licensee helps protect the copyright by enforcing his rights from infringement.

Under section 204, a license is divisible, either nonexclusively or exclusively. Nonexclusive licenses can be valid without writing, meaning it could be implied or oral. Furthermore, “[a] nonexclusive license granted under § 205(e) is akin to an easement over land—it conveys irrevocable use-privileges that pertain to the underlying property in rem, thus binding subsequent assignees.” A nonexclusive license allows a copyright holder to sell the use to

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62 Id. at [B][2].
63 Id. at [C][2]. See also Christopher M. Newman, A License Is Not a “Contract Not To Sue”: Disentangling Property and Contract in the Law of Copyright Licenses, 98 IOWA L. REV. 1101, 1151 (2013) (explaining that “[l]icenses are usually accompanied by terms reciting various duties of the licensee, some directly regulating his use of the licensed property, others requiring additional actions, such as the payment of royalties.”).
64 Newman, supra note 43, at 79.
67 Newman, supra note 64, at 1159 (noting that a “deed is not required to create a nonexclusive license . . . .”).
68 Id. at 1149. (Using the easement analogy, “unlike an easement, a nonexclusive license includes no rights of noninterference.”).
multiple licensees making the sale more lucrative for the copyright holder. On the other hand, exclusive licenses “are treated like assignments in that they constitute a conveyance of a property right that can be accomplished by gift no less than by sale.”

Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred . . . and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.

Furthermore, “[t]he exclusive license interests enabled by the 1976 Act constitute a form of ownership in that they vest exclusive licensees with certain enumerated independent powers of title that had been denied them under previous law.” Broadcasters seek exclusive licenses to pull viewers to their channel and network to watch popular sporting events. The goal of divisibility is to allow the copyright holder to profit from his creative work. However, given this purpose, it also promotes the general public good by allowing more people the opportunity to enjoy the work.

V. TREATMENT OF SPORTS BROADCAST UNDER 1976 ACT

The 1976 Act allowed for division of the copyrights used during television broadcasts. “At the urging of the professional sports leagues, Congress extended federal copyright protection to live sports broadcasts, thereby vesting the owners of these telecasts with the exclusive right to ‘perform’ them ‘publicly.’” Sports broadcasts must meet the requirements of a copyright in order to receive protection: an original work of authorship fixed in a tangible medium. A sports broadcast “must be ‘fixed’ (i.e., recorded) simultaneously with its transmission.” So the last two elements are met: fixation and in a tangible medium. The difficulty in initially receiving a copyright comes from the confusion about authorship.

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69 Nimmer, supra note 62, at § 10.02(B)(5).
72 WIPO, supra note 16.
73 See Newman, supra note 43, at 82.
74 Alan, Philip, Hochberg, supra note 51, at 161.
75 Nat’l Basketball Ass’n v. Motorola, Inc., 105 F.3d 841, 847 (2d Cir. 1997).
“Ownership in the copyright to sports broadcasts lacks clarity because the broadcaster produces and creates the broadcast and is therefore the ‘author’ of the copyrighted work, that being the broadcast of the game.”

Authorship comes from the selection of shots that make it to air:

Section 102(a)(6) of the new Copyright Act for the first time provided copyright protection for the event, so long as it was recorded on film or videotape (which by 1976 was becoming routine). Moreover, courts have also ruled that the special techniques of sports broadcasting—instant replays, split screen shots, and commentary by announcers—constitute “creativity” for authorship purposes.

Sports are unique for copyright because the real “authors” are the athletes. “Sports events are not ‘authored’ in any common sense of the word . . . . Unlike movies, plays, television programs, or operas, athletic events are competitive and have no underlying script.” In fact, many memorable sports moments are unplanned or result from “mistakes.” For example, a half court basket during a basketball game is not planned but a mixture of luck and practice. Yet, the sports broadcasts gain protection because the broadcast itself is a creative work, the editing and selection of clips for replays makes it qualify as an original work. “Congress passed legislation expressly affording copyright protection to simultaneously-recorded broadcasts of live performances such as sports events.” Therefore, sports broadcasts qualify for copyright protection because it is a creative work in a fixed, tangible medium.

Interestingly, given the difficulty of amending Copyright law in the United States, sports broadcasters seek exclusivity of content. It is common for multiple networks to split rights to a series of games, such as the NCAA March Madness between Turner, including TBS, TNT, and truTV local channels, and CBS. However, it is not common to

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79 Nat’l Basketball Assoc., 105 F.3d at 846.
81 Nat’l Basketball Assoc., 105 F.3d at 845.
share rights to the same event or game.\textsuperscript{83} This difference will be explored in the following sections. Broadcasters purchase the copyright for events from the sport’s governing body, such as the International Olympic Committee, which owns all rights to the Summer and Winter Olympic Games.\textsuperscript{84} Exclusivity of a broadcast does not limit the rights to a singular event if those rights encompass different aspects, such as the medium like television or radio, or to a particular language. The value of copyright is the ability to divide the multiple copyrights in a work for its profitability for the author. Thus, the copyright of sports broadcasts can be split between media, such as radio and television, as well as between languages.

\section*{VI. Copyright of Sports Broadcasts in the European Union and the United Kingdom}

Sports television broadcasts are popular around the world and warrant a comparison to the United States Copyright Act. Overall, soccer (or “football,” as it is called outside of the United States) is one of the most-watched sports in Europe.\textsuperscript{85} Soccer was codified in England in 1863 and spread throughout Europe shortly thereafter.\textsuperscript{86} In 1904, FIFA was founded to regulate the sport.\textsuperscript{87} Today, Europe has four major country powerhouses based upon wins: England, Germany, Italy, and Spain.\textsuperscript{88} The English Premier League (“EPL”) Soccer team is the most lucrative because it generates the most revenue and global television viewing.\textsuperscript{89} The Union of European Football Associations “ranks the EPL as the strongest European domestic league based on its performance in inter-European Club Competitions.”\textsuperscript{90} Due to the

\textsuperscript{83} See John Ourand, Christopher Botta, MLS’s Big Play, Sports Bus. J., May 12, 2014 at 1, available at www.sportsbusinessdaily.com/Journal/Issues/2014/05/12/Media/MLS-TV.aspx (providing an example where one network has the rights to Friday games, while another has the rights to Sunday games).


\textsuperscript{87} Id.

\textsuperscript{88} Id. at 263.

\textsuperscript{89} Id. at 264.

\textsuperscript{90} Id.
popularity of soccer and viewership ratings in Europe and particularly in England, an analysis of the copyright protection afforded to sports broadcast was warranted in comparison to the United States Copyright Act of 1976. The American copyright law only extended to works inside the United States and did not protect authors abroad. Thus, the United States was prompted to join the Berne Convention in 1988, which required more formalities but allowed for copyright divisibility. Similar to the United States Copyright Act of 1976, copyright law under the Berne Convention operates with “separate and divisible copyrights . . . embodied in a single object.” Given the popularity of sports broadcasting around the world, it was necessary for a formal body to protect those rights.

During the 2010 World Cup, Europe had over 16,000 hours of coverage, outpacing every other region in the world. The United Kingdom aired 340 hours of coverage. During peak coverage, the United Kingdom had over 16 million people watching the matches. Soccer is one of the most-watched sports in Europe but the FIFA World Cup draws enormous viewership. The 2010 final match between Spain and the Netherlands pulled one billion viewers globally. Therefore, broadcasting copyright is paramount for sports to generate revenue for FIFA in Europe. In the European Union (“EU”), copyrights in broadcasting are protected by the World

94 WIPO Copyright Treaty, Dec. 20, 1996, 2186 U.N.T.S. 121, S. Treaty Doc. No. 105-17 (1997); 36 I.L.M. 65 (1997); see also, 3 CENTER FOR INTERNATIONAL LEGAL STUDIES, WORLD INTELLECTUAL PROPERTY RIGHTS AND REMEDIES: LAW WITH COMMENTARY § 67:5 (Dennis Campbell ed., 2014) (“For example, a film may carry multiple copyrights, in an original book, in the screenplay derived from the book, in the film, in the music of the score, and in the sound recording of the music. If the film is broadcast, a further broadcast copyright is added.”).
96 Id. at 38.
97 Id. at 13.
Intellectual Property Organization ("WIPO") Copyright Treaty, the Berne Convention, and the Universal Copyright Convention ("UCC"). The WIPO protects copyrights of authors by allowing "[t]erritoriality – the right of the rights holder to decide on the geographic scope of a licence [sic]." which is similar to contractual

99 Article 6. Right of Distribution (1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership. (2) Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.” World Intellectual Property Organization Copyright Treaty art. 6, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 2186 U.N.T.S. 38542, available at http://www.wipo.int/treaties/en/text.jsp?file_id=295166#P62_6959 (last visited Aug. 27, 2014).

100 The Berne Convention was signed in 1886 between 10 countries and now has 77 signatories. Melville B. Nimmer and David Nimmer, NIMMER ON COPYRIGHT § 17.01 (Matthew Bender, Rev. Ed.). The key provision for broadcasting is found in “Article 11bis, Broadcasting and Related Rights: 1. Broadcasting and other wireless communications, public communication of broadcast by wire or rebroadcast, public communication of broadcast by loudspeaker or analogous instruments; 2. Compulsory licenses; 3. Recording: ephemeral recordings (1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing: (i) the broadcasting of their works or the communication thereof to the public by any other means of wireless diffusion of signs, sounds or images; (ii) any communication to the public by wire or by rebroadcasting of the broadcast of the work, when this communication is made by an organization other than the original one; (iii) the public communication by loudspeaker or any other analogous instrument transmitting, by signs, sounds or images, the broadcast of the work. (2) It shall be a matter for legislation in the countries of the Union to determine the conditions under which the rights mentioned in the preceding paragraph may be exercised, but these conditions shall apply only in the countries where they have been prescribed. They shall not in any circumstances be prejudicial to the moral rights of the author, nor to his right to obtain equitable remuneration which, in the absence of agreement, shall be fixed by competent authority.” Berne Convention for the Protection of Literary and Artistic Works, September 9, 1886, as last revised at Paris on July 24, 1971, 1161 U.N.T.S. 30; Berne Convention for the Protection of Literary and Artistic Works art. 11bis, Sept. 9, 1886, S. Treaty Doc. No. 99-27, 828 U.N.T.S. 11850.

101 The UCC was initially created in 1955, however, not every country agreed to the terms of the Berne Convention. “The UCC ensured that international protection was available to authors even in countries that would not become parties to the Berne Convention. Berne convention countries also became signatories of the UCC to ensure that the work of citizens in Berne Convention countries would be protected in non-Berne Convention countries.” Fact Sheet P-14 The Universal Copyright Convention (UCC), UK COPYRIGHT SERVICE, (Jan. 27, 2007), https://www.copyrightservice.co.uk/copyright/p14_universal_copyright_convention.

freedom that allows for selling rights to profit the author. “The UCC requires member nations to conform their domestic copyright laws to the minimum standards contained in the Convention to insure that each country will provide the nationals of other member countries with certain uniform minimum copyright protections.” The United States and the United Kingdom are signatories to the UCC as well as the Berne Convention, which has a higher minimum standard of protection for copyrights. As the Berne Convention is not self-executing, each member state creates its own legislation to incorporate the terms for copyright protection. The member-state legislation is exemplified by the copyright law in the United Kingdom, under which licensing is accomplished on a territorial basis.

The United Kingdom signed the Berne Convention in 1886 and it was enforced in 1887. The copyright protection was authorized through legislation. In the United Kingdom, copyright law is regulated by the Copyright, Design, and Patents Act of 1988 (“CDPA”). The copyright can be assigned wholly or partially, even in regards to future copyrights. Copyright in a broadcast has a duration of fifty years from the end of the year it was first broadcast. Under the CDPA, the United Kingdom dealt with the use of sports
broadcasting during new programs in *BBC v. British Satellite Broadcasting Ltd.*[^111] “[T]he [British Broadcasting Company (BBC)] owned the copyright in its broadcasts of matches in the international 1990 World Cup football tournament.”[^112] The infringement occurred when FIFA World Cup footage was used by BBC’s competitors to highlight goals during the matches.[^113] The United Kingdom’s High Court, the Chancery Division, held that it was “fair dealing”[^114] because the secondary broadcasts were less than 30 seconds and gave credit to the BBC.[^115] Therefore, viewers knew that the BBC would broadcast the entire match.[^116]

Further copyright law comes directly from the EU, which promulgated the European Community Directive 2001/29, including in granting authors “the exclusive right to authorise [sic] or prohibit direct or indirect, temporary or permanent reproduction by any means and in any form, in whole or in part.”[^117] Each member state had to incorporate the Directive into its copyright laws.[^118] For example, the United Kingdom incorporated the Directive into the CDPA to protect exclusive licensing of copyright, specifically including broadcasts.[^119] The CDPA licensing rights for broadcasts requires notice to a licensing body including proper payments.[^120] One key amendment

[^112]: Id. at 141–42.
[^113]: Id. at 142.
[^115]: British Satellite Broad. Ltd at 158-59.
[^116]: Id. at 146.
[^118]: Id. at 6.
[^119]: Copyright, Designs and Patents Act, 1988, c. 48, § 1 (including the amendment from 2003).
[^120]: “Conditions for exercise of right: 1) A person who, on or after the date specified in a notice under section 135B(1)(b), includes in a broadcast . . . any sound recordings in circumstances in which this section applies, and who—(a) complies with any reasonable condition, notice of which has been given to him by the licensing body, as to inclusion in the broadcast . . . of those recordings, (b) provides that body with such information about their inclusion in the broadcast . . . as it may reasonably require, and (c) makes the payments to the licensing body that are continued . . .
from the Directive for the British copyright law was to allow performers exclusive rights “to control ‘on-demand’ transmissions of recordings of their performances . . . .”121 This inclusion reflects the technological innovation and the law’s quick response to protect copyright holders.

The EU addressed sports broadcasting in 2011 when a case arose concerning the use of satellite broadcasts infringing on copyrights of British copyright holders. In Football Association Premier League Ltd. v. QC Leisure122, the issue of copyright infringement for sports broadcasting was discussed in relation to the CDPA and EU law.123 To better understand this case, it is important to get a background on the licensing of soccer in England. “[T]he Football Association Premier League Ltd. (the FAPL), the top English football league’s organisation [sic] for marketing that league's matches . . . grants its licensees the exclusive right to broadcast and economically exploit the matches within their broadcasting area . . . .”124 The FAPL controls filming of the soccer matches and then licenses those rights to broadcasters, who purchase exclusive licenses for a territory. “The exclusive rights to broadcast live matches are divided territorially and are granted on the basis of three-year terms.”125 In practice, licenses are primarily sold by territory meaning it is limited to one broadcaster for one country.126 Thus, FAPL ensures the exclusivity of the broadcasting areas by preventing viewership outside the exclusive territory, which is a common practice in Europe. “In order to protect this territorial exclusivity, each broadcaster undertakes in its licence [sic] agreement with the FAPL to encrypt its satellite-delivered signal.”127 So the broadcaster protects the signal to help maintain the value of its copyright and ensures that the viewer pays for the right to watch the broadcast.

In Football Association Premier League Ltd. v. QC Leisure, the value of that encrypted satellite signal was at issue when an English

122 Football Association Premier League Ltd. v. QC Leisure [2008] EWHC 1411 (Ch) (Eng.).
123 See Football Ass’n Premier League Ltd., supra note 107, at 9093.
124 Id. at 9092.
125 Id. at 9103.
126 Id. at 9092.
127 Id. at 9103.
pub owner broadcast a soccer match using a decoder purchased from Greece.\footnote{Mark Thompson, Europe Probes Studios’ Deals With Pay TV, CNN\textsc{money} (Jan. 13, 2014, 9:21 AM), http://money.cnn.com/2014/01/13/news/companies/europe-movies-probe/} The owner only paid for a domestic copyright, which meant the viewing could only be for personal use, not commercial.\footnote{Football Ass’n Premier League Ltd., \textit{supra} note 107, at 9111.} Thus, the pub owner was fined for copyright infringement by publicly broadcasting the match in the pub.\footnote{Thompson, \textit{supra} note 129.} However, the device that enabled the transmission via satellite was not illegal.\footnote{\textit{Id}.} “The European Court of Justice ruled that subscribing to a foreign satellite broadcaster and using a foreign decoder card for private use was not illegal.”\footnote{\textit{Id}.} The outcome of the case allowed for national licensing for independent members to continue in the EU.\footnote{\textit{Id}.}

Furthermore, the European Court of Justice held “all the matches in the final stages of those two tournaments [FIFA and UEFA] actually attracted sufficient attention from the public to form part of an event of major importance”\footnote{Jenine Hulsmann, Exclusive Territorial Licensing of Content Rights After the EU Premier League Judgments, 26 \textsc{Antitrust} 30, 36 (Summer 2012) \textit{available at} http://www.cliffordchance.com/content/dam/cliffordchance/PDFs/Antitrust_Article_on_Exclusive_Territorial_Licensing.pdf.} because the matches are very popular. However, individual EU states can designate any match as being of “major importance.”\footnote{Arjun Kharpal, FIFA loses battle over soccer World Cup broadcasts,\textsc{CNBC} (July 18, 2013, 9:51 AM), http://www.cnbc.com/id/100896248.} Based on this case, FIFA and UEFA, the two governing bodies of soccer associations in Europe, lost some of the value in their broadcasting rights because they can no longer limit final matches of the World Cup and European Championship to only paid television channels. Nonetheless, FIFA still makes millions of dollars from licensing rights from the World Cup,\footnote{See Kelly Phillips Erb, \textit{World Cup Mania: Figuring Out FIFA, Soccer & Tax}, FORBES.COM (June 14, 2014, 12:23PM), http://www.forbes.com/sites/kellyphilipserb/2014/06/16/world-cup-mania-figuring-out-fifia-soccer-tax (stating that that during the 2010 World Cup "branding alone generated USD $37 million for FIFA.").} however this case shows some of the limitations based upon the sport’s popularity in European cultures. Access to the World Cup is of major importance to the European marketplace and justifies the outcome that everyone should have access to the final match.
VII. BACKGROUND OF THE FIFA WORLD CUP BROADCAST IN THE UNITED STATES

The issues of copyright divisibility are particularly interesting in the context of FIFA soccer broadcasts in the United States, because they create a market that can be divided between networks. The pinnacle global event for soccer is the World Cup, which is held every four years.\(^{137}\) It is an international competition where each country participating is represented by its best soccer players, many of whom are also professional soccer players.\(^{138}\) FIFA organizes the World Cup and owns all the rights.\(^{139}\) “Typically, to broadcast the World Cup, a three-way deal is arranged between the organizer, host broadcaster, and other broadcasters. FIFA initially owns the broadcasting rights to the World Cup.”\(^{140}\) In turn, FIFA sells those broadcast rights to companies to show the World Cup in their home countries.\(^{141}\) FIFA “selects a production company as the ‘host broadcaster’ and then licenses the right to show World Cup games on television and radio to individual broadcasters in interested countries.”\(^{142}\) A bidding process determines which broadcaster will be authorized to show the matches in each country or region.\(^{143}\) The bidding process allows FIFA to maintain control over the broadcast by limiting only authorized broadcasters into the arenas.\(^{144}\)

The 2014 World Cup in Brazil marked the 20\(^{th}\) tournament.\(^{145}\) Despite the overwhelming popularity of the tournament worldwide, it has yet to garner as many fans in the United States. “[D]espite the World Cup’s unparalleled popularity across the globe, American interest in, enthusiasm about, and coverage of the World Cup have lagged behind the rest of the world.”\(^{146}\) Many theories offer a


\(^{138}\) Id.

\(^{139}\) Hylton, supra note 79, at 58.


\(^{141}\) Id.

\(^{142}\) Hylton, supra note 79, at 58.

\(^{143}\) See id. at 59.

\(^{144}\) See id. at 61.


\(^{146}\) Id. at 36.
potential rationale for lack of popularity in the United States compared to the rest of the world.\textsuperscript{147}

One theory is based on the limited focus of a nation to watch only a certain number of sports, which was popular at a time prior to television broadcasting of sports.\textsuperscript{148} Thus, the popular sports were local teams that could be heard on the radio or seen in person. “Whichever sport entered a country’s sport space first and managed to do so in the key period between 1870 and 1930, the crucial decades of industrial proliferation and establishment of modern mass societies, continues to possess a major advantage to this day.”\textsuperscript{149} Therefore, sports like baseball, basketball, and football are strongholds for the American people.\textsuperscript{150} Further, this theory explains the reason that the United States hosting the 1994 World Cup did not generate more popularity with American viewers.\textsuperscript{151} Soccer was not a popular professional sport in the United States in the early 1900s\textsuperscript{152} and even hosting the event did not cause a new wave of interest.

Another theory for the unpopularity of soccer is that the American broadcasters victimize the American soccer team.\textsuperscript{153} For example, in the 2002 World Cup match between the United States and Brazil showed the Americans as completely outpaced by the Brazilians.\textsuperscript{154}

This notion of “us versus them” comes into play mainly for soccer in

\textsuperscript{147} Id. at 37.
\textsuperscript{148} Id.
\textsuperscript{149} Id. (For example, applying this theory to the United States, baseball is the national pastime, even though today attendance is not as strong as it once was. Ed Sherman, All-time low rating: Why World Series continues to decline; trails NBA Finals, NCAA tourney, BCS, SHERMAN REPORT (Oct. 30, 2012), http://www.shermanreport.com/why-world-series-matters-much/ (discussing sinking television ratings and attendance despite the perceived popularity of the sport). But football and basketball were being played during this “crucial time” in the United States, which are the three main popular sports on television today. Andy Benoit, Football, Baseball and the Evolving Tastes of Fans, N.Y. TIMES, Apr. 17, 2012 available at http://fifthdown.blogs.nytimes.com/2012/04/17/football-baseball-and-the-evolving-tastes-of-fans/?_php=true_type=blogs_r=0.
\textsuperscript{150} Novak, supra note 146, at 37.
\textsuperscript{151} See Jake Mann, Will the World Cup Give U.S. Soccer a Permanent Boost? THE MOTELY FOOL (June 12, 2014), http://www.fool.com/investing/general/2014/06/12/will-the-world-cup-give-us-soccer-a-permanent-boos.aspx (stating that “There has been little change in the number who consider themselves fans . . . over the past two decades. Some 28% identify themselves as fans today, compared with 31% on the eve of the 1994 World Cup” (internal quotations omitted).
\textsuperscript{152} Id. at 38.
\textsuperscript{153} Id.
\textsuperscript{154} Id. (explaining that “Brazil is framed as the ‘champion/superstar’ team . . .”).
the United States because Europe offers powerhouse teams, leading broadcasters to portray American teams as David versus the European Goliath. Even though the United States versus China women’s final pulled 18 million viewers on ABC, those viewers did not tune in for other matches for the World Cup.\textsuperscript{155} Given the victimization of American soccer, it is not surprising that the sport’s broadcast popularity did not grow despite the fact that American women’s team won the World Cup in 1999.\textsuperscript{156}

Despite the lack of World Cup viewing, Americans play soccer in an increasing number. It is estimated that “in the United States, soccer is primarily a participation sport [with 31 million people playing]. Over 4 million youths play soccer, as well as over 700,000 high school athletes.”\textsuperscript{157} Likely, the number of Americans watching the World Cup will increase as the general population gains a knowledge and passion for the sport. In spite of all the data stating that Americans are not watching the World Cup, there is conflicting data to show that is not true. The Nielsen Company has monitored the most-watched soccer matches.\textsuperscript{158} Surprisingly, the most-watched match in the United States did not involve the American team, but instead was the final between Spain and the Netherlands in the 2010 World Cup.\textsuperscript{159} The total viewership in the United States was 24.3 million during the ABC/Univision broadcast.\textsuperscript{160} The second most-watched match for the 2010 World Cup was between the United States and Ghana with 19.4 million viewers.\textsuperscript{161} Americans tend to “root for the flag more than for the game of soccer itself,” meaning that if the American team does well then Americans will tune into the match.\textsuperscript{162}

Although American viewers are tuning into the World Cup, ranked as the 8\textsuperscript{th} most viewing country in the world in 2006, the American broadcasters do not disclose the profits.\textsuperscript{163} On the other hand, FIFA

\textsuperscript{156} See Mann supra note 152 (stating that there has not been much of an increase in viewership in the past 10 years).
\textsuperscript{158} See 2010 World Cup Final, supra note 156.
\textsuperscript{159} Id.
\textsuperscript{160} Id.
\textsuperscript{161} Id.
\textsuperscript{162} Novak, supra note 146, at 48.
has readily disclosed its profits from the broadcast rights and sponsorship deals.\textsuperscript{164} American broadcasters do not gain profits for FIFA as they would for other sports due to the fact that the model for recouping the cost of the rights’ fees is not the same for soccer.\textsuperscript{165} Typically, broadcasters recoup their investment in a sporting event through advertisements, like the Super Bowl bringing in as much as $3 million for a thirty second ad slot.\textsuperscript{166} The high price for ads comes from a guaranteed audience during live sporting events. “The advertiser is rewarded with a guaranteed audience, while the broadcaster has a wonderful opportunity to increase revenues—provided the advertiser and broadcaster first gain the permission of the program’s rights holder.”\textsuperscript{167} Live sports have a pull as they happen in real time and instant results make it necessary for a sports fan to watch the game while it is on currently airing on television.\textsuperscript{168} Although this theory applies to the World Cup, soccer generally does not pull the same ad revenue. “One obstacle networks face in recouping their investment is that soccer is not the most ad-friendly of sports. The two 45-minute periods of each match go mostly uninterrupted, limiting natural ad breaks to immediately before and after the match and at halftime.”\textsuperscript{169} Thus, soccer allows for minimal interruption for ads compared to the formatting of other sports broadcasting that allows for multiple advertising breaks whenever there is a break in the game action.

Ultimately, FIFA profits most from the World Cup. “[FIFA] . . . took in $1.9 billion from the sale of World Cup TV rights to rights-holders worldwide, from CBC in Canada to Sky Deutschland in Germany—a nearly 60 percent increase over the previous quadrennial tournament.”\textsuperscript{170} Given that increase, the World Cup is highly lucrative. FIFA will continue to see profits for the rights, especially as

\textsuperscript{164} Sommer Saadi, World Cup TV: Many Viewers, No Profits, BLOOMBERG BUSINESSWEEK (July 15, 2010), http://www.businessweek.com/technology/content/jul2010/tc20100714_994644.htm.
\textsuperscript{165} See id.
\textsuperscript{168} See, e.g., Chuck Klosterman, Space, Time and DVR Mechanics, GRANTLAND (June 10, 2011), http://grantland.com/features/space-time-dvr-mechanics/.
\textsuperscript{169} Saadi, supra note 164.
\textsuperscript{170} See id.
the tournament gains popularity in regions that previously did not watch it. “FIFA earns about 90% of its revenue from broadcasting, sponsorship and marketing deals tied to the World Cup. The world body calculates it earned $2.4 billion in broadcast sales worldwide just for the 2010 tournament.” Further, FIFA sold the 2018-2022 rights in the Middle East, parts of Asia, and Latin American for $1.7 billion, a 90% increase from the previous bidding session from 2010-2014. Therefore, the real winner of the World Cup tournament broadcast is FIFA.

VIII. APPLYING DIVISIBILITY TO THE AMERICAN BROADCAST OF THE WORLD CUP

Viewership in the United States was nowhere near the millions of viewers in the United Kingdom, which had over 17 million viewers during peak coverage. “In the USA, the tournament coverage reached 94.5 million viewers; well over 40% of the reach for the region. Audience reach in the USA saw a 19% rise versus the 2006 edition, the highest rise of any measured market.” However, each match averaged about 8 million viewers to the English [language] broadcast on ABC. The final match pulled around 15 million viewers. Compared to the United Kingdom broadcast, the American viewership was low because the United Kingdom averaged over 15 million viewers per preliminary match.

Even with only 15 million viewers in the United States, the cost of the rights to the broadcast is soaring and profits have been minimal. The American broadcast has been dominated by ESPN, broadcasting

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172 Id.
174 KANTARSPORT, supra note 96, at 39. However, it is important to note that these numbers were based on a minimum of watching only 20 minutes.
175 Id. at 40.
176 Id.
177 Id. at 37.
the English-speaking matches, and Univision, who has held the rights for the Spanish-speaking broadcast since 1978. During the 2010 South Africa broadcast, “Univision and ESPN said they were each close to selling out their commercial time.” However, the networks are not likely to truly profit from the broadcasts based on the cost of the rights. The cost of the World Cup broadcast rights have skyrocketed over the past 10 years. ESPN paid $100 million for “two World Cups and two Women’s World Cups through 2014—up from $11 million in 1994 and $22 million in 1998.” The large increase is due in part to the fact that previously ESPN rented out airtime on ABC, ESPN, and ESPN2 to Major League Soccer, who paid $40 million to FIFA. “Broadcasters never make up the cost of the Cup. . . . But they buy the rights to build up their image, to become known as the soccer channel.” As suggested, ESPN sought to become known as the soccer channel for English-speaking American viewers. Yet the amount paid by ESPN pales in comparison to Univision, who paid $325 million for the Spanish-language rights, an increase from their prior bid of only $125 million. For the 2006 World Cup held in Germany, Univision “received about $110 million in incremental World Cup-related revenue in 2006 . . . .” Still, that revenue did not result in profits for Univision. The difference in price paid by Univision and ESPN is due to the popularity among Spanish speakers, who adamantly watch the World Cup.

Bottom line, after investing millions acquiring the broadcast rights, the World Cup did not create record profits for the networks. “After production and marketing costs, however, that slight profit all but vanished, making it a break-even business. This year, the World Cup likely will bring in about $100 million in incremental revenue . . . which would mean a loss when looking at direct Cup financials.” As for ESPN, during the 2006 World Cup ESPN stated that it made a 30% jump in online advertising on ESPN.com. This increase in

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179 Id.
180 Id.
181 Id.
182 Saadi, supra note 164. (quoting Ezechiel Abatan, a sports researcher for Sportcal).
183 Sandomir, supra note 179.
185 Id.
186 Richard Sandomir, supra note 179.
online sales was seen despite mistakes with the broadcast, including hiring an announcer that was not knowledgeable about soccer.\textsuperscript{187} This announcer was replaced with British announcers for the 2010 South Africa World Cup after an outpour from angry viewers.\textsuperscript{188} Despite lackluster profits, it was a surprising turn of events in 2011 when Fox purchased the rights to the English-speaking broadcast and Telemundo purchased the Spanish-speaking rights in the United States.\textsuperscript{189} Previously, Univision purchased both the television and the radio rights.\textsuperscript{190} Now the unity of the broadcast is split between Telemundo, holding the television rights, and Futbol de Primera Radio, holding the radio rights.\textsuperscript{191}

For the 2010 and 2014 broadcasts, ESPN and Univision paid a combined $425 million for the World Cup.\textsuperscript{192} This amount was drastically increased for the 2018 and 2022 broadcasts. Fox alone paid “$450-500 [million] for the English-language rights to the next two events, scheduled for Russia and Qatar.”\textsuperscript{193} As for the Spanish-language rights, “NBC-owned Telemundo has agreed to pay around $600 [million] . . . .”\textsuperscript{194} Following the loss, ESPN commented on its bidding policy, “We made a disciplined bid that would have been both valuable to FIFA and profitable for our company, while continuing to grow our unprecedented coverage of the World Cup and Women's World Cup events. We were aggressive while remaining prudent from a business perspective.”\textsuperscript{195} However, if NBC wants to dominate the FIFA World Cup broadcasts in the United States, its company policy will likely win the bid because the money paid for the broadcast of the

\textsuperscript{187} Id. (discussing ESPN’s hiring of Dave O’Brien, a baseball announcer, to call soccer matches when he did not know the rules of soccer).

\textsuperscript{188} Id.


\textsuperscript{190} See id.


\textsuperscript{192} Id.

\textsuperscript{193} John Ourand, Fox, Not ESPN, Expected to Be Awarded FIFA World Cup Rights for '18, '22, SPORTS BUSINESS DAILY, Oct. 21, 2011, http://www.sportsbusinessdaily.com/Daily/Issues/2011/10/21/Media/Fox-World-Cup.aspx. Fox, also, has the opportunity to show more matches with the creation of Fox Sports 1 and Fox Sports 2, which started in 2013.

\textsuperscript{194} Id.

\textsuperscript{195} Id.
World Cup does not match the amount spent for the Olympic broadcast. In 2011, NBC paid $4.38 billion for the Olympics through the 2020 Summer Games in Tokyo.\textsuperscript{196} Yet this year, NBC privately bid for the Olympic broadcast through 2032 for $7.75 billion.\textsuperscript{197} This transaction was done privately with the International Olympic Committee and it was not an open bidding process so NBC had no competition.\textsuperscript{198} However, the World Cup broadcast reflects that multiple companies can broadcast the same tournament using different exclusive rights.

This division of the broadcasting rights to two distinct television companies illustrates the divisibility doctrine codified in the Copyright Act of 1976. Telemundo is a subsidiary of NBCUniversal,\textsuperscript{199} which is an interesting development based on NBC’s control of the Olympic broadcasts in the United States. Previously, ABC controlled the broadcast by ESPN and Univision is a subsidiary of Unvision Communications, Inc., which included the radio broadcasts.\textsuperscript{200} Typically for sports tournaments, one network wants exclusive rights, like NBC broadcasting the Olympics. But the FIFA World Cup is different because NBC and Fox will co-exist by broadcasting the same matches but in different languages. Telemundo acquired the more lucrative Spanish-language broadcast rights for the United States. As an NBC subsidiary enters the FIFA bidding process, it is important to understand its company philosophy for bidding and playing to win.

\textbf{IX. \textsc{Comparison to NBC’s Olympic Bidding Policy}}

The World Cup is easily comparable to the Summer Olympic Games due to the duration of the competition. The Olympics is around 17 days of competition with athletes from all over the world convening in one country.\textsuperscript{201} The World Cup competition spans one month from June to July with a similar field of global athletes

\textsuperscript{197} Id.
\textsuperscript{198} Id.
\textsuperscript{200} Saadi, \textit{supra} note 164.
Sports broadcasts pull in millions of viewers. The 2010 World Cup final match between Spain and the Netherlands is estimated to have been seen by 1 billion people around the world. However, the 2008 Beijing Olympics opening ceremony was seen by more people and was the most-watched television event in the world. But the Olympic viewership continued to increase with the 2012 London Games, marking the most-watched television sporting event in American history, the FIFA World Cup in 2014 will be the test ground for increasing viewership in the United States. The London Games were seen by 3.6 billion people globally, a 0.5 billion viewer increase over the Beijing Games.

The bidding process and territorial exclusivity is another key similarity between the Olympics and the World Cup. The International Olympic Committee accepts bids for one broadcaster to exclusively broadcast Olympic coverage for a country or region. This exclusivity creates interesting situations that extend beyond borders. For example, Seoul Broadcasting System had the rights to broadcast the Olympic Games during the London 2012 Games for the entire Korean Peninsula, which included both South Korea and North Korea. The historical and current discord between the two countries makes it more interesting for the broadcast rights to only be sold to one broadcasting company in one country. However, North Korea could limit the amount shown to its citizens. For the London 2012 broadcast, North Korea allowed five hours of coverage per day but none was live. An increase in North Korean coverage was

203 Id.
204 Id.
209 Evan Ramstad, North Korea Allows Broadcasts of Olympics, WALL ST. J., continued . . .
attributed to their athletes winning gold medals. This example shows that the organization body can control its broadcast rights exclusively. FIFA is no different than the International Olympic Committee when it comes to selling exclusive rights.

The FIFA World Cup broadcast in the United States has a new competitor, NBC. In order to adequately understand the bidding process and what is at stake for the future broadcasts, it is necessary to understand the strategy employed by NBC in other sports broadcasts. NBC has had control of the Olympic broadcasts in the United States since 1988. The key to NBC’s domination is based on their philosophy of outbidding everyone. Under the leadership of Chairman of NBC Universal Sports and Olympics Dick Ebersol, NBC won the rights multiple times because he had a surefire strategy of outbidding competitors by multiple millions of dollars. For example, Chairman Ebersol outbid Fox by over $700 million for the rights through 2012. Moreover, NBC will preemptively bid to ensure no competition occurs to acquire the Olympics. However, NBC has not always had competition for the broadcast bidding. “The American rights for the Athens 2004, Torino 2006, and Beijing 2008 broadcasts went to NBC in a process that involved no other bidders.” The bidding processes have varied including blind bidding of sealed offers after the networks give presentations to the International Olympic Committee or open bidding like in the early 2000’s.


Id.


Id.


Berkes, supra note 213.

See id. The networks can bid for two or more Olympic Games; the IOC prefers inclusion of four games: two Winter Games and two Summer Games. If none of the bids are acceptable, the IOC can initiate another round of bidding. See OLYMPIC.ORG, ALL ABOUT THE BID PROCESS, http://www.olympic.org/content/the-ioc/bidding-for-the-games/all-about-the-bid-process/ (last visited Aug. 30, 2014).
The battle over the World Cup broadcast rights is not the first interaction between NBC, ESPN, and Fox. Various broadcasting companies sought to gain the rights and generate the profits associated with the most watched series in television history.\textsuperscript{217} Interestingly, serious offers arose as Fox and ABC/ESPN challenged “NBC for its lock on the 10 most recent summer and winter games.”\textsuperscript{218} Fox bid $3.4 billion for the broadcasts of the Olympic Games from 2014 to 2020 including “$1.5 billion for the 2014 and the 2016 Olympics.”\textsuperscript{219} The second bid came from ESPN for $1.4 billion for the 2014 and 2016 Olympic Games.\textsuperscript{220} NBC already competes for sports viewers with ESPN. NBC Sports is in approximately 80 million homes, but that does not relate to the number of viewers.\textsuperscript{221} ESPN is in 19 million more homes than NBC Sports.\textsuperscript{222} “The real disparity is with fans who tune in. ESPN has averaged about 1.23 million viewers aged 18 to 49 for its prime-time programming [in 2012], according to Nielsen . . . NBC Sports Network’s audience: 142,000 viewers.”\textsuperscript{223} Therefore, it was crucial for NBC to win the Olympic Game broadcast to try to draw more sports viewers. So it is clear that NBC wants to lock down major sporting events and privately acquired the rights to the Olympics through 2032 to avoid competition from Fox and ESPN.

Moreover, NBC can generate profits during the long duration of competition during its Olympic broadcasts, proving itself to be a powerhouse. NBC profits from the Olympic Games due to heavy pre-Games promotion and advertising sales.\textsuperscript{224} Advertising has sold for approximately $100,000 per spot with 11,000 television commercial spots available on NBC networks.\textsuperscript{225} “The amount paid by individual marketers can vary considerably depending on how much ad time is purchased, the mix of premium and non-premium inventory,

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{218} Berkes, supra note 213.
\item \textsuperscript{219} Sandomir, supra note 218.
\item \textsuperscript{220} Id.
\item \textsuperscript{221} Alex Sherman, NBC Sports Network’s Olympic Ambitions, BUSINESSWEEK. (July 5, 2012), http://www.businessweek.com/printer/articles/60448-nbc-sports-networks-olympic-ambitions.
\item \textsuperscript{222} Id.
\item \textsuperscript{223} Id.
\item \textsuperscript{224} Eric Chemi, NBC’s Own Olympic Event: Selling 11,000 Ads in Two Weeks. BUSINESSWEEK (Feb. 7, 2014), http://www.businessweek.com/printer/articles/182745-nbc-s-own-olympic-event-selling-11-000-ads-in-two-weeks.
\item \textsuperscript{225} Id.
\end{itemize}
\end{footnotesize}
packaging of TV spots with online inventory, and other negotiable factors.” Unlike other Olympic Winter broadcasts, Sochi was poised to sell out months in advance. As of November 2013, NBC had already sold 90% of its television advertising spots. “Advertising sales have been so strong that Seth Winter, NBC Sports executive vice president of ad sales, said the company is positioned to sell out its first Olympics in more than a decade.” Projections show that NBC is estimated to earn $1 billion on these advertisements. NBC attributes the success to social media, which pulled viewers to the primetime broadcasts. Using Sochi as the microcosm, NBC can generate profits during lengthy sporting events and can use that knowledge to profit during Telemundo’s FIFA broadcasts.

X. Predictions for the Future FIFA World Cup Broadcasts in the United States

Likely, the World Cup will gain popularity, meaning that the rights will increase in value and price for American broadcasters. Notably, the highest percentage of viewers in the US during the 2010 World Cup was the young adults aged 16-34. This statistic is in line with the growing popularity of the sport with many children and teens playing in local leagues. Therefore, viewership will increase in the coming years as the youth soccer players get older and become interested in the World Cup. Based upon other sporting events, the rights are more valuable to the broadcaster when they are exclusive because they will make the viewer connect the event with the network. Based on NBC’s bidding policy (outbid no matter the cost) NBC can likely win the World Cup if they want to acquire the English-language broadcast. Telemundo clearly beat out Univision,

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228 Id.

229 Chemi, supra note 225.


231 KANTARSPORT, supra note 96, at 23.

232 See Katrien Lefever, NEW MEDIA AND SPORT INTERNATIONAL LEGAL ASPECTS 10 (Springer 2012).
who had the rights since 1978. NBC can use these tactics to fully own the broadcast rights to the World Cup with high bids like those seen by NBC for the Olympics (i.e., $7.75 billion). FIFA stands to profit from NBC’s entrance into the World Cup broadcast. With the doctrine of divisibility, it logically follows the more valuable the event the more division of rights available to FIFA, who profits by allowing multiple parties to broadcast.

Copyright has a goal of promoting the creative works for the public good. Preventing exclusivity by one broadcaster allows the broadcasters to compete, which allows for competition and improvement in the broadcast to draw the viewers. The split of the rights between Telemundo and Fox will allow a wide audience to better access the matches because the carriers are cheaper for subscribers. The cost of sports channels has rapidly increased over the past two years and is projected to continue to increase for subscribers. Additionally, the cost-prohibitive nature of sports broadcasting can lead to less Americans watching the World Cup. ESPN is a cable television channel, meaning it is quite expensive to get the channels showing the FIFA World Cup matches. However, Fox Sports is a regional sports channel, meaning the cost to the consumer is less than ESPN. During the 2018 World Cup

236 Richard Sandomir, James Andrew Miller, Steve Eder, To Protect Its Empire, ESPN Stays on Offense, N.Y. TIMES, Aug. 26, 2013, at 4, available at http://www.nytimes.com/2013/08/27/sports/ncaafootball/to-defend-its-empire-espn-stays-on-offensive.html?pagewanted=all (explaining that the price paid by the viewer is currently a “$5.54 average monthly price for ESPN [which] is more than four times the fee for the next most expensive national network.”).
broadcast, the American viewership should increase given the cost difference between subscriptions to Fox and ESPN. So far, Fox Sports 1 has begun to garner a sports-viewing audience. “Fox Sports 1 is in 87 million homes and has signed long-term carriage deals with Comcast, Time Warner Cable and ATT U-verse.” The future is promising for Fox Sports 1 to compete for major sporting events including the World Cup. The creation of a new network for Fox will help build a soccer brand that could support that decision and help recoup the cost of the broadcast rights.

The FIFA World Cup bids only highlight the dispute in the sports broadcasting market in the United States. Although Fox Sports 1 has entered the sports broadcast landscape, the real competition is between NBC and ESPN competing for sports viewers and major championships. ESPN is a powerhouse for sports broadcasting and NBC is trying to make strides in the amount of viewers that ESPN can pull to its channels. If NBC gets the English-language broadcast, they have a proven track record of gaining profits with lengthy events like the Olympics, which lasts approximately seventeen days. NBC can now use that knowledge with the World Cup broadcast on Telemundo, a true test of broadcasting power over one month. Given the length of the competition, NBC has experience garnering advertisers to recoup the broadcast fees and start gaining profits. If Telemundo profits during the upcoming FIFA World Cups, NBC is likely to enter the English-speaking broadcast bids which can yield record breaking bids. NBC has already acquired the Olympic broadcast rights through 2032 and can, therefore, focus solely on building its sports brand by seeking out other competitions in exclusivity. Ultimately, once NBC enters the bidding process, a monopoly will occur but it is not illegal to be the exclusive copyright holder. This fact reflects how the


239 See David Schwendiman, The Bar, the Courts, Criminal Justice and the Olympics: Handling the Impact of the Olympic Games on the Courts, Law Practice and Criminal Justice in Utah, 14 No. 8 UTAH B.J. 8, 8 (2001) (explaining that for the Olympic athletes: “a workable balance will be found . . . for the seventeen days of the event.”).


241 See Brian Danitz, Comment, Martignon and KISS Catalog: Can Live Performances Be Protected?, 15 FORDHAM INTELL. PROP. MEDIA ENT. L.J. 1143, continued . . .
divisibility doctrine benefits the copyright holder by allowing FIFA to profit from its copyright by charging more for different exclusive portions.

XI. CONCLUSION

The divisibility doctrine has led to more competition in the sports broadcasting market. It allows more viewers an opportunity to see major sporting events. However, the sports landscape in the United States typically calls for exclusivity of events to create a brand for a particular sport or event. Thus, the FIFA World Cup broadcast in the United States is likely to go to one exclusive broadcaster for both the English- and Spanish-language broadcasts. Especially, if NBC is involved in the bidding process, the company policy of outbidding the competition will likely prove enough to win the World Cup. The first step has already occurred with Telemundo purchasing the highly sought after Spanish-language broadcast. The next logical step is for NBC to monopolize the World Cup with the English-language broadcast. Although the copyright divisibility has allowed for multiple broadcasters, sports networks still prefer to monopolize an event, and likely that will occur with the World Cup, like other sporting events, as it gains popularity with the American viewers.

1196 (2005) (stating that copyright is not a true monopoly).
QUANTIFYING PATENT ELIGIBILITY JUDGMENTS

Aashish R. Karkhanis†

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† With many thanks to Rani Cordova, Logan Foos, and Jasmeet Khela for outstanding research assistance.
I. EXECUTIVE SUMMARY

Predicting whether an invention including software
is eligible for patent protection is notoriously difficult due to rapid changes in law and technology. Analysis of patent litigation data, according to the model proposed in this article, implies that a claim appearing invalid for lack of patent eligibility is likely invalid. In an analysis of 48 relevant patent assertions at district court, including substantive challenges for patent eligibility, results show a greater than 70 percent likelihood of invalidation at the summary judgment stage. Understanding this lopsided nature of patent eligibility rulings could illuminate patent quality, drive clearer valuation, and reduce the uncertainty of enforcement through litigation.

Here, we describe a model that quantifies litigation outcomes for patent eligibility. This quantitative model focuses on the likelihood of invalidity resulting from ineligibility for patent protection, and can evolve with the continually changing judicial consensus on patent eligibility. More recent patent eligibility decisions can also be incorporated into the model, creating a flexible and responsive framework. Because it can incorporate new court judgments into the existing body of litigation data, this model can illuminate patent eligibility judicial outcomes based on the most up-to-date judicial consensus.


3 See infra Table 4.

4 35 U.S.C. § 101 (2012) (“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”).

5 The Supreme Court in 2014 considered in Alice Corp. v. CLS Bank Int’l, No. 13-298 (U.S. June 19, 2014), petitioner’s question presented of “[w]hether claims to computer-implemented inventions . . . are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101 as interpreted by this Court?” Brief for Petitioner at (i), Alice Corp Pty. Ltd. v. CLS Bank Int’l, 2014 WL 262088 (U.S. 2014) (No. 13-298). However, the Court declined to create a bright-line rule for software patent eligibility. Alice Corp Pty. Ltd. v. CLS Bank Int’l, No. 13-298, slip op. at 7 (U.S. June 19, 2014).
II. ABSTRACT

The model presented here includes subjective and objective components for quantifying the likelihood that a particular claim is invalid under 35 U.S.C. § 101 for patent ineligibility. This analysis rests on four quantifiable metrics derived from current Supreme Court and Federal Circuit patent eligibility jurisprudence. The Supreme Court theory is built on two judicial exceptions of “preempting the formula” and “insignificant post-solution activity.” The Federal Circuit has developed its own nonbinding exceptions of “particular machine” and “transforming an article,” commonly referred to as the “machine-or-transformation test.” A subjective analysis of relevant district court litigation at the summary judgment stage determines whether any of the metrics are observed and result in a rule for or against patent eligibility. This subjective analysis drives objective litigation analytics through aggregation of the individually observed metrics into invalidation frequencies, on a rule-by-rule basis.

The model incorporates invalidation frequencies for related groups of rules into statistically-modeled likelihoods of invalidity for the different patent eligibility legal theories. In application, each patent eligibility rule and theory is respectively associated with an invalidation frequency or invalidation likelihood. By associating a rule or theory with an invalidation percentage, the likelihood that a particular claim is invalid can be estimated without a detailed analysis of the merits of a particular case. Our results show that district courts invalidate claims at a high rate of over fifty percent. Once an argument on patent eligibility is made, it is adjudicated at a rate of over seventy-five percent. These results suggest that a claim appearing vulnerable to patent eligibility challenge is at a high risk of invalidation on those grounds.

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7 See infra The Supreme Court Patent Eligibility Theories, Figure 1; The Federal Circuit Patent Eligibility Theories, Figure 2.
9 Id. at 3225.
III. BACKGROUND

Current jurisprudence surrounding patent eligibility is unclear and conflicting, though the doctrine’s legal foundation is well established. Drawing from a constitutional mandate encouraging broad exclusive rights for inventors to their “discoveries,” Congress authorized statutory protection across four expansive categories of invention. The Supreme Court has historically endorsed this expansive scope for patent protection by defining only three categorical exceptions to patent protection.

Of these three, the prohibition on patents covering abstract ideas most affects software patents. These concepts form the bedrock of patent eligibility rules.

The relatively recent Supreme Court ruling in Bilski v. Kappos marks the beginning of a new era in which courts at multiple levels wrestle with defining boundaries for software patents. Patent eligibility opinions in the post-Bilski era sometimes reveal strong disagreement between jurists of different courts, or even the same court. These legal splits create uncertainty over the true scope of patent protection and complicate reliable patent asset valuation.

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11 See, e.g., CLS Bank Int’l v. Alice Corp., 717 F.3d 1269 (Fed. Cir. 2013) (holding patent ineligible a method claim related to credit obligations, but through a fractured set of concurring opinions).
12 See Bilski, 130 S. Ct. at 3225 (Stephens, J., concurring) (tracing the development of patent law).
13 U.S. CONST. art. I, § 8, cl. 8 (“To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”).
14 Bilski, 130 S. Ct. at 3225.
15 Id. (“The Court’s precedents provide three specific exceptions to §101’s broad principles: laws of nature, physical phenomena, and abstract ideas.”) (quoting Diamond v. Chakrabarty, 447 U.S. 308,309 (1980)) (internal quotations omitted).
16 Dina Roumiantseva, The Eye of the Storm: Software Patents and the Abstract Idea Doctrine in CLS Bank v. Alice, 28 BERKELEY TECH. L.J. 569, 570 (2013) (stating that “recent cases demonstrate a fundamental divide in the courts about which computer-implemented inventions should be eligible for patent protection.”).
17 Bilski, 130 S. Ct. at 3225.
19 See supra text accompanying note 12.
A framework describing patent eligibility litigation could create
certainty as to the risk existing patents pose to companies. An
accurate framework could reduce costly litigation of software patents
in particular, especially by non-practicing entities (“NPEs”).

IV. PROPOSITION

Can quantitative patent eligibility metrics based on previously-
litigated claims imply patent eligibility quality for a nonlitigated
claim? A model for testing this proposition includes both subjective
and objective factors. Subjective human input is critical to correctly
identifying complex issues governing patent eligibility.

Objective metrics tied to each identified rule frame a given claim
within the larger context of claims litigated under similar theories. These
objective metrics are drawn from early-stage litigation data at
the district court level, the forum of first resort for determining patent
eligibility.

V. METHODOLOGY

This model creates a shorthand of pre-scored rules derived from
the current framework governing judicial exceptions to patent
eligibility. Each rule is a component of either the Supreme Court’s or
the Federal Circuit’s legal reasoning process, and a score associated
with each rule indicates how often a district court invalidated a patent
claim in view of that rule. Statistical models combine related rules to
create invalidation likelihoods for each court’s theory.

Application of the model to a target claim requires only identifying
whether any of the rules or theories apply; only the rule identification
process remains subjective. Invalidation frequencies indicating the

23 See infra Appendix A.
24 See infra Appendix A.
vulnerability of a target claim are drawn from district court litigation judgments, not anecdotal experience. Each percentage associated with an identified theory indicates the historical likelihood of invalidating the non-litigated claim. As the number of theories applicable to a claim increases, and as the percentages associated with those applicable theories increase, the likelihood of invalidity for a given claim also increases.25

A. Identifying Patent Eligibility Rules

This semi-objective model eliminates the need to predict any particular patent eligibility outcome on the merits. The model simply asks whether any theory is germane to a given claim. This model identifies and distills four foundational patent eligibility theories into a simplified set of yes-or-no decision points. A holistic consideration of legal theory, claim drafting, and underlying technology required to adjudicate the issue fully can be replaced with lighter claim analysis limited to identifying relevant patent eligibility issues.

Four patent eligibility rules drawn from Supreme Court and Federal Circuit jurisprudence are elementary components of this model. The two rules forming the Supreme Court theory, “preempting the formula” and “insignificant post-solution activity,” have been useful signposts for patent eligibility determinations for decades.26 The two more modern Federal Circuit rules, which form the “machine-or-transformation” test, are also useful but not alone conclusive of eligibility or ineligibility.27

B. The Supreme Court Patent Eligibility Theory

The Supreme Court theory takes the form of a two-step analysis28 for determining patent eligibility. A claim is analyzed first for “preempting the formula” and subsequently for “insignificant post-solution activity.”29 A claim is eligible for patent protection only if it passes both of these tests.30

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25 See infra Figure 1.
27 Bilski, 130 S. Ct. at 3227 (“The machine-or-transformation test is not the sole test for deciding whether an invention is a patent-eligible ‘process.’”).
28 See Flook, 437 U.S. at 590; Gottschalk, 409 U.S. at 72.
29 See Flook, 437 U.S. at 590; Gottschalk, 409 U.S. at 72.
Figure 1: Supreme Court Patent Eligibility Theory

A claim that describes a concept alone, without applying that concept, preempts the formula.\(^{31}\) Examples of concepts not eligible for patent protection include pure mathematics (e.g. converting numbers)\(^{32}\) and purely mental activity (e.g. understanding a market and making a transaction).\(^{33}\) Only applications of a concept related to the invention will make a claim patent eligible.\(^{34}\) Applications unrelated to an inventive concept, like displaying results of a mathematical calculation or creating a trivial effect from calculation (e.g. updating an alarm),\(^{35}\) are insignificant post-solution activities.\(^{36}\)

In general, patent invalidation for insignificant post-solution activity has recently become more common.\(^{37}\) The Supreme Court in *CLS Bank v. Alice* gives examples of computer-implemented activity that should pass\(^{38}\) and fail\(^{39}\) Flook’s post-solution activity test, without

\(^{31}\) *Gottschalk*, 409 U.S. at 67 (1972) (“Phenomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work.”).

\(^{32}\) See id. at 71–72 (denying a patent to a computer algorithm that the court deemed to be purely a mathematical formula).

\(^{33}\) See id. at 67. See also *Bilski*, 130 S. Ct. at 3229–30 (2010).

\(^{34}\) See *Flook*, 437 U.S. at 584; see also *Mackay Radio & Tel. Corp. v. Radio Corp. of Am.*, 59 S. Ct. 427, 431 (1939) (“While a scientific truth, or the mathematical expression of it, is not patentable invention, a novel and useful structure created with the aid of knowledge of scientific truth may be.”).

\(^{35}\) See *Flook*, 437 U.S. at 584 (denying a patent for a mathematical formula used to update alarm limits on laboratory testing equipment).

\(^{36}\) Id. at 591 (“[T]he process itself, not merely the mathematical algorithm, must be new and useful. Indeed, the novelty of the mathematical algorithm is not a determining factor at all.”).


\(^{38}\) See *Alice Corp. v. CLS Bank Int’l*, No. 13-298, slip op. at 15 (U.S. June 19, 2014) (“Using a computer to create and maintain shadow accounts amounts to... continued..."
materiarily changing the Supreme Court’s longstanding two-step patent eligibility inquiry.\textsuperscript{40}

C. The Federal Circuit Patent Eligibility Theory

The Federal Circuit theory includes two independent tests that indicate whether a claim is likely or likely not patent eligible. A claim is likely patentable if it recites a “particular machine” or “transforms an article.”\textsuperscript{41} Inversely, a claim that fails both prongs is likely not patent eligible. Unlike the Supreme Court theories, failing one or both of the Federal Circuit tests is not definitive proof that a claim is ineligible for patent protection.\textsuperscript{42} These theories nonetheless inform whether a claim is patent eligible, especially for close cases.

![Figure 2: Federal Circuit Patent Eligibility Theory](image_url)

A software claim failing to recite a particular machine is likely not eligible for patent protection.\textsuperscript{43} Reciting a programmed computer or specific computing hardware usually satisfies the particular machine prong. If the claim recites no computer\textsuperscript{44} or is only incidentally\textsuperscript{45} “computer aided,”\textsuperscript{46} the particular machine prong is not satisfied.
A software claim that fails to transform an article is also likely not eligible for patent protection. If, “the method could not, as a practical matter, be performed entirely in a human’s mind” then a transformation has likely occurred.47 “The mere manipulation or reorganization of data, however, does not satisfy the transformation prong.”48 In general, applications of data manipulation historically tend toward the patent eligible. Similar to “preempting the formula,”49 pure mathematics and purely mental steps indicate patent-ineligible subject matter.50

D. Scoring Patent Eligibility Rules

Litigation data at the district court level allows visibility into judicial reasoning at a relatively early and lower cost stage of litigation.51 Summary judgment is particularly interesting because it is the earliest opportunity for litigants to address patent eligibility.52 In addition, defendants are more likely to defeat claims initiated by NPE plaintiffs than operating company plaintiffs at summary judgment.53 Even where a claim may be a strong candidate for invalidation at higher courts, the time and cost to litigate in these higher courts, as well as the willingness of the Supreme Court to hear a given patent dispute, may be prohibitive.54

District court patent litigation data can paint a more complete picture of the current judicial consensus surrounding patent eligibility, and therefore illuminate patent strength and value.

45 CyberSource Corp. v. Retail Decisions, Inc., 654 F.3d 1366, 1375 (Fed. Cir. 2011) (“[T]he incidental use of a computer to perform the mental process of claim 3 does not impose a sufficiently meaningful limit on the claim’s scope.”).
46 Dealertrack, Inc. v. Huber, 674 F.3d 1315, 1334 (Fed. Cir. 2012) (“[T]he claims here recite only that the method is “computer aided” without specifying any level of involvement or detail.”).
47 CyberSource, 654 F.3d at 1376.
48 Id. at 1375.
49 See infra, Table 1.
50 See CyberSource, 654 F.3d at 1375 (holding that “the incidental use of a computer to perform the mental process of claim 3 does not impose a sufficiently meaningful limit on the claim’s scope”).
52 Id. at 13.
53 Id. at 5 (“NPEs have been successful 24% of the time overall versus 34% for practicing entities, due to the relative lack of success for NPEs at summary judgment.”).
54 Id. at 25.
VI. EXAMPLE MODEL

The model for patent eligibility presented here creates quantifiable litigation metrics based on current legal frameworks. Here, we use (1) summary judgment rulings (2) issued by any Federal District Court (3) after the Supreme Court’s ruling in Bilski v. Kappos. The resulting metric tracks both how often a particular patent eligibility rule supports a particular outcome, and how often a claim was held ineligible under a particular rule. The more often a particular rule invalidates a claim, the higher the invalidation frequency for that rule.

A. Patent Eligibility Outcomes by Individual Rule

Applying this model can approximate the likelihood that a given claim is patent eligible in view of a particular patent eligibility rule. The model, shown in Figure 3, operates in two sequential steps, with a first subjective step and a second objective step. First, a claim is subjectively analyzed for relevance to a particular patent eligibility rule. Second, the invalidation frequency associated with a relevant rule is considered to estimate the claim’s vulnerability to invalidation. Relevance to a rule with a greater invalidation frequency implies a greater chance of invalidity.

Broad categories indicating a likelihood of patent eligibility guide the model. If no rules are applicable to a claim, then that claim has a low invalidation likelihood. If only a rule with a low invalidation percentage is relevant to a claim, that claim has a medium likelihood of invalidation, though a strong possibility might remain that the claim would be found valid. If, however, a rule with a high invalidation frequency is relevant to a claim, then that claim would have a high likelihood of invalidation. Experimental results indicate that all identified eligibility rules have invalidation frequencies over fifty percent, implying a high level of invalidation risk.  

55 See infra Observed Invalidation Frequency for Individual Rules.
B. Patent Eligibility Outcomes by Aggregated Rules

This model, shown in Figure 4, considers multiple rules and their corresponding litigation outcomes. Aggregating multiple metrics into a single resulting invalidation likelihood describes with better clarity the patent eligibility of any given claim.\(^{56}\) Identifying the number of theories applicable to a target claim can inform the susceptibility of the claim to an eligibility challenge.\(^{57}\) If one or none of the Supreme Court or Federal Circuit theories apply, the likelihood that the claim is invalid is lower.\(^{58}\) However, if both theories apply, the invalidation likelihood would naturally be higher.

Aggregating invalidation frequencies can indicate an overall likelihood that a claim will be invalidated across all potential issues. The particular aggregation technique can vary to emphasize relative importance of different factors.\(^{59}\) A simple aggregation technique could be the sum of each percentage associated with an applicable

\(^{56}\) Compare supra Figure 3 (charting invalidation likelihood by individual rules), and infra Table 1 (showing invalidation percentages for each rule), with infra Figure 4 (charting invalidation likelihood by aggregate percentages), and infra Table 2 (showing aggregate invalidation percentages for each theory).

\(^{57}\) See infra Figure 4; infra Appendix B, Table 5 (analyzing litigation by charting ineligibility rulings with appearances of individual eligibility rules).

\(^{58}\) See supra Patent Eligibility Outcomes by Individual Rule; supra Figure 3; infra Figure 4.

\(^{59}\) Compare infra Equation 1 (designing the aggregate Supreme Court Theory model to reflect the necessary dependence of the second rule on application of the first rule), with infra Equation 2 (designing the aggregate Federal Circuit Theory model to reflect the independence of each rule). See generally ROGER C. PFAFFENBERGER & JAMES H. PATTERSON, STATISTICAL METHODS FOR BUSINESS AND ECONOMICS 92–97 (Richard D. Irwin, Inc. ed., 1977) (explaining event relationships and comparing conditional, additive, and multiplicative probabilities).
rule. If a first rule has a low percentage (ten percent) and a second rule has a higher percentage (sixty percent), then each rule could influence an eligibility implication in line with its likelihood of invalidating litigated claims. Alternative techniques could include weighting or other quantitative methods. Experimental results indicate that all rules have a high invalidation frequency, implying that the lower two regions for low and medium invalidation likelihoods would not be applicable.

Figure 4: Mapping Patent Eligibility Metrics to Quality

Though the model defines some metrics, particular thresholds and dividing lines for understanding eligibility can vary from model to model. Different models may emphasize different metrics, resulting in varying quality assessment against a target claim dependent on the weighting of those metrics. A preferred quantitative model would output one eligibility score for a target claim and define score ranges implying whether target claims would have a low, medium, or high risk of invalidation based on patent eligibility.

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60 See PFAFFENBERGER, supra note 59, at 92–97.
62 See infra Statistical Likelihood of Ineligibility by Theory.
VII. Experimental Results

Results from this model, shown in Figure 2, show that claims appearing vulnerable to challenge under patent eligibility would be invalidated at the district court with high frequency. All rules are observed to invalidate litigated claims at a rate of over 50 percent.\(^{63}\) Statistical models, including these observed results, show invalidity likelihood between 64 and 78 percent for vulnerable claims.\(^{64}\) These results strongly imply that claims appearing to raise patent eligibility concerns are at severe risk of invalidity due to patent ineligibility.

Litigants raise, and courts decide, patent eligibility relatively rarely. An automated search on metadata\(^{65}\) for patent litigation documents filed after June 28, 2010\(^{66}\) revealed 210 cases matching keywords commonly associated with patent eligibility. Manual analysis of the search results revealed 41 cases discussing 48 instances of patent eligibility exceptions.\(^{67}\) Of those cases, district courts publicly adjudicated the patent eligibility rules 27 times at summary judgment.\(^{68}\) Aside from adjudicated cases, 11 settled before summary judgment, three remain open with summary judgment motions pending, and two are stayed pending reexamination.\(^{69}\) District courts ruled on patent eligibility at summary judgment in 74 percent of instances raised.\(^{70}\)

A. Observed Invalidation Frequency for Individual Rules

Claims failed the Federal Circuit “particular machine” and “transforming an article” rules more frequently than the Supreme Court rules. Invalidation frequencies under the Supreme Court rules of “preempting the formula” and “insignificant post-solution activity” are, respectively, 53 and 52 percent.\(^{71}\) Invalidation frequencies are

\(^{63}\) See infra Table 1.

\(^{64}\) See infra Table 2.

\(^{65}\) Automated searches of litigation data were restricted to docket text and other document ‘metadata,’ and involved no searching over the content of litigation documents. See infra, ‘Limitations and Concerns’ for a fuller discussion of potential effects of searches limited to docket text.

\(^{66}\) *Bilski v. Kappos* was decided on June 28, 2010. Only patent eligibility adjudications made after this date are incorporated into this exemplary model, as *Bilski* could be considered a contemporary benchmark for current patent eligibility jurisprudence.

\(^{67}\) See generally infra Appendix A–B.

\(^{68}\) See infra Table 4.

\(^{69}\) Id.

\(^{70}\) Id.

\(^{71}\) See infra Appendix B, Tables 6-7.
higher for the nonbinding\textsuperscript{72} Federal Circuit rules of Particular Machine and Transforming an Article, respectively at 84 and 76 percent.\textsuperscript{73}

Table 1: Observed Patent Eligibility Invalidation Frequency by Rule

<table>
<thead>
<tr>
<th>Patent Eligibility Rule (Court)</th>
<th>Adjudications</th>
<th>Invalidations</th>
<th>Invalidation Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preempting the Formula (SCOTUS)</td>
<td>32</td>
<td>17</td>
<td>53%</td>
</tr>
<tr>
<td>Insignificant Post-Solution Activity (SCOTUS)</td>
<td>25</td>
<td>13</td>
<td>52%</td>
</tr>
<tr>
<td>Particular Machine (CAFC)</td>
<td>19</td>
<td>16</td>
<td>84%</td>
</tr>
<tr>
<td>Transforming an Article (CAFC)</td>
<td>17</td>
<td>13</td>
<td>76%</td>
</tr>
</tbody>
</table>

B. Statistical Likelihood of Ineligibility by Theory

A likelihood of ineligibility for each theory can be constructed from the observed invalidation frequencies and simplified patent eligibility models for the Supreme Court theory\textsuperscript{74} and Federal Circuit theory.\textsuperscript{75} Statistical models for each theory indicate a high likelihood of invalidity for claims appearing vulnerable to challenge under 35 USC § 101. Vulnerable claims have approximately a 78 percent likelihood of invalidity under the Supreme Court theory and a 64 percent likelihood of invalidity under the Federal Circuit theory.\textsuperscript{76}

Table 2: Statistical Invalidation Frequency by Theory

<table>
<thead>
<tr>
<th>Patent Eligibility Theory</th>
<th>Invalidation Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supreme Court Theory</td>
<td>78%</td>
</tr>
<tr>
<td>Federal Circuit Theory</td>
<td>64%</td>
</tr>
</tbody>
</table>

The statistical model for the Supreme Court theory reflects the two-step process for determining patent eligibility. Courts consider

\textsuperscript{72} See \textit{Bilski}, 130 S. Ct. at 3218 (“The machine-or-transformation test is not the sole test for deciding whether an invention is a patent-eligible ‘process.’”).

\textsuperscript{73} See infra Appendix B, Tables 6-7.

\textsuperscript{74} See supra The Supreme Court Patent Eligibility Theories, Figure 1.

\textsuperscript{75} See supra The Federal Circuit Patent Eligibility Theories, Figure 2.

\textsuperscript{76} See infra Equations 1-2.
“insignificant post-solution activity” (“$P_{I,A}$”) only where a claim appears valid under “preempting the formula” (“$P_{I,F}$”). The model combines probabilities for both alternatives under which a claim may be eligible or ineligible under “preempting the formula.” A calculated probability of invalidity under “insignificant post-solution activity” approximates a likelihood of invalidity only when a claim is first found valid under “preempting the formula.” The model assumes that courts do not address post-solution activity where a claim preempts the formula. However, the observed frequencies incorporate data showing that some courts rule on post-solution activity even after finding a claim to preempt the formula.\footnote{See infra Appendix B, Tables 6-7.}

\[
P_{I,SCOTUS} = P_{I,F} + (1 - P_{I,F})P_{I,A} = 0.53 + (1 - 0.53)(0.52) = 0.78
\]

Equation 1: Invalidation Likelihood, Supreme Court Theory

Modeling invalidation frequency for the Federal Circuit theories is less complex. Each prong of the “machine-or-transformation” test is independent of the other, and a claim need pass only one prong to satisfy the entire test.\footnote{See infra Appendix B, Tables 6-7.}

\[
P_{I,CAFC} = (P_{I,M})(P_{I,T}) = (0.84)(0.76) = 0.64
\]

Equation 2: Invalidation Likelihood, Federal Circuit Theory

Application of each theory to a target claim differs. The Supreme Court theory functions as a grouping of individual rules, where individual rules of the Federal Circuit theory can be applied separately. A claim can be considered to have a seventy-eight percent likelihood of invalidity under the Supreme Court theory if either of the “preempting the formula” or “insignificant post-solution activity” rules appear relevant.\footnote{See supra The Federal Circuit Patent Eligibility Theories.} Under the Federal Circuit theory, a claim can be considered to have an invalidation likelihood of 84 percent if the “particular machine” prong applies, or 76 percent if the “transformation” prong applies.\footnote{See supra Table 2.} All independent patent eligibility rules indicate that any relevant rule indicates invalidation likelihood over 75 percent.\footnote{See supra Table 3.}

\footnote{See infra Table 3 and accompanying text.}
These statistical models and the invalidation frequencies they incorporate show a high risk of invalidity for a target claim based on patent eligibility. No combined statistical model for all four rules appears useful for understanding patent eligibility outcomes, because the Supreme Court theory and the Federal Circuit theory are independent and separate. Separating the binding Supreme Court theory from the nonbinding but “useful tool” of the Federal Circuit theory increases confidence in quality assessments based solely on binding authority.

**VIII. Model Flexibility**

This model is intended as a starting point for understanding patent quality as a function of eligibility. The model can adapt to changes in judicial thought on patent eligibility across sources of authority. Critical to the model, however, is reasoned identification of patentability issues. Quantitative metrics derived from the legal corpus are individually tailored to each rule. Considering these model aspects can result in more accurate assessments of patent eligibility.

**A. Adaptability to New Judicial Guidance and Consensus**

The model can incorporate new judicial outcomes based on current law. Even though the case law surrounding § 101 is anything but settled, the model will continue to receive new cases and new rules as input. If a new foundational rule governing software patentability emerges, that rule can be added to or replace the current patent eligibility theories. The courts would presumably apply any new patent eligibility rule where appropriate and an invalidation frequency for that new rule could be determined in the same manner as for the existing rules. Even existing rules can evolve through analysis of more recent cases and modification of the associated frequencies. Incorporating new rules and new applications of rules allows the model to maintain visibility into current judicial consensus on patent eligibility.

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83 See *Bilski*, 130 S. Ct. at 3227.
84 *Id.* at 3232.
85 *Id.* at 3227.
86 *Id.* at 3228.
B. Applying, Not Automating, Legal Reasoning

This model is designed to encourage identification of rules applicable to a particular claim by requiring reasoned (i.e. human) analysis of individual patent claims. Reasonable minds can differ on whether a claim is valid under a particular rule, and on whether a particular rule even applies to any given claim. Because so many minds can differ on this topic, this model leaves identifying these issues to reason, not automation. The model limits inaccuracies from extrapolation by limiting quantitative analysis only to the effectiveness of the identified rule at invalidating a claim.

IX. LIMITATIONS AND CONCERNS

This model is tailored to quantify effectiveness of particular patent eligibility exceptions based on limited available data. The model assumes that a claim passes the low threshold of satisfying the terms of 35 USC § 101 and only queries whether that claim is patent ineligible based on a judicially-created exception.

The manner of identifying and analyzing litigation data introduces concerns regarding bias, granularity, and completeness. A nontrivial number of cases settle before patent eligibility rulings on summary judgment, and the relationships of those settlements to patent quality is unclear due to the nonpublic nature of settlement negotiations and agreements.

Because relevant court decisions are few in number, the model requires a tradeoff between specificity with respect to technology area against providing a sample set large enough to support patent quality determinations. In effect, this model leans heavily toward the latter; it extrapolates a technology and venue-agnostic patent eligibility outcome for a target claim from existing judicial opinions. To achieve this result, automated metadata searches on extensive litigation data were conducted. Human searching of the same litigation data yielded more relevant cases. However, potential missing data may not change the implication that patents are invalidated in litigation for patent ineligibility with high frequency.

87 See infra Appendix A, Tables 4-5.
88 See infra Appendix A, Tables 4-5.
A. Intervening Settlement Activity May Introduce Bias

Selection bias through settlement activity may affect the quality of claims ultimately adjudicated at summary judgment, and could distort the statistical effectiveness of particular patent eligibility arguments. As noted above, settlement activity indicates that 74 percent of relevant patent eligibility issues reached summary judgment, based on 27 cases raising patent eligibility reaching judgment and eleven settling before judgment.  

Drawing inferences of patent quality from settled cases may be difficult. As speculation, defendants might have settled these matters due at least in part to a perceived increased danger from claims more likely to survive summary judgment. However, defendants might also have promptly settled assertions of low quality patents to minimize cost of defense. Invalidation frequencies could change notably under alternate assumptions that all settled cases would have either resulted in rulings of patent eligibility or ineligibility.

A confidence range for settlement bias, based on the above noted assumptions, suggests that settlement activity may distort the observed invalidation frequencies. If all potential settled cases had resulted in rulings of patent eligibility, a floor for invalidation frequencies would be between 30 and 32 percent for the Federal Circuit rules, and between 19 and 37 percent for the Supreme Court rules. If, however, all potential settled cases would have resulted in rulings of patent ineligibility, the invalidation frequencies would be between 88 and 89 percent for the Federal Circuit rules, and between 76 and 84 percent for the Supreme Court rules.

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89 See infra Table 4.
90 The formula for determining the hypothetical percentages is as follows: (Invalidation Frequency Result for a Particular Test) (1 – Number of Adjudicated Litigations / Number of Settled Litigations) + (0 for All Patents Ruled Eligible OR 1 for All Patents Ruled Ineligible)(Number of Adjudicated Litigations / Number of Settled Litigations) = Hypothetical Floor/Ceiling Percentage for Patent Eligibility Likelihood.
91 See supra text accompanying note 90.
92 See supra text accompanying note 90.
Table 3: Estimated Invalidation Frequency Range for Settlement Bias by Rule

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Preempting the Formula (SCOTUS)</td>
<td>39%</td>
<td>53%</td>
<td>66%</td>
</tr>
<tr>
<td>Insignificant Post-solution Activity (SCOTUS)</td>
<td>38%</td>
<td>52%</td>
<td>65%</td>
</tr>
<tr>
<td>Particular Machine (CAFC)</td>
<td>62%</td>
<td>84%</td>
<td>89%</td>
</tr>
<tr>
<td>Transforming an Article (CAFC)</td>
<td>56%</td>
<td>76%</td>
<td>82%</td>
</tr>
</tbody>
</table>

Testing for this type of selection bias is difficult, because attaining public data for patent settlements is difficult. This paper incorporates no data regarding reasons for settlement. Guidance from settling defendants regarding settlement drivers may indicate whether settlement activity, in aggregate, correlates with perceived patent quality.

B. Automated Docket Text Searching May Not Identify all Relevant Litigations

The set of litigations identified as relevant may be incomplete. Most relevant litigations may nonetheless have been identified and analyzed, assuming that human analysis would reveal 100 percent of all relevant data. Manual document identification revealed 47 cases addressing patent eligibility, of which one relevant litigation did not appear in automated searches for the relevant post-Bilski time period. It appears plausible that automated searching retrieved the vast majority of relevant litigations.

Both automated and manual identification of relevant litigations draw from the same pool of RPX-developed litigation data. A “production” data set generated by automated database queries is the sole source for the experimental results discussed above. A “control” group generated by human analysis allows some validation of the completeness of the larger set. The smaller “control” data is sourced from a two-stage human analysis in which individual coders read and identify relevant documents, and a separate group of individuals

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performs a quality control review. Larger “production” data is sourced from automated searches of docket text summarizing individual litigation documents, without searching content of those documents.

C. Limited Available Data May Affect Reliability of Patentability Implications

Because patent eligibility rulings are relatively rare at the district court level,94 dividing the source data into small buckets may reduce reliability of the model. Creating distinct quality likelihood metrics by technology area (e.g. semiconductor, software) or claim type (e.g. method, system) may result in outsized influence of a single data point over a small set. If, hypothetically, only three rulings exist for method claims directed to authentication, then a single future ruling could affect the percentage for that case dramatically. On the other hand, if a dozen or more cases address a particular patent eligibility rule, then a single decision would be less likely to distort the model away from an overall judicial consensus. The model proposed here sacrifices narrowly tailored metrics for a model with higher stability.

The model requires a similar balance between removing older decisions that may distort it and including enough cases to make reliable quality assessments. Selecting only the most recent cases can mitigate distortion in the model by decisions based on outdated law, in view of the rapidly changing case law on this topic.95 As with claim-specific restrictions, removing too many older data points from the model could increase volatility.

X. Conclusion

Patent eligibility can be the difference between validity and invalidity for patents in key technology areas and can be notoriously difficult to predict. The results presented here imply that patent eligibility cannot as convincingly inform patent quality. These results rest on a model that distills the nuanced question of patent eligibility into a semi-objective framework, by simplifying legal issues and generalizing from a finite set of judicial opinions.

This model estimates the likelihood that a litigated claim is valid under 35 U.S.C. § 101, which can imply quality of a similarly-situated nonlitigated claim without requiring a prediction of the outcome of any particular case. The model can provide a lower cost alternative to

94 See infra Table 6.
95 See supra Background.
judicial or administrative adjudication of patent validity on the basis of eligibility. This paper ultimately suggests a more efficient determination of patent quality and patent value without adjudication, especially where the cost is outsized compared to its benefit.

XI. ADDENDUM: SHIFTING SANDS ON PATENT ELIGIBILITY AFTER ALCIE?

Since the completion of the main body of this research, the Alice Court subtly but substantially strengthened 35 U.S.C. § 101 as a weapon in patent litigation. Substantively, the Supreme Court in Alice held invalid a patent directed to an electronic technique for mitigating settlement risk as an unpatentable abstract idea. Those claims faced invalidation under the Supreme Court’s traditional two-step patent eligibility inquiry. The Court, notably, also revisited its recent comments on patent eligibility in the pharmaceutical space to hold that conventional wisdom qualifies as an unpatentable abstract idea outside the pharmaceutical space.

But the ruling raises, perhaps, more questions than it settles. Alice not only reaffirms the Court’s historical and consistent refusal to

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96 35 U.S.C. § 101 (2012) (“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”).


98 Id. at 2349.

99 See Id. at 2348 (quoting as representative claim 33 of U.S. Patent No. 5,970,479).

100 See supra The Supreme Court Patent Eligibility Theories, Figure 1.

101 Mayo Collaborative Servs. v. Prometheus Laboratories, Inc., 132 S. Ct. 1289, 1291 (2011) (holding that the patented subject matter at issue “involve[s] well-understood, routine, conventional activity previously engaged in by researchers in the field.”).

102 See Alice, 134 S. Ct. at 2359 (“Using a computer to create and maintain ‘shadow’ accounts amounts to electronic recordkeeping—one of the most basic functions of a computer.”).

103 The Court hews to the broad scope of patent eligibility defined by the legislature. See Diamond v. Chakrabarty, 447 U.S. 303, 318 (1980):

Congress is free to amend 101 so as to exclude from patent protection organisms produced by genetic engineering. Cf. 42 U.S.C. 2181 (a), exempting from patent protection inventions ‘useful solely in the utilization of special nuclear material or atomic energy in an atomic weapon.’ Or it may choose to craft a statute specifically designed for such living things. But, until Congress takes such action, this Court must construe the language of 101 as it is.

create a bright-line rule regarding patent eligibility, but blurs the existing line between patent eligibility and prior art considerations. With its reliance on determining whether a claim recites conventional wisdom, the ruling invites an analysis that can vary widely based on the field of technology in question and that field’s historical development. Raised, but left unanswered, by Alice is the length of time required to make a technique conventional wisdom. Certain aspects of computer technology may become conventional in a few years’ time. Other technologies in the same field, or slower-moving technologies as a whole, may require much longer to become conventional.

The ruling leaves these substantial inquiries open to speculation (and adjudication). Unpatentable “conventional” ideas begin to fade into the unpatentable “generic” computer. The modern mobile device is an instructive illustration of this ambiguity: when does functionality related to touchscreen or accelerometer hardware, or media or messaging software for a mobile phone become generic, if ever? Clear guidance may be out of reach, because to answer this question definitively would be to create just the bright line the Court hopes to avoid.

The proposed model can absorb this jurisprudential shift to at least reduce aggregate uncertainty of this nuanced issue, if aggregate judgments remain lopsided. Because the ruling is primarily concerned with abstract ideas, this model would show any distortion by that ruling as a substantial difference in “preempting the formula” along the “PLA” metric between pre- and post-Alice district court rulings. Ultimately, Alice itself will become the conventional wisdom it hopes to command.

104 See Bilski v. Kappos, 561 U.S. 593, 606 (2010) (“in deciding whether previously unforeseen inventions qualify as patentable process[es], it may not make sense to require courts to confine themselves to asking the questions posed by the machine-or-transformation test. Section 101’s terms suggest that new technologies may call for new inquiries.”) (internal quotations omitted).

105 The Court in Mayo contemplates a version of this question. See Mayo, 132 S. Ct. at 1297 (“To put the matter more precisely, so the patent claims add enough to their statements of the correlations to allow the processes they describe to qualify as patent-eligible processes that apply natural laws?”) (emphasis in original).

106 See Alice Corp Pty. Ltd. v. CLS Bank Int’l, 134 S. Ct. at 2359 (“each step does no more than require a generic computer to perform generic computer functions.”).

107 See supra Equation 1 (“PLA”).
XII. APPENDIX A: RELEVANT LITIGATIONS

All litigations analyzed for this paper appear below. For each relevant litigation, the below table includes the case name; the docket entry, including the district court’s summary judgment reasoning; the date of the relevant summary judgment; and the status of the case (“S”). The case status may be one of four entries: settled before summary judgment (“S”); publicly adjudicated on the merits of patent eligibility at summary judgment (“J”); open litigation with summary judgment adjudication pending (“O”); or litigation stayed, pending reexamination (“R”). Cases in which district courts adjudicated patent eligibility under seal are not included.

Table 4: Relevant Litigations Analyzed

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<td>02/08/11</td>
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<td>03/19/14</td>
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<td>Digitech Image Tech. LLC v. Electronics For Imaging Inc.121</td>
<td>88</td>
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### Case Name | Dkt | SJ Filed | S
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Leveraged Innovations, LLC v. NASDAQ. | 90 | 05/14/12 | S
Lincoln Nat’l Life Ins. Co. v. Transamerica Fin. Life Ins. Co. | 256 | 08/09/10 | S
Lincoln Nat’l Life Ins. Co. v. Transamerica Fin. Life Ins. Co. | 74 | 08/09/10 | S
LML Patent Corp. v. JP Morgan | 650 | 11/03/10 | J
CyberFone Systems LLC v. ZTE (USA) Inc. | 274 | 08/16/12 | J
CyberFone Systems LLC v. American Airlines Inc. | 167 | 08/16/12 | J
CyberFone Sys. LLC v. Knology Inc. | 18 | 05/22/12 | S
Nazomi Commc’n Inc v. Samsung Telecomm. | 161 | 03/21/12 | J
Netview Tech., Inc. v. Microsoft Corp. | 28 | 08/03/10 | R
Oleksy v. General Electric Co. | 382 | 06/26/13 | J
Oplus Techs., Ltd. v. Sears Holdings Corp. | 113 | 03/04/13 | J
Perkinelmer, Inc. v. Intema Ltd | 277 | 08/12/11 | J
Planet Bingo LLC v. VKGS LLC | 73 | 08/19/13 | J
Prompt Med. Sys., L.P. v. Allscriptsmisys Healthcare Solutions, Inc. | 410 | 02/13/12 | J

133 Id.
Table 5: Relevant Litigations, Legend

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XIII. APPENDIX B: LITIGATION ANALYSIS

Analysis of all relevant litigations appears below. For each analyzed litigation the below table includes the case name, the patent eligibility ruling (“E”), and the appearance of the four patent eligibility rules. The four rules analyzed are preempting the formula (“F”); insignificant post-solution activity (“A”); particular machine (“M”); and transforming an article (“T”). For each category, symbols indicate adjudication for patent eligibility (“Y”); adjudication against patent eligibility (“N”); or a properly raised but not adjudicated argument for or against patent eligibility (“X”).

Table 6: Litigation Analysis

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160 Id.
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169 Id.
170 Id.
171 Id.
172 Id.
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^{180} Id.
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<td>T Eligible under Transforming an Article? (Y/N/X)</td>
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\(^{191}\) Id. 