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THE NUCLEAR OPTION: AESTHETIC FUNCTIONALITY TO CURB OVERREACHING TRADEMARK CLAIMS

Michael S. Mireles†

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I. INTRODUCTION

This essay examines the aesthetic functionality doctrine and the fact patterns of three recent cases where the doctrine should apply. The facts of these cases highlight how the aesthetic functionality doctrine could be applied to protect creativity and competition, and ensure robust freedom of expression. Importantly, this essay stresses that the doctrine should be considered in light of the vigorous policing of marks by mark owners, expanding trademark law protection and the benefits of aesthetic functionality over other tests.

Part I of this article sets forth an introduction. Part II provides a brief background of the problem of supposed “trademark bullying,” “trademark extortion,” or “aggressive trademark litigation tactics.” Part III reviews the functionality doctrine and the policies animating it. Part IV analyzes three cases as examples of how the aesthetic functionality doctrine could effectively protect creativity, competition and freedom of expression. Part V offers a brief conclusion.

II. POLICING TRADEMARKS

The subject matter and scope of protection of trademark law has expanded tremendously in the last 70 years.¹ This expansion has occurred because of the confluence of several important factors, including: new technology, such as the Internet; the value and importance of the brand—with valuations exceeding $60 billion for one brand;² and the use of trademarks to protect licensing and merchandising markets, which may generate as much as $187.2 billion in the sale of licensed products worldwide,³ including over $3.9 billion for collegiate merchandising alone.⁴ Other contributing factors

⁴ See id. (“THE COLLEGIATE LICENSING COMPANY” (IMG COMPANY) $3.9B (PRIVATE), representing the total college market) (emphasis omitted).
include the expansion and importance of international markets, and the nature of trademark law itself.\(^5\) The scope of trademark rights is pushed by consumer perception, which to some extent is controlled by trademark holders and their risk adverse lawyers who vigilantly police their marks to protect their clients’ valuable brands, and lobby Congress for expanded trademark protection.\(^6\) The policing of trademarks is driven by trademark doctrine and policy which partially provide the incentive to do so.\(^7\)

This last issue—the vigorous policing of marks has led to so-called “trademark bullying” or “trademark extortion” through the use of cease and desist letters with the threat of litigation by companies with resources against entities with presumably less resources.\(^8\) Attorneys (of clients of any size and amount of resources) should police their clients’ marks to ensure that those marks continue to receive a broad scope of trademark protection.\(^9\) Thus, if there is any arguable


\(^6\) Mireles, *supra* note 5, at 439.

\(^7\) Id.


\(^9\) Mireles, *supra* note 5, at 439.
infringing or diluting conduct, the zealous (prudent) lawyer sends a cease and desist letter which, in some cases, may dampen creativity and competition, and chill potential expression.\textsuperscript{10} In one particularly interesting case, \textit{Salu, Inc. v. Original Skin Store}, the court stated:

[Plaintiff] Salu presents evidence that . . . [it] has continually contacted anyone who it feels is infringing in order to protect its mark. It has sent out over 300 cease and desist letters to alleged infringers in the last couple of years alone. Salu claims that with the exception of ESKINSTORE, this litigation, and one other case that settled out of court, “every other infringer receives [the] letter and stops infringing on [the] trademark.”\textsuperscript{11}

The topic of “trademark bullying” or “trademark extortion” has received a significant amount of attention. The United States Patent and Trademark Office [USPTO] recently requested public comment on trademark overreaching—bullying—and issued a study on the subject.\textsuperscript{12} The request for comments initially used the word “bullies” or “bully” but eventually changed the title to “trademark litigation tactics.” The reason for the change may be, in part, because there appears to be a lack of consensus about what “trademark bullying” means. The failure to agree on the definition may be the result of a belief by some that all so-called “bullying” that may fall under some definitions of “trademark bullying” may not be negative in light of trademark law so as to justify such a label.\textsuperscript{13}

Trademark bullying, at the least, seems to include litigation tactics that may involve using cease and desist letters and threats of litigation, where a trademark holder with more resources than a target entity


\textsuperscript{13} Professor McCarthy cautions that a trademark “enforcement program [should be] neither overly lax nor overly aggressive.” \textit{See} 2 J. THOMAS McCARTHY, McCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 11:91 (4th ed. 2008).
asserts rights beyond the reasonable scope of its mark. For example, a trademark holder might assert its rights against a small business or artist that is using the mark in a way that would be protected under the law because of First Amendment interests.

The April 2011 USPTO Trademark Litigation Study described the results of its request for comments and outlined some of its planned activities to address trademark bullying. In summarizing some of the comments, the Trademark Litigation Study notes that:

Most of the direct respondents claimed at least some degree of first-hand knowledge of instances where unduly aggressive trademark litigation or pre-litigation tactics (e.g., cease-and-desist letters) were targeted at a small business. Many of these were directly involved in the issuance or receipt of cease-and-desist letters. When asked if they currently encounter the problem of other trademark owners using their trademark rights to harass and intimidate another business beyond what the law might be reasonably interpreted to allow (e.g., is “trademark bullying a problem”), few commenters explicitly addressed whether and to what extent this issue is a significant problem. Given the limited number of comments and the varied nature of the commenters own experiences, the comments may be

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14 Based on some enforcement of trademark rights, perhaps bullying should include what should be beyond a trademark holder’s scope of rights and is in its rights, as opposed to what actually is outside their rights. Some interesting cases of “trademark bullying” include enforcement of trademarks by professional sports teams against high schools. See Randall L. Newsome, Cease and Desist: Finding an Equitable Solution In Trademark Disputes Between High Schools and Colleges, 52 B.C. L. REV. 1833, 1853-63, 1868 (2011) (arguing that high schools may have a very good case against trademark infringement, but noting the ambiguity in whether high schools may infringe the trademarks of colleges). For a discussion of some of the other costs of aggressive trademark enforcement, see David E. Armendariz, Picking on the Little Guy? Asserting Trademark Rights Against Fans, Emulators and Enthusiasts, 90 TEX. L. REV. 1259, 1276-80 (2012).

15 Dep’t of Commerce, Report to Congress: Trademark Litigation Tactics and Federal Government Services to Protect Trademarks and Prevent Counterfeiting (2011) available at http://www.uspto.gov/trademarks/notices/TrademarkLitigationStudy.pdf (last visited May 20, 2013) [Trademark Litigation Study]. This study has been criticized by many. See e.g., Adam Smith, USPTO Silent as Attorneys Pour Scorn on Trademark Bullies Study, WORLD TRADEMARK REV. (May 9, 2011), http://www.worldtrademarkreview.com/daily/detail.aspx?g=54efa7ab-20b1-41c1-a8a5-4cb08548e0f8; Timothy J. Callery, Baiting the Hook: The Failure of the PTO Trademark Litigation Tactics Report To Dissuade Either Trademark Bullying or Trademark Baiting, 64 ADMIN. L. REV. 909 (2012).
better viewed as anecdotal.\textsuperscript{16}

The Trademark Litigation Study also stated that:

A handful of small business owners explained that they withdrew their trademark applications after receiving a cease-and-desist letter because they lacked the time or financial resources to litigate against a larger, wealthier company. This imbalance of resources was a common theme among many of the comments concerned with the threat of litigation, including one noting that litigation is too expensive to be a realistic option for many small businesses. Other commenters, however, recognized that cease-and-desist letters have a legitimate purpose, explaining that most are sent in good faith, and only a small percentage result from overzealous protection of a mark. Some commenters explained that trademark owners have an obligation to police their marks, and the cease-and-desist letter is a necessary, cost-effective part of the process.\textsuperscript{17}

The results of the Trademark Litigation Study appear to be inconclusive and are perhaps helpful as a starting point for gathering more information about “trademark bullying.”\textsuperscript{18} However, the Trademark Litigation Study does seem to indicate that “trademark bullying” could be happening, but based on the comments received, also hedges on whether litigation enforcement activity that has occurred should be labeled “bullying.”\textsuperscript{19} There is no doubt that companies send cease and desist letters to one another, but whether those particular instances merit the label “trademark bullying” appears to be hard to justify based on the comments received by the USPTO.\textsuperscript{20} Two other studies provide additional support for the argument that trademark bullying exists.\textsuperscript{21}

The first is the study by Professor Port, which concluded that trademark extortion may explain why there is a rise in filings of

\textsuperscript{16} Trademark Litigation Study, supra note 15, at 18.
\textsuperscript{17} Id. at 18-19.
\textsuperscript{18} See generally id.
\textsuperscript{19} Id.
\textsuperscript{20} Id.
trademark cases, but fewer reported decisions. The second study by Professor Gallagher found that:

[T]rademark and copyright lawyers and their clients sometimes enforce admittedly weak IP claims precisely because it can be an effective strategy with few downsides. As this study shows, aggressive trademark and copyright enforcement efforts often work, as enforcement targets frequently choose to capitulate or settle rather than resist claims on the legal merits, likely due to the costs and uncertainties inherent in IP litigation. Thus, this study supports the thesis that trademarks and copyrights can be and often are over-enforced in everyday legal practice.

While the USPTO Trademark Litigation Study focused on the impact of aggressive trademark litigation tactics on small businesses, it is noteworthy that the Chilling Effects Clearinghouse database, which attempts to collect examples of intellectual property overreaching through cease and desist letters, has mostly trademark cease and desist letters sent to Google since 2011 under a search for “trademark”—with almost no cease and desist letters sent to small businesses. This does not mean that companies are not sending cease and desist letters to small companies and overreaching (see the case involving Salu, Inc. mentioned above), but that small companies and others may not be reporting them to the Chilling Effects Clearinghouse website. The Brand Geek blog offered to start collecting problematic cease and desist letters, but as of May 20, 2013, none have been posted. The Legal Force Trademarkia has, however, published data concerning oppositions filed by “trademark bullies”—there are many examples, and the most bullied and the biggest bullies are available for view.

22 Port, supra note 21, at 633.
23 Gallagher, supra note 21, at 496.
24 See CHILLING EFFECTS CLEARINGHOUSE, http://www.chillingeffects.org/ (last visited May 20, 2013); see also “Trademark” Search Results, id. (click “Search the Database”; then type in keyword “trademark”; then click the “Submit Search” button).
25 Lara Pearson, Brand Bully Basement, BRAND GEEK (Oct. 10, 2011), http://brandgeek.net/2011/10/10/brand-bully-basement/. There is one opposition proceeding posted concerning Nestle. Id. It is unfortunate that people are not reporting instances of bullying.
26 See Find a Trademark Bully, LEGALFORCE TRADEMARKIA, http://www.trademarkia.com/opposition/opposition-brand.aspx (last visited June 7, 2013). However, the website appears to fail to discuss why those oppositions include bullying behavior and not just solid trademark enforcement.
There have also been several well-publicized incidents involving cease and desist letters. For example, Louis Vuitton sent a cease and desist letter to a student intellectual property law group at the University of Pennsylvania because of their advertising for a symposium on fashion law. Another example is the cease and desist letter and subsequent interaction between publishing house Penguin and former Penguin author David Thorne, although there does not seem to be a Penguin cease and desist letter for Mr. Thorne’s use of the Penguin logo on his blog. Finally, there is the very popular, supposedly successful, cease and desist letter story concerning Jack Daniels. Many seem to believe that this particular cease and desist letter by Jack Daniels was well done.

Notably, a recent U.S. Supreme Court case, Already, LLC v. Nike, Inc., provides an example of supposed trademark bullying. In that case, Nike alleged that its Air Force 1 trademark was infringed and diluted by Already’s shoe lines “Sugars” and “Soulja Boys.” Already “filed a counterclaim contending that the Air Force 1 trademark is invalid.” Apparently, Nike, fearing loss of its Air Force 1 trademark, submitted a “Covenant Not to Sue,” essentially stating that it “would not raise against Already or any affiliated entity any trademark or unfair competition claim based on any of Already’s existing footwear designs” or “colorable imitation[s].” In this particular case, Nike, an entity with substantial resources, apparently enforced its trademark against a small entity. The question arises whether Nike’s infringement and dilution claims were overreaching. Here, that seems to be the case. When the validity of its mark was challenged, Nike, “four months after Already counterclaimed,” issued
the “Covenant Not to Sue” and moved to dismiss the case.\textsuperscript{37} Unfortunately, the U.S. Supreme Court did not allow Already to pursue its counterclaim because the claim was moot, thus allowing Nike to continue to threaten third parties with trademark claims based on its Air Force 1 mark.\textsuperscript{38}

While a different competitor may also challenge Nike’s mark, they must have the resources to do so and may face bullying of another kind—importantly, in this case, Already also asserted that “Nike had intimidated retailers into refusing to carry Already’s shoes."\textsuperscript{39} Moreover, Justice Kennedy’s concurrence notes that, “[O]ver the past eight months, Nike has cleared out the worst offending infringers. Now Already remains as one of the last few companies that was identified on that top ten list of infringers.”\textsuperscript{40} Justice Kennedy also discussed some of the harms that can occur from the threat of trademark infringement:

[C]harges of trademark infringement can be disruptive to the good business relations between the manufacturer alleged to have been an infringer and its distributors, retailers, and investors. The mere pendency of litigation can mean that other actors in the marketplace may be reluctant to have future dealings with the alleged infringer.\textsuperscript{41}

The anticompetitive impact for trademark overreaching in some cases is real.\textsuperscript{42}

This context of vigorous policing is an important backdrop for a discussion of aesthetic functionality and illuminates the problem.\textsuperscript{43}

\textsuperscript{37} Id.
\textsuperscript{38} Id. at 733.
\textsuperscript{39} Id. at 725-26. As the Supreme Court notes, the trademark holder has an incentive not to allow third party use, including issuing many covenants not to sue, and that a trademark holder may have to pay an alleged infringer’s attorney’s fees in exceptional cases. Id. at 731-32.
\textsuperscript{40} Id. at 734.
\textsuperscript{41} Id. at 733-34.
\textsuperscript{42} For a discussion of the societal harms of abusive trademark litigation tactics, See Leah Chan Grinvald, \textit{Shaming Trademark Bullies}, 2011 \textit{Wis. L. Rev.} 625, 650-52 (2011) (discussing “reduction in competition” and harm to “cultural expression and free speech”)
\textsuperscript{43} Another way to combat abusive trademark litigation tactics is by “shaming.” See id. at 653-54. For a discussion of how other judicial sanctions may be incapable of stopping trademark bullying and a proposal for an administrative solution, see Irina D. Manta, \textit{Bearing Down on Trademark Bullies}, 22 \textit{FORDHAM INTELL. PROP. MEDIA & ENT. L.J.} 853, 858-71 (2012). Commentators have also proposed the adoption of a trademark notice and take down system similar to the Digital continued\ldots
The problem is not just unclear law. The problem is unclear law in the context of attorneys—notably zealously representing their clients—vigorously enforcing their clients’ marks to their broadest arguable extent under evolving consumer perception.44

III. Functionality Law

Functionality law is anything but clear.45 Depending on the jurisdiction, there are two types of functionality: aesthetic and utilitarian.46

There are arguably two rationales for the functionality doctrine: 1) to ensure that trademark law does not provide perpetual legal protection for subject matter better protected by utility patent law; and 2) to protect and promote competition.47 Most would probably agree that both rationales can apply to utilitarian type functionality, but most likely would agree only the latter justifies aesthetic type functionality.48

Importantly, if functionality applies, either aesthetic or utilitarian, that means that the mark holder’s trademark cannot receive legal


44 The problem may have been exacerbated by the recent U.S. Supreme Court decision, Already v. Nike, which may allow a trademark holder to escape a challenge to its mark by unilaterally issuing a “Covenant Not to Sue.” Already, 133 S. Ct. at 733-34. This removes a potential check on abusive trademark litigation tactics—the opportunity for the supposed infringer or diluter to eliminate the trademark holder’s mark. Id.

45 GRAEME B. DINWOODIE & MARK D. JANIS, TRADEMARKS AND UNFAIR COMPETITION: LAW AND POLICY 158-59 (3d ed. 2010) (discussing the differing justifications of the functionality doctrine); see also Elizabeth W. King, The Trademark Functionality Doctrine: Recast for Comprehension, 5 LANDSLIDE 20, 21 (2012) (“For decades, trademark practitioners have wrestled with the functionality doctrine.”). For additional analysis of functionality doctrine, see generally Mark P. McKenna, (Dys)functionality, 48 HOU. L. REV. 823 (2011).

46 Id. Notably, at least two circuits have not adopted it or may not recognize the doctrine at all. See Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co., 550 F.3d 465, 487-88 (5th Cir. 2008) (“We do not believe that the Court's dictum in TrafFix requires us to abandon our long-settled view rejecting recognition of aesthetic functionality.”); Maker’s Mark Distillery, Inc. v. Diageo N. Am., Inc., 679 F.3d 410, 418 (6th Cir. 2012) (“It seems we have not yet plainly stated which test we would apply under aesthetic functionality doctrine, . . . or that we have even adopted aesthetic functionality doctrine at all . . . We need not decide these questions today.”).


48 Id.
protection notwithstanding the mark’s ability to serve as a trademark—generally to serve to identify and distinguish one person’s goods or services from another and to indicate the source of those goods or services.\textsuperscript{49} Thus, functionality and the policies that drive it trump other concerns in trademark law such as protecting the goodwill of the trademark owner or preventing consumer confusion.\textsuperscript{50}

An additional lack of clarity in functionality law concerns the standards for when functionality exists and how to apply those standards.\textsuperscript{51} In the U.S. Supreme Court’s most recent discussion of functionality in \textit{TrafFix Devices, Inc. v. Marketing Displays, Inc.}, the Court stated that the test for functionality asks whether the claimed trade dress is essential to the use or purpose of the article or affects its cost or quality.\textsuperscript{52} Thus, a product design may be functional if the appearance of a product impacts how it works, or its cost or quality—a dual spring design is a cost effective way to allow road signs to flex and remain upright in adverse wind conditions.\textsuperscript{53} The Court also noted that after applying that test, courts could inquire as to whether the trade dress put competitors at a non-reputation related disadvantage—something not because of the functions of the trademark.\textsuperscript{54}

In determining if the second test is met, a court may inquire into competitive necessity or whether there are alternatives to the claimed trade dress.\textsuperscript{55} Thus, if someone claimed the color black in connection with boat motors, the exclusive use of that color in connection with those goods would put competitors at a non-reputation related disadvantage, even though the color does not affect how the motor works.\textsuperscript{56} The color can serve to make the motor look smaller and the color black matches many boat colors.\textsuperscript{57} And, there are no alternatives to black to serve those purposes, so a competitor needs to use that color.\textsuperscript{58} The \textit{TrafFix Devices, Inc.} court seemed to indicate that the second test was to be applied in cases of aesthetic functionality and not utilitarian functionality, but that could be interpreted to mean that the

\textsuperscript{49} See \textit{TrafFix Devices, Inc. v. Mktg. Displays, Inc.}, 532 U.S. 23, 34 (2001) (“Functionality having been established, whether [MDI’s dual-spring] design has acquired secondary meaning need not be considered.”).

\textsuperscript{50} See id.

\textsuperscript{51} See generally \textit{id.} at 32.

\textsuperscript{52} \textit{id.} at 35.

\textsuperscript{53} See generally \textit{id.}

\textsuperscript{54} \textit{id.} at 33.

\textsuperscript{55} Brunswick Corp. v. British Seagull Ltd., 35 F.3d 1527, 1531-32 (Fed. Cir. 1994).

\textsuperscript{56} \textit{id.}

\textsuperscript{57} \textit{id.}

\textsuperscript{58} \textit{id.}
utilitarian or aesthetic functionality inquiry involves applying both tests, and if either is satisfied, then the mark is functional and not protected.²⁹

Besides the benefit for certainty in the law, the aesthetic functionality doctrine should be clarified because it may serve to protect wide vistas of the creative arts and competition, and ensure robust freedom of expression. The potential benefits of the doctrine are particularly important because the subject matter of trademarks has expanded to protect almost any symbol that can be perceived as a trademark, including subject matter traditionally protected by copyright law—and it is continuously expanding.⁶⁰ For example, subject matter that may be protected by trademark law includes motion marks; colors, including a single color; music; three-dimensional objects; and holographs.⁶¹

Three recent cases highlight the expansion of trademark protection—in light of overreaching trademark claims by trademark holders—and how the aesthetic functionality doctrine may serve to reign in expansive trademark protection in the context of vigorous policing of trademarks.⁶²

IV. THE CASES AND THE APPLICATION OF THE AESTHETIC FUNCTIONALITY DOCTRINE

The following three recent cases provide some context to how the aesthetic functionality doctrine could be applied to protect creativity,

competition and free expression. This section also provides suggestions for the application of that doctrine.

The facts of the first two cases involve so-called defensive aesthetic functionality doctrine. Under this doctrine, if it applies, a court does not declare that the mark receives no protection in all circumstances as under an ordinary aesthetic functionality analysis. The court determines that the particular infringer’s use of the trademark is aesthetically functional and the alleged infringer can thus continue using the mark.63

The first case involves two 2011 Ninth Circuit opinions and the famous character “Betty Boop.”64 In Fleischer Studios, Inc. v. A.V.E.L.A. Inc., one party claimed trademark protection over Betty Boop—her image, and word and character marks—and tried to stop another party from selling Betty Boop dolls, T-shirts, and handbags with her image.65 The Ninth Circuit, in its first opinion, decided that the alleged infringers’ use was covered by aesthetic functionality and the alleged mark holder could not stop that use.66 The court reasoned, following the controversial International Order of Job’s Daughters v. Lindeburg & Co.67 decision, that A.V.E.L.A. was not using Betty Boop as a trademark but instead as a functional product and that Betty Boop was a prominent feature of the product, and A.V.E.L.A. never designated the merchandise as “official” or otherwise indicated sponsorship.68 The court noted that there was no evidence of confusion.69

The court, citing the U.S. Supreme Court’s opinion in Dastar Corp. v. Twentieth Century Fox Film Corp.,70 also essentially stated that trademark protection should not extend to a copyrighted work such as the Betty Boop character because then that character would never enter the public domain and this would frustrate copyright law.71

63 For a discussion of defensive aesthetic functionality, see Anthony L. Fletcher, Defensive Aesthetic Functionality: Deconstructing the Zombie, 101 TRADEMARK REP. 1687 (2011).
64 Fleischer Studios, Inc. v. A.V.E.L.A. Inc., 636 F.3d 1115, 1124 (9th Cir.), withdrawn and superseded by Fleischer Studios, Inc. v. A.V.E.L.A., Inc., 654 F.3d 958 (9th Cir. 2011).
65 Id. at 1117-18, 1122.
66 Id. at 1122-24.
67 Int’l Order of Job’s Daughters v. Lindeburg & Co., 633 F.2d 912, 918 (9th Cir. 1980).
68 A.V.E.L.A. Inc., 636 F.3d at 1124.
69 Id.
70 Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23 (2003).
Interestingly, after the filing of several amicus briefs by parties such as the Motion Picture Association, the International Trademark Association, and others, the Ninth Circuit withdrew the opinion and substituted it for another opinion relying on other grounds concerning an incomplete chain of title. Even in light of this withdrawal, some trademark lawyers have expressed concern that the Ninth Circuit did not explain why its prior opinion was wrong. Because of this lack of explanation, the Ninth Circuit may have opened up the door to the use of defensive aesthetic functionality which could mean the end of licensing and merchandising, and the loss of billions of dollars to their clients. Indeed, on remand, the district court found that the defendants’ use of the word mark “Betty Boop” was aesthetically functional. In analyzing aesthetic functionality, the district court reasoned that:

Because, as noted above, Defendants' use of the mark is a decorative feature of their merchandise and is not source-identifying, “protection of the feature as a trademark would impose a significant non-reputation-related competitive disadvantage” on Defendants. Were Defendants to market their goods bearing the image of Betty Boop or Betty Boop movie posters without the words Betty Boop to identify the character, that would make their products less marketable than the same product that included the BETTY BOOP name.

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72 Fleischer Studios, Inc. v. A.V.E.L.A., Inc., 654 F.3d 958 (9th Cir. 2011).
73 See e.g., Nancy Clare Morgan, Aesthetic Appeal: The Blending of Aesthetics and Usefulness in Design Can Result in Challenges to the Theoretical Foundation of Trademark Law, L.A. LAW, Feb. 2012, at 36, 38 (2012); see also Lee B. Burgunder, The Scoop on Betty Boop: A Proposal to Limit Overreaching Trademarks, 32 LOY. L.A. ENT. L. REV. 257, 257 (2012) (“The Ninth Circuit temporarily stunned marketers in 2011 when it ruled that Betty Boop did not serve as a trademark on merchandise due to aesthetic functionality and because protection would conflict with the copyright system. The opinion endangered merchandising rights in all trademarks and jeopardized the duration of trademark rights in images and media characters. The court soon withdrew the decision and substituted it with one that denied protection on technical grounds, leaving the controversies for another day.”) and Charles E. Colman, A Red-Leather Year for Aesthetic Functionality, 4 LANDSLIDE 26, 30 (2011) (“It is difficult--perhaps impossible--to know what to make of the A.V.E.L.A. saga. Although the panel withdrew its aesthetic functionality-based opinion, the decision that took its place notably declined to endorse the position advocated by the above-mentioned amici—that Auto Gold is still the law of the Ninth Circuit. The panel's second opinion likewise declined to adopt INTA's characterization of Job's Daughters as “outdated and much-criticized.”).
74 Burgunder, supra note 73, at 258.
This is because the words Betty Boop serve to name the famous character depicted on those goods and are part and parcel of the movie posters printed on Defendants' merchandise. For example, Plaintiff points to one of Defendants' dolls that includes packaging bearing imagery from a Betty Boop movie poster, and a product tag that is a miniature reproduction of the movie poster. Both uses of the poster imagery bear the following text: “Adolph Zukor presents BETTY BOOP with HENRY the Funniest Living American”. Removing the words BETTY BOOP from these items would render the textual aspect of the poster reproductions incomplete and the remaining words would be nonsensical. It would be obvious to the average consumer that such merchandise would be missing something. Clearly, merchandise that is missing something is less marketable and therefore at a competitive disadvantage. In addition, because Defendants’ use of the Betty Boop word mark is not source identifying and simply does not trade on the “reputation” of any source, barring Defendants from using those words would “impose a significant non-reputation-related competitive disadvantage.”

The district court’s opinion provides a glimmer of hope that aesthetic functionality can be effectively applied by courts, at least in the context of word marks, but the question remains whether other courts will follow it.

The second case involves the University of Alabama and an artist. In that case, the University of Alabama sued an artist for trademark infringement. The artist painted limited edition paintings of famous plays with University of Alabama football players wearing crimson and white uniforms. The infringement theory was apparently that consumers could believe there was some sponsorship or other relationship involving permission between the University of Alabama and the artist. Notably, in this case, there was a

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75 Fleischer Studios, Inc. v. A.V.E.L.A., Inc., 2012 WL 7179374, at *7 (C.D. Cal. 2012). The district court also alternatively found that defendants’ use was covered by the descriptive fair use doctrine. Id. at *8.
78 Id. at 1244-46.
79 Id. at 1249.
relationship between the University of Alabama and the artist, and there was a license in place between the two parties.\textsuperscript{80} Part of the dispute centered on whether the colors of the uniforms of the players were covered by the license.\textsuperscript{81} However, the district court decided in favor of the artist, noting that the case involved “fine art” and that the artist’s work was protected artistic expression, fair use or protected by the First Amendment.\textsuperscript{82} The Court noted that the artist’s paintings and the limited edition prints were not infringing, but that other merchandise such as T-shirts, cups, mugs, posters and calendars may be infringing.\textsuperscript{83} Over two years later, the U.S. Court of Appeals for the Eleventh Circuit applied the \textit{Rogers v. Grimaldi} test and found that Moore’s work did not constitute a violation of the Lanham Act.\textsuperscript{84} The court reasoned that:

\begin{quote}
Therefore, we have no hesitation in joining our sister circuits by holding that we should construe the Lanham Act narrowly when deciding whether an artistically expressive work infringes a trademark. This requires that we carefully “weigh the public interest in free expression against the public interest in avoiding consumer confusion.” An artistically expressive use of a trademark will not violate the Lanham Act “unless the use of the mark has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance, unless it explicitly misleads as to the source or the content of the work.”
\end{quote}

In this case, we readily conclude that Moore's paintings, prints, and calendars are protected under the \textit{Rogers} test. The depiction of the University's uniforms in the content of these items is artistically relevant to the expressive underlying works because the uniforms' colors and designs are needed for a realistic portrayal of famous scenes from Alabama football history. Also there is no evidence that Moore ever marketed an unlicensed item as “endorsed” or “sponsored” by the University, or otherwise explicitly stated that such items were affiliated with the University. Moore's

\begin{footnotes}
\item[80] Id. at 1244.
\item[81] Id.
\item[82] Id. at 1250.
\item[83] Id.
\item[84] Univ. of Ala. Bd. of Trs. v. New Life Art, 683 F.3d 1266, 1278-79 (11th Cir. 2012).
\end{footnotes}
paintings, prints, and calendars very clearly are embodiments of artistic expression, and are entitled to full First Amendment protection. The extent of his use of the University's trademarks is their mere inclusion (their necessary inclusion) in the body of the image which Moore creates to memorialize and enhance a particular play or event in the University's football history. Even if "some members of the public would draw the incorrect inference that [the University] had some involvement with [Moore's paintings, prints, and calendars,] ... that risk of misunderstanding, not engendered by any overt [or in this case even implicit] claim ... is so outweighed by the interest in artistic expression as to preclude" any violation of the Lanham Act. 85

Importantly, the court did not address whether a trademark defense applied to the use of the marks on mugs and "other mundane objects." This leaves open the question of whether Moore’s work applied to these other items would pass muster under Rogers v. Grimaldi. Indeed, if Moore or another artist created a work on a "mundane object" that work may fail the Rogers v. Grimaldi test if consumers would believe a license was required to create the work.

Under the facts of both cases it is easy to understand how potential "artists" or small companies with limited resources could be concerned. In one case, a party may not use a character even if it conceivably falls in the public domain to create new works because of a trademark merchandising right. In the other, a party may not create paintings of scenes in real life that have trademarks in them because under trademark law a trademark owner may claim a merchandising right. Under either case, there is a possibility that if there is an expected merchandising market because of the nature of the good then there may be a trademark infringement without a defense. The slippery slope seems clear and there are several problems with this type of reasoning and extending it. First, how do you determine what is merchandise or not? Maybe you could limit it to "traditional promotional goods" but what if LEGO sells plastic LEGO pieces, and then expands into creating characters, television shows, motion pictures, video games, and other audio-visual works traditionally protected by copyright law? Trademark protection has expanded to include motion marks, colors and sounds. Related to this question is whether LEGO will continue to control those works under a trademark

85 Id. (citations omitted).
merchandising theory even if the copyright expires in various works. And, as mentioned before, the question of which “copyrighted work” is the referenced work is a complicated issue. Moreover, in the context of aggressive trademark tactics, an artist with minimal funding or a small business with limited funding may not litigate and may choose to capitulate. A robust aesthetic functionality defense may provide a disincentive to or eliminate overreaching trademark claims.

Accordingly, instead of relying on a defense based on the First Amendment or a substitutionary test for the likelihood of confusion, courts could rely on defensive aesthetic functionality to justify or excuse an alleged infringer’s use. As long as there is no attempt to suggest some “official” licensing relationship, aesthetic functionality would preserve a producer’s ability to sell formerly copyright protected work as utilitarian functionality does for patent. Robust competition is preserved as consumers will have more choice and lower prices, and creativity is not stifled. And, the copyright owner has received their reward and the work, as in the A.V.E.L.A. case, should pass to the public domain.

In the University of Alabama case, defensive aesthetic functionality could excuse or justify the artist’s use and also hold the University of Alabama’s marks as valid. The University of Alabama thus cannot stop the artist’s use because to do so would effectively

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86 Notably, the jurisprudence concerning the First Amendment and trademark law is not entirely clear. There are multiple potential tests that courts may apply; although the leading test appears to be the test from Rogers v. Grimaldi. Rogers v. Grimaldi, 875 F.2d 994, 999 (2d Cir. 1989). In that case, the court examined the application of trademark law to a title of an expressive work. Id. The court stated that it needed to balance the expressive interest of the First Amendment against potential consumer confusion. Id. Unfortunately, the Circuits have at least three different ways of applying the Rogers v. Grimaldi test. See Nicolas M. Macri, Holding Back the (Crimson) Tide of Trademark Litigation, The Eleventh Circuit Shields Works of Art from Lanham Act Claims in New Life Art, 54 B.C.L. REV. 71, 78-80 (2013). Other Circuits have considered the First Amendment interest in different ways in trademark cases. See e.g., Mutual of Omaha Ins. Co. v. Novak, 836 F.2d 397, 402-03 (8th Cir. 1987); Dr. Seuss Enters. v. Penguin Books USA, Inc., 109 F.3d 1394, 1405 (9th Cir. 1997); Cardtoons, L.C. v. Major League Baseball Players Ass’n, 95 F.3d 959, 970 (10th Cir. 1996). Importantly, in a recent case, a district court applied the Rogers test to dismiss a trademark complaint. Rebellion Devs. Ltd. v. Stardock Entm’t, Inc., 2013 WL 1944888, at *3-6 (E.D. Mich. 2013). The use of Rogers to end a trademark litigation early is a welcome development. For additional discussion of the Rebellion Devs. Ltd. case, see Rebecca Tushnet, Sins of a Trademark Owner: Rogers Applies Regardless of Intent, REBECCA TUSHNET’S 43(B)LOG (May 23, 2013), http://tushnet.blogspot.com/2013/05/sins-of-trademark-owner-rogers-applies.html?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+RebeccaTushnets43blog+%28Rebecca+Tushnet%27s+43%28blog%29. 39
allow the University of Alabama to foreclose anyone from using their marks. This would not only place creators in the market for producing expressive works at some competitive disadvantage, but would also wholly preempt the market for the creation of those works in certain mediums.

A problem with using defensive aesthetic functionality, as alluded to earlier, is attempting to ascertain what is a non-reputation related disadvantage, because arguably the markets created for Betty Boop merchandise or works, and University of Alabama merchandise or works, are driven by demand created in part because of the popularity of the marks or copyrighted works. Arguably, this demand is all about a reputation related advantage. However, the argument cannot be that broad or defensive aesthetic functionality would never apply. The application of the defense would not fulfill its function of protecting competition. Consumers may purchase the item because of loyalty or some decorative reason, although inquiring into the motivations of consumers is unlikely to provide much certainty with respect to the application of the doctrine unless there was a presumption favoring the application of aesthetic functionality.

The final case is the Louboutin case involving a shiny, lacquered red on the outsoles of high-priced, high-heeled shoes, which Louboutin claims as its trademark. In this case the district court denied a preliminary injunction, in part, by essentially adopting a per se rule that a supposed trademark holder cannot use trademark law to control a single color in the fashion industry. The district court applied the aesthetic functionality doctrine, but not the defensive type. In highlighting the importance of color in the fashion industry, the court allowed competitors to use this color (or shade)—even on outsoles—because it is necessary for them to compete. The court noted several reasons why a competitor may want to use red—that are not reputation related—red symbolizes energy, it’s engaging, it’s sexy, it attracts men to women who wear these shoes. Moreover, competitors need the color to create coordinating outfits. The court

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87 Int’l Order of Job’s Daughters v. Lindeburg & Co., 633 F.2d 912, 918 (9th Cir. 1980).
89 Id. at 457.
90 Id. at 453.
91 Id. at 453-54.
92 Id.
93 Id. at 454.
likened the importance of color to fashion as the same as fine art.\textsuperscript{94} The court reasoned that:

Painting and fashion design stem from related creative stock, and thus share many central features. Both find common ground and goals in two vital fields of human endeavor, art and commerce. For the ultimate ends they serve in these spheres, both integrally depend on creativity. Fashion designers and painters both regard themselves, and others regard them, as being engaged in labors for which artistic talent, as well as personal expression as a means to channel it, are vital. Moreover, the items generated by both painters and fashion designers acquire commercial value as they gain recognition. Louboutin himself would probably feel his sense of honneur wounded if he were considered merely a cobbler, rather than an artiste. But, as a matter differing only in degrees and order of priority, Louboutin and Picasso both may also be properly labeled as men of commerce, each in his particular market.

The creative energies of painter and fashion designer are devoted to appeal to the same sense in the beholder and wearer: aesthetics. Both strive to please patrons and markets by creating objects that not only serve a commercial purpose but also possess ornamental beauty (subjectively perceived and defined).

But, as an offshoot of color, perhaps most crucial among the features painting and fashion design share as commerce and art, are two interrelated qualities that both creative fields depend upon to thrive, and indeed to survive: artistic freedom and fair competition. In both forms, the greatest range for creative outlet exists with its highest, most vibrant and all-encompassing energies where every pigment of the spectrum is freely available for the creator to apply, where every painter and designer in producing artful works enjoys equal freedom to pick and choose color from every streak of the rainbow. The contrary also holds. Placing off limit signs on any given chromatic band by allowing one artist or designer to appropriate an entire shade and

\textsuperscript{94} Id. at 452-54.
hang an ambiguous threatening cloud over a swath of other neighboring hues, thus delimiting zones where other imaginations may not veer or wander, would unduly hinder not just commerce and competition, but art as well.

The thrust and implications of the Court's analogy are clear. No one would argue that a painter should be barred from employing a color intended to convey a basic concept because another painter, while using that shade as an expressive feature of a similar work, also staked out a claim to it as a trademark in that context. If as a principle this proposition holds as applied to high art, it should extend with equal force to high fashion. The law should not countenance restraints that would interfere with creativity and stifle competition by one designer, while granting another a monopoly invested with the right to exclude use of an ornamental or functional medium necessary for freest and most productive artistic expression by all engaged in the same enterprise.95

Unfortunately, the U.S. Court of Appeals for the Second Circuit determined that the district court’s decision concerning aesthetic functionality was flawed.96 Specifically, the Second Circuit decided that the district court’s per se rule that a single color could not be protected in an industry was inconsistent with the U.S. Supreme Court’s Qualitex decision.97 Importantly, the Second Circuit did seem to indicate that Qualitex could be read to allow a per se rule in an industry, but stated that was “doubtful.”98 The Second Circuit also limited Louboutin’s trademark to the lacquered red color with a contrasting upper sole.99 This limitation allowed the Second Circuit to find that Yves Saint Laurent was not infringing Louboutin’s trademark, while at the same time upholding Louboutin’s

95 Id. at 452-53.
97 Christian Louboutin S.A., 696 F.3d at 223.
98 Id.
99 Id. at 226-27.
Courts should follow the analysis of the district court in *Louboutin* and apply a “per se” approach to numerous types of marks, with the aesthetic functionality doctrine clearing the way for more creativity, and competition in specific industries. Aesthetic functionality could serve as a policy lever, similar to those in patent law, to prohibit overreaching in trademark law in specific industries.

V. CONCLUSION

Trademark holders vigorously protect their marks—and they have every reason to do so under trademark law and policy. However, trademark holders may essentially act as a “bully” when they overreach, and when they do, it is easily understandable how they can stifle artistic expression and creativity under the facts of these cases or a simple extension of the facts. A struggling artist or small company may not have the resources to fight the University of Alabama and may just give in and stop using the mark. Notably, the artist in the University of Alabama case paid hundreds of thousands of dollars in attorneys’ fees—how many struggling artists can afford to engage in years of litigation with such a high dollar cost. A strong aesthetic functionality defense may ensure a robust competitive market for artistic works in many mediums including those in supposed merchandising markets. While some circuits do not recognize the aesthetic functionality doctrine at all or apply it very narrowly—the time has come for courts to reexamine the doctrine because the stakes are high.

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100 Id.
SOLVING GOOGLE’S ANTITRUST DILEMMA: COGNITIVE HABITS AND LINKING RIVALS WHEN THERE IS LARGE MARKET SHARE IN THE RELEVANT ONLINE SEARCH MARKET

P. Sean Morris†

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† Faculty of Law, University of Helsinki. The ideas in this paper were developed at the Work in Progress in Intellectual Property Conference, Seton Hall Law School, February 22-23, 2013. I owe some of my thoughts to Adam Cadeub’s excellent paper: “Search Engines: Antitrust Law in the Feedback Economy.” I am indirectly responding to that paper by offering thoughts on the troubling situation of Google Inc. and the limits of antitrust law, in particular, market share. Furthermore, this paper uses empirical evidence to complement the work of a number of other scholars who offer prescriptions and opposing views on Google and its interaction with antitrust law, some of which are cited herein. Thanks to the editors and staff of the Wake Forest Journal of Business and Intellectual Property Law for their assistance in getting this paper published. The usual disclaimers apply.
ABSTRACT

Do you use Google.com? Familiar with “search,” “maps,” “news,” “calendar,” and more? How about if in that little black toolbar on Google’s homepage, there is also a link to “Yahoo,” “Bing,” “Yandex,” and other search providers? This paper considers this argument in the context of Google’s global market share. The claim is that Google should link rivals in its main toolbar under the essential facilities doctrine. The paper argues that Google.com has become an essential facility, and in order to solve its antitrust dilemma under the essential facilities doctrine, it should link rival search services as a form of public service – and thus live up to its motto – “don’t be evil.”

In discussing Google in an antitrust context, one can certainly argue that regulation is needed to control runaway market power. Generally, regulation is necessary if a firm has dominant power as a result of its market share, and it can be proven that the firm is abusing that dominant power. However, even if the firm has dominant power, that firm can self-regulate or promote fair competition if it considers its products and services vital in the market in which it operates. This is not a wild proposition; however, the idea of linking rivals should not be dismissed either. The arguments in this paper will offer one such proposition of solving Google’s antitrust dilemma in the relevant search engine market, where a firm is perceived to have market power which may potentially fall foul of antitrust law.
I. Introduction

Google has survived an investigation for possible antitrust misconduct in the European Union. In March 2013, after almost three years of investigation, the European Commission found some of Google’s practices may fall foul of Article 102 of The Treaty on the Functioning of the European Union (“TFEU”). Google responded by saying that it will, among other things, “display links to three rival specialized search services.” However, despite this settlement, and admission on the part of the Commission that Google may be in violation of the EU competition rules, there are still lingering suspicions on the part of Google with respect to its anticompetitive behavior(s). In the U.S., the Federal Trade Commission (“FTC”) recently concluded its investigations into the behemoth online advertising giant that provides search functions and acts as a gateway to information that is widely available on the world-wide-web. The FTC’s decision to end its antitrust investigation into Google caused some discord among the ranks of the FTC commissioners. One of

4 FED. TRADE COMM’N, STATEMENT OF THE FEDERAL TRADE COMMISSION REGARDING GOOGLE’S SEARCH PRACTICES, IN THE MATTER OF GOOGLE INC., FTC File No. 111-0163, January 3, 2013. See also Press Release, Federal Trade Commission, Google Agrees to Change its Business Practices to Resolve FTC Competition Concerns in the Markets for Devices Like Smart Phones, Games and Tables, and in Online Search (January 3, 2013) available at http://ftc.gov/opa/2013/01/google.shtm. Note that the other FTC concerns, such as FRAND licensing practices in the acquisition of Motorola Mobility, were effectively highlighted by the FTC as opposed to those regarding search biases in online advertising. However, this seems to be largely because Google made the first move in informing the FTC that it would give online advertisers more flexibility. See FEDERAL TRADE COMMISSION, GOOGLE’S LETTER TO THE FTC, GOOGLE INC., No.111-0163, December 27, 2012. 
5 See FED. TRADE COMM’N, IN THE MATTER OF GOOGLE INC., CONCURRING AND DISSSENTING STATEMENT OF COMMISSIONER J. THOMAS ROSCH REGARDING GOOGLE’S SEARCH PRACTICES, FTC File No. 111-0163 available at continued...
those concerns was that Google might be providing “half-truths” and manipulating its search results.6

At the moment, Google’s antitrust dilemma is that of a monopolist due to a number of factors including: its rapid growth; its profit maximization as a result of squeezing smaller rivals onto the sidelines of the internet search market; and its treatment of sponsored links in search results.7 In data collected by researchers in 2010, a significant finding was that Google had a large market share north of 90 percent in every country in which it operates, with complete dominance in countries such as Bulgaria, Turkey, Finland, Israel, and Thailand.8 Because of this expansion, Google has been under the spotlight for all things that are evil,9 and thus finds itself in a troubled spot: how to

http://www.ftc.gov/speeches/rosch/130103goolesearchstmt.pdf (detailing Commissioner Rosch’s concerns over the Commission’s decision to dismiss its antitrust case against Google).

6 Id. at n.1 (“I have concerns that insofar as Google has monopoly or near-monopoly power in the search advertising market and this power is due in whole or in part to its power over searches generally, nothing in this “settlement” prevents Google from telling “half-truths” – for example, that its gathering of information about characteristics of a consumer is done solely for the consumer’s benefit, instead of also to maintain a monopoly or near monopoly position.”). See also Siva Vaidhyanathan & Frank Pasquale, Borking Antitrust: Google Secures Its Monopoly, DISSENT – Q.J. OF POLS. & CULTURE (January 4, 2013) available at http://www.dissentmagazine.org/blog/borking-antitrust-google-secures-its-monopoly.


8 See ANNE F. KENNEDY & KRISTJAN M. HAUSSON, GLOBAL SEARCH ENGINE MARKETING: FINE-TUNING YOUR INTERNATIONAL SEARCH ENGINE RESULTS, QUE ONLINE APPENDIX C (2012). See infra Appendix. Although the data collected sends conflicting signals, it still remains a good source of measuring Google’s market share in the global markets.

show that it is not evil; how to ensure that there is fair competition on the internet (for which it has a sizeable control of the available information); and how it delivers that information to the user. Consider, for example, if one were to walk into the Library of Congress to access a book, he or she would, in most cases, need the title, and would then need to be directed to the stack section where that book is located, without any form of obstruction. The story is not exactly the same for the internet, where Google has enormous power in determining how the ordinary person can access information. Recognizing these differences, this article will argue that Google has transformed into an essential facility for information sourcing on the world wide web, and as an essential facility, Google should provide a link on its front page toolbar for rivals in online search, such as Yahoo, Bing, or similar local search engines in the geographic territories in which Google has a significant market share of internet searches.

II. COGNITIVE SEARCHING HABITS

In the distant past, there was Google, an unheard-of project by PhD students at Stanford University.10 Like all bright ideas, these students had a dream of providing a functional search engine for the internet (that should not be evil).11 Like many tech bubble projects, Google relocated from Stanford University to its founders’ garage – and ultimately to swanky corporate headquarters.12 The idea of Google flourished; the internet expanded, and Google indexed and cached almost all of the data that was being provided over the internet.


10 See H. Kim & Susan Embretson, Cognitive Psychology and Educational Statistics, in INTERNATIONAL ENCYCLOPEDIA OF EDUCATION, (3d ed. 2010) 84, 85 (stating that Cognitive psychology is a branch in the field of psychology that focuses on information processing, and as such “examines internal mental processes, including how people think, perceive, remember, and learn.”).


12 Id.

13 Id.
Within a few years, corporate capital flowed abundantly into Google, and the company ultimately became listed on the stock exchange.

Along the way, it gobbled up hundreds of start-ups (technology & advertising companies), some big, some small – and then Google began appearing under the antitrust radar operated by regulators before being cleared. The Google of Stanford and its founders’ garage was, in 2013, a massive company with stocks worth over $800 a share, and was providing search capabilities and advertising in a two-sided market.

As an Internet search reference provider in a two-sided market, Google caters to advertisers who purchase from Google’s Adword program, and then places those ads as sponsored links in search results carried out by Google. Another player in the two-sided market that Google operates in is the search consumer (an example being the author of this paper, who turned to Google’s search engine to find some information). There is no doubt that Google, love it or hate it, is an academic’s dream, particularly in categories such as the humanities, social sciences, and law, among others. Google Scholar is a case-in-point. Google also provides academic functions such as Google Books and Universities’ email systems, among others.

Outside of academia, the key customer base for Google is the average internet user, who will turn invariably to Google to find what he needs, even a medical doctor (in an emergency). It is this

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14 Id.
15 See id.
16 On February 25, 2013 at 12:43 PM EST, Google Inc. was worth over $802.12 on the NASDAQ. See also Matt Krantz, Google Stock Breaks Above $800 a Share, USA TODAY (Feb. 19, 2013 9:42 PM), available at http://www.usatoday.com/story/money/markets/2013/02/19/google-800-invest-stock/1931173/ (calling Google “a powerful advertising company” and that “the company’s relative market power” has been widened). Ironically, I used Google’s search engine to find the history of Google’s stock prices.
18 Evans, supra note 17, at 33.
19 Note that key legal sources, content checking, and citations, were carried out in other databases such as Westlaw, LexisNexis, and HeinOnline. Google can be used to find immediate information for legal scholars. Furthermore, legal scholars use the SSRN database to see what other scholars are working on in their field.
group—the average internet users—that is the focus of the discussion in this section. I call this group the cognitive googlers because its members have formed a cognitive searching habit with the Google search platform.

In a paper titled *Intelligence and the Frontal Lobe: The Organization of Goal-Directed Behavior*,\(^1\) the authors argued that general intelligence in the brain “reflects the action control functions of the brain’s frontal lobes”\(^2\) and suggested that the selection of a goal is closely associated with visual input.\(^3\) If this argument is applied to how we as humans behave when making a search for information on the internet, we may choose our results based on what we see: *we like what we see and the results signal something important to the brain.* We make our selection of search results from the visual input that our general intelligence processed.

The search results can be called the cognitive visual input, and can be broken down into three categories. The first result category is image results, which are results based largely on pictures, graphic representations of words, numbers, or charts. The second result category is design. This category is formed by the manner in which search engine engineers design and present the results for our brains to process. The third category is words, and what those words convey. The words form sentences, clauses, and headlines, and they are graphically depicted among a host of others. Our brains process all that information when viewing the search results in a matter of seconds in order to make a choice of what to click (choose).

Internet search users, particularly those using Google, will prefer a single search engine to present all the results described above. Because of this, that internet user who prefers a single search engine forms a cognitive searching habit with that internet search provider. Google has a lot to benefit from the cognitive searching habits of its users, since it presents that information in the form of target advertising and PageRank,\(^4\) or it uses the data acquired from a single

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\(^2\) *Id.* at 258.
\(^3\) *Id.* at 280 (“Presumably selection of a goal is closely associated with attention to that part of the visual input that is relevant to that goal . . . .”).
\(^4\) The online advertising market is broken down into two categories: the cost-per-click paid segment, and search engine optimization. *See, e.g.,* Bo Xing & Zhangxi Lin, *The Impact of Search Engine Optimization on Online Advertising* continued . . .
user for a variety of purposes.\textsuperscript{25} In other words, both Google and the human memory operate in a similar sphere – the need for and retaining of information,\textsuperscript{26} hence, the emergence of cognitive googlers.

Cognitive searching is, for the most part, not new to internet search activities.\textsuperscript{27} Cognitive searching is essentially based on what presently works – and works best. In the early days of the World Wide Web, browsers and information providers such as Netscape and AOL provided most of the cognitive search results. In other words, those two providers were in trend – which worked at the time, mostly in the 1990s. The internet search services provided by Yahoo and MSN also emerged during that time, and at present they are largely still active as internet search services. Google emerged and has been largely successful for two reasons: (a) it mapped the domain of information a person is searching for, and what services they want, such as email, news, maps, and weather; and (b) Google provides that information in a cognitive visual input – an end result that users prefer. The cognitive visual input of search results is what our brain has become accustomed to and allows us to form a cognitive searching habit with a single

\textit{Market, in ICEC ’06 PROCEEDINGS OF THE 8TH INTERNATIONAL CONFERENCE ON ELECTRONIC COMMERCE: THE NEW E-COMMERCE: INNOVATIONS FOR CONQUERING CURRENT BARRIERS, OBSTACLES AND LIMITATIONS TO CONDUCTING SUCCESSFUL BUSINESS ON THE INTERNET 519 (2006) (explaining the different categories of search advertising: “[i]n general, there are two types of online advertisement associated with Internet search engines: paid placement and Search Engine Optimization (SEO). Paid placement is operated by search engines in the form of sponsored or paid results, where an advertisement is displayed in a pre-specified region of a search result page along with web search results. Search engines charge placement fees tied to the price of the relevant keywords, which is primarily determined by auction and measured by CPC (cost per click), and the number of click-through the advertisement receives. SEO, on the other hand, is the practice of optimizing web pages in a way that improves their ranking in the web search results, which are also known as natural or organic results because they are supposed to reflect relevancy in searchers’ standard. In this type of advertisement, advertisers pay SEO firms which specialize in this practice.”).

\textsuperscript{25}See also Rosch, supra note 5 (suggesting that Google may use personal data to maintain a near monopoly position).

\textsuperscript{26}See also Thomas L. Griffiths, Mark Steyvers & Alana Firl, \textit{Google and the Mind: Predicting Fluency with PageRank}, 18 PSYCHOL. SCI. 1069 (2007) (“human memory and internet search engines face a shared computational problem, needing to retrieve stored pieces of information in response to a query.”).

\textsuperscript{27}See, e.g., Dania Bilal, \textit{Ranking, Relevance Judgment, and Precision of Information Retrieval on Children’s Queries: Evaluation of Google, Yahoo!, Bing, Yahoo! Kids, and Ask Kids}, 63 J. AM. SOC’Y FOR INFO. SCI. & TECH. 1879, 1880 (2012) (“Ranking of retrieved hits has an influence on the user’s selection of these hits because it anchors one’s belief of the focal topic and receives more cognitive attention than the later items”) (citing Y. Xu & D. Wang, \textit{Order Effects in Relevance Judgment}, 59 J. AM. SOC’Y FOR INFO. SCI. & TECH. 1264 (2008)).
internet search provider, presumably for the selection of a goal on the internet. As Google gets stronger, the number of cognitive googlers will grow and pose more of an antitrust dilemma for Google – such as the use of personal data for maintaining its monopoly position in the internet search market.

III. GOOGLE AND ANTITRUST LAW

Google is no stranger to allegations that it has violated antitrust law. In fact, there is an entire following that alleges Google is a monopoly. The most fundamental question to ask is whether Google is an “essential facility.” I will examine this further in the next section. Before doing so, however, a primer on the status of Google and the system of antitrust law is necessary.

The primary allegations against Google from an antitrust law

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30 This question has been addressed by academics. E.g., Mark A. Jamison, Should Google Search Be Regulated as a Public Utility? 14 (Univ. of Fla. Warrington Coll. Of Bus. Admin. Pub. Util. Research Ctr., Working Paper, 2012), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2027543 (dismissing Google as an essential facility and stating that, “Google search does not fit the definition of an essential facility because inclusion in Google search is not an input sold to rivals or other enterprises, Google does not exclude rivals from being included in search results, and Google search is not monopolistic. Furthermore, even if Google search is or contains an essential facility, remedies could decrease customer value or force Google to divulge intellectual property.”).
perspective are those of “monopoly power” and therefore would fall under Section 2 of the Sherman Antitrust Act, or Article 102 of the TFEU. These provisions essentially deal with monopolization, and attempts at monopolization that may result in being held liable for breach of antitrust rules. In Verizon v. Trinko, the Court held that “the possession of monopoly power will not be found unlawful unless it is accompanied by an element of anticompetitive conduct.” This raises an important question: what is anticompetitive conduct for monopoly claims, and how is anticompetitive conduct measured, particularly in the market for search engines?

The key to a monopoly power claim is showing a number of intricate conducts such as market power, and then showing that said market power forecloses competition. Using the 2010 data collected by Kennedy and Hauksson, I will focus squarely on Google’s market power, analyzing Google’s market share in a global context. Their data is gleaned from other internet sources that tracked search engine rankings on a frequent basis and published the results online. The data is significant because it covered the period up to 2010, and also because it offers a coherent insight into how both the internet and Google expanded leading up to the period. Furthermore, for empirical purposes, data collected on past activities tends to be more reliable for drawing certain conclusions. Although the Kennedy & Hauksson data contains a small percentage of error, its single most important caveat is its collection of internet usage in the world and for mapping Google’s usage globally. Additionally, the Kennedy & Hauksson data suggests that Google is a monopolist by studying the market share of Google on a global basis for the period ending August 2010. Again, this is significant, because market share is one of the most important aspects to a monopolization claim under antitrust law, and the data suggests that Google has significant market power in almost all the markets in which it operates.

32 See id.
34 Id. at 407.
35 See, e.g., Attheraces Ltd & Anr v. The British Horse Racing Board & Anr [2005], EWHC 2015 (Ch), Case HC05C00996, (U.K.) (stating that in assessing dominance, three stages of analysis are required: (1) market definition, (2) market share analysis, and (3) analysis of competitive restraints).
36 See KENNEDY & HAUSSON, supra note 8.
37 See id.
38 See id.
There is an emerging set of literature that discusses Google in the antitrust context, and this paper’s goal is not to prolong the debate but rather to offer an early prescription. In *Rosetta Stone v. Google*, the court said that “Google’s content network reaches 80% of global internet users, and over 70% of U.S. internet searches use Google’s search engine.” This observation by the Court was not a comprehensive analysis or discussion on Google’s market share; however, it was a powerful indication of the extent to which Google has influence and the enormous scale of such influence in the internet search market. In the sections below and in the Appendix, I will use the Kennedy & Hauksson data to illustrate Google’s market share, and thus provide more evidence to the observation in the *Rosetta Stone* decision.

The FTC, in its announcement to end investigations into Google for possible antitrust violation in its search algorithm method, noted that one key aspect of its investigations was determining whether Google changed its search results primarily to exclude actual or potential competitors and inhibit the competitive process. The FTC explained that Google’s methods, although having “adverse effects on particular competitors from vigorous rivalry” were “a common byproduct of competition on the merits” which both the law and the competitive process encourage. Some may argue that this justification by the FTC for letting Google off so easy, so to speak, was weak. However, I disagree with that argument.

The natural spirit of competition decrees that rivals will get squeezed out of business, and that a firm’s sole purpose is to maximize profit. Google gains an advantage by tweaking its search results and methods in whichever direction it prefers so that it has a constant revenue base to continue providing access to what is largely free information, and reducing consumer search costs in accessing that information. The difference between the Library of Congress analogy that I made in the introduction and Google, is that taxpayers fund the Library of Congress, while advertisers pay to keep Google

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functionally relevant. Another key question that remains for antitrust is whether Google search is an essential facility.\footnote{Fed. Trade Comm’n, Statement of the Federal Trade Commission Regarding Google’s Search Practices, in The Matter of Google, Inc., FTC File No. 111-0163 (Jan. 3, 2013) (according to the FTC Statement, there are close substitutes for Google search engine: “Google is a ‘horizontal,’ or general purpose, search engine . . . [and] are distinct from ‘vertical’ search engines, which focus on narrowly defined categories of content . . . Although vertical search engines are not wholesale substitutes for general purpose search engines, they present consumers with an alternative to Google for specific categories of searches.”).} On one hand, the answer is an affirmative “yes”; however, on the other hand, through the lens of antitrust treatment of the essential facilities doctrine, the answer is “no,” given that rival search engines can provide the same services.

IV. THE ESSENTIAL FACILITIES DOCTRINES AND INTERNET SEARCH

There are two sets of arguments to this section. The first argument is whether search is an essential facility, and the second argument is the nature of the essential facilities doctrine under antitrust law. I will start with the former.

We thrive in a world where data and information are paramount to our decision-making. At the moment, internet search referencing providers such as Google.com, Bing.com, Yahoo.com, Yandex.ru, Baidu.cn, Rediff.in, and a host of others provide that service. To paraphrase Google, satisfying our wants and needs for information is only a click away. Thus, as the internet continues to penetrate the world’s population, more search data habits will be recorded, and more providers will eventually appear. The hunger for finding information and accessing it quickly via an internet search engine reveals one thing – internet search has become an essential facility in the age of the new economy, at least from a consumer’s perspective. Since I disagree with those who believe\footnote{See Jamison, supra note 30, at 14.} that Google is not an essential facility, I believe that Google’s services and behaviors must be analyzed from the point of fair competition in the internet search marketplace. In promoting fair competition in the internet search marketplace, I am proposing a remedy that Google could easily adopt – linking rivals.

The essential facilities doctrine in antitrust law needs revitalization.\footnote{Brett Frischmann & Spencer Weber Waller, Revitalizing Essential Facilities, 75 Antitrust L.J. 1, 3 (2008).} The doctrine was first raised in United States v.
Terminal Railroad, and then properly formulated in MCI v. ATT, but has since been “on the verge of irrelevance.” As a lower court decision, the MCI v. ATT case is largely relevant due to the court’s formulation of an essential facility to prove antitrust liability. These factors are (1) “control of the essential facility by a monopolist”; (2) a “competitor’s inability practically or reasonably to duplicate the essential facility”; (3) the “denial of the use of the facility to a competitor”; and (4) the “feasibility of providing the facility” to the competitor. In other cases, the Supreme Court and other lower courts have articulated the essential facilities doctrine.

There is a language of semantics in terms of the essential facilities doctrine. On some occasions, European courts may use the term “refusal to supply,” but the doctrine in Europe is similar to that as developed in American courts, though approaches may vary. On the other hand, in recent times, the Court of Justice of the European Union (CJEU) has also enjoined the term “refusal to grant” or “refusal of access” largely in describing an essential facility. Thus, the essential facilities doctrine is largely a part of the “refusal to deal” family of case law that has emerged in recent years, such as Microsoft v.

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47 MCI Commc’ns Corp. v. AT&T Co., 708 F.2d 1081, 1132-33 (7th Cir. 1983).
49 MCI Commc’ns Corp., 708 F.2d at 1132-33.
53 Case C-418/01, IMS Health GmBH & Co., OHG v. NDC Health GmBH & Co. KG, 2004 E.C.R. I-05039, ¶ 12.
54 Robert Pitofsky, Donna Patterson & Jonathan Hooks, The Essential Facilities Doctrine Under U.S. Antitrust Law, 70 ANTITRUST L.J. 443, 446 (2002) (“The essential facility doctrine has been articulated as a subset of the so-called ‘refusal to deal’ cases which place limitations on a monopolist’s ability to exclude actual or potential rivals from competing with it.”). See also Communication from the Commission – Guidance on the Commission’s Enforcement Priorities in Applying Article [102 TFEU] to Abusive Exclusionary Conduct by Dominance Undertakings, 2009 O.J. (C 45/7) 2, ¶ 78, (“The concept of refusal to supply covers a broad range of practices, such as a refusal to supply products to existing or new customers, to license intellectual property rights, including when this is necessary to provide interface information, or to grant access to an essential facility or a network.”).
In *Microsoft v. Commission*, the essential facilities doctrine gained further prominence, particularly due to its application to intellectual property rights. The essential facility doctrine crept into European law with the *Commercial Solvents* decision, in which the CJEU noted that “[a] refusal by an undertaking in a dominant position to sell is likely to constitute an abuse of such a position.” However, the *MCI* moment in European antitrust law for the essential facilities doctrine arose in a series of cases, *Bronner*, *Magill* and *IMS Health*. For example, in *IMS Health*, the CJEU explained that a refusal to supply was abuse of a dominant position.

Because internet search users have developed the cognitive habit of relying on Google for providing the information results that they are looking for on the internet, Google has cognitively become an essential facility. However, from an antitrust perspective, it has never been precisely demonstrated that Google is an essential facility. In *Person v. Google*, for instance, it was alleged that Google’s Adwords “is an essential facility” because “[Adwords] has not been able to be duplicated, competitively, by Yahoo or MSN.” But this was only an allegation regarding one aspect of Google’s services. On the other hand, most of Google’s services can be easily replicated, and in fact, Google’s rivals do reproduce those services. However, the service that

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**References:**

56 *Id.* See also Case C-238/87, Volvo v. Eric Veng, 1988 E.C.R. 6211.
58 *Id.* at 224.
62 *Id.* ¶ 38 (“In order for the refusal by an undertaking which owns a copyright to give access to a product or service indispensable for carrying on a particular business to be treated as abusive, it is sufficient that three cumulative conditions be satisfied, namely, that that refusal is preventing the emergence of a new product for which there is a potential consumer demand, that it is unjustified and such as to exclude any competition on a secondary market.”). For a discussion on the development of the essential facilities doctrine in Europe, see John Temple Lang, *Defining Legitimate Competition: Companies’ Duties to Supply Competitors and Access to Essential Facilities*, 18 *FORDHAM INT’L L.J.* 437, 439 (1994) (noting that the principle of essential facility “must be treated with caution”).
64 *Id.*
rivals cannot easily replicate is its method of search, commonly called “Google’s search algorithm.” But, this is the power of Google - its search algorithm is a protected trade secret that must be guarded at all costs. Even where the antitrust gates of hell are opened, such evil of Google must remain a secret, if Google is to stay financially viable and provide cognitive googlers a free platform on which to operate.

The argument for Google to link rivals under the essential facilities doctrine does not hinge on its search algorithm, but rather on its monstrous market share and resulting notion that it has morphed into an essential facility. For the essential facilities doctrine to become applicable, a plaintiff must demonstrate that it is infeasible to duplicate the essential facility. Trade secrets prevent competitors from feasibly duplicating Google’s search algorithm. Most companies have trade secrets. Therefore, Google’s search algorithm is not an essential facility, but rather a trade secret, and this should not be an antitrust concern. Or, rather, an antitrust encroachment on trade secrets should tread carefully when it enters that domain, since an antitrust investigation into trade secrets can have serious repercussions for businesses. The search and advertising services that Google provides are, in essence, easy to replicate, and Google’s competitors can also buy and advertise on Google through its Adwords program. Thus in hindsight, one can argue that Google is replicable.

V. Linking Rivals in the Relevant Search Market

Under the antitrust requirements of an essential facility, a competitor would need to demonstrate that its rival (the alleged monopolist), is in fact controlling an essential facility, and therefore, the plaintiff cannot compete. Most of Google’s services are easily duplicated. Google has strong competitors in the market for search services, but Google’s advantage over its rivals is that it has created a


66 For example, Pepsi may not know the formula for Coke, but both companies compete in the market for caffeinated fizzy drinks.

67 See Lao, supra note 65, at 301 (“From a rival content provider’s perspective, the functionality of Google search is the platform’s ability to help the rival reach potential customers in an ancillary market in which Google also competes […] it would seem that duplication of the facility is reasonably feasible, and hence, the Google search platform is not essential to competition.”).

68 Id. at 298.
stronger method for finding information. This method is protected under trade secrets law. A competitor can also purchase Google AdWords and advertise on Google itself, design a similar user interface for its browser, and provide similar services such as “news,” “maps,” “calendar,” “mail,” etc.

However, if Google were to morally recognize itself as an essential facility due to its significant market share in the internet search market, or if a Court were to determine that Google is an essential facility, then the outcome for Google would be a “good, bad, ugly” scenario. If Google, from a moral standpoint, offers to link rival search engines – it would remove its antitrust dilemma in the market for internet search. But does Google have an obligation to link rivals? Probably not given that Google maintains that “competition is just a click away.”69 The major problem for Google is that data suggests that it has a significant market share for internet search, and therefore, this is a major concern for antitrust law in determining dominance, and abuse of that dominance. In Europe, for example, the Advocate General in Bronner explained that potential competitors should be allowed access to an essential facility by a dominant company.70 But being a dominant company is not enough to be held liable for antitrust violation. And even if this argument is applied to Google, its search algorithm is a trade secret. However, under antitrust law, a plaintiff must demonstrate that the defendant had abused his dominance.

69 Adam Kovacevich, Google’s Approach to Competition, GOOGLE PUB. POL’Y BLOG (May 8, 2009, 9:42 AM), http://googlepublicpolicy.blogspot.com/2009/05/googles-approach-to-competition.html. Google is maintaining that it is easy for consumers to access alternative search engines, since competition is only a click away. See also Cedric Argenton & Jens Prufer, Search Engine Competition with Network Externalities, J. COMPETITION L. & ECON. 1, 2 (2011), available at http://ssrn.com/abstract=1974868 (“Google may be highly successful in search but competition is only a free click away.”); Sandeep Arya & Sandeep Srivastava, Acquiring E-Loyalty: Competition is Just One Click Away: A Literature Review, 2 INT’L J. RES. MGMT.ECON. & COM. 148, 148 (2012), available at http://www.indusedu.org/IJRMEC/November2012%28pdf%29/15.pdf (“Hence, building and maintaining e-loyalty has been a critical aspect of e-commerce as the competition is only one click away.”).

70 Case C–7/97, Oscar Bronner GmBH & Co. KG v. Mediaprint Zeitungs – und Zetischriftenverlag GmBH & Co. KG and others, 1999 E.C.R. I-7802 (Opinion of Advocate General Jacobs) (“According to [the doctrine of essential facility] a company which has a dominant position in the provision of facilities which are essential for the supply of goods or services on another market abuses its dominant position where, without objective justification, it refuses access to those facilities. Thus in certain cases a dominant undertaking must not merely refrain from anti-competitive action but must actively promote competition by allowing potential competitors access to the facilities which it has developed.”) (emphasis added).
determining abuse of dominance, the court must take into account three criteria: (1) the relevant market, (2) market share, and (3) anticompetitive conducts in restricting competition. I will focus on the first two criteria in the rest of the paper, in particular, the market share criteria, to support my claim that Google is an essential facility.

A. Internet Relevant Search Market

The relevant internet search market owes its origin to Yahoo, which essentially created it in 1995.71 Today, Yahoo still has a strong presence on the internet, but commands a distant third in internet search rankings after Bing and Google.72 Thus, these days, Google occupies the place that Yahoo had in the internet search market in the mid-1990s.

Given that Google provides a number of services, the main concern for rival search engines is the relevant search market. In TradeComet.com LLC v. Google, Inc., the plaintiff alleged that “Google has attempted to monopolize the online search market.”73 The online search market is an internet space where information and content is created, indexed, cached and stored for circulation and reference purposes. An internet user will use a web browser and a search engine to type the information he or she desires. In the Anglo-Saxon world, there are three main search engines to search the internet for information, Google.com, Bing.com, and Yahoo.com. Once a user has searched for information using any browser, the search results vary according to location (nowadays) and may include scientific information, encyclopedic information, advertising information for products or services, images, and a host of other information.

The internet user will cognitively process this information and then go through the results of a web search and choose the best information that he or she desires. According to the court in Rosetta Stone Ltd. v. Google,74 “Google’s content network reaches 80% of global internet users, and over 70% of U.S. internet searches use Google’s search

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engine. This does not mean Google presently has this reach, nor was the court’s observation a thorough analysis of Google’s reach of the relevant search market. Thus, for the purposes of this article, the relevant search market is the amount of information that is created, indexed, cached, or available on the internet that is accessible with a search engine. Assuming that the amount of information that is available is “approximately infinite,” the next question is to determine how much of that information Google controls or provides access to. The next section provides this analysis graphically in more detail, when Google is compared to Bing and Yahoo. The findings based on the Kennedy & Hauksson 2010 data are astounding.

B. Google’s Market Share in the Internet Search Market

In a universe where the amount of information is approximately infinite, how does one determine the market share of one search engine provider? Well, we rely on various methods of data collection and monitoring. There are studies that paint a picture of the internet search market. Google has, on many occasions, denied that it is a monopoly and argued that the market share test does not adequately measure monopoly power. To accurately paint a picture of Google’s market dominance, as alleged in several different court cases, there needs to be a complete picture of Google’s market share. To determine the internet search market in which Google operates, there must be a full understanding of the global internet usage. In Figure 1, this data is provided.

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75 Id.


77 See The Power of Google: Serving Consumers or Threatening Competition?: Hearing Before the Subcomm. on Antitrust, Competition Policy and Consumer Rights of the S. Comm. on the Judiciary (testimony of Susan Creighton), supra note 28, at 41 (“We sometimes can use market shares as an indicia of whether or not there’s monopoly power, but the real question is, is there this ability to foreclose competition or to raise prices?”). See Emanuele Tarantino, A Simple Model of Vertical Search Engines Foreclosure, 37 TELECOMM. POL’Y 1 (2013) (analyzing “the major forces that induce a monopolistic general search engine to manipulate organic and sponsored search results.”).
### Figure 1. World Internet Usage and Population Statistics, June 30, 2012*

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</thead>
<tbody>
<tr>
<td>Africa</td>
<td>1,073,380,925</td>
<td>4,514,400</td>
<td>167,335,676</td>
<td>15.6%</td>
<td>3,606.7%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Asia</td>
<td>3,922,066,987</td>
<td>114,304,000</td>
<td>1,076,681,059</td>
<td>27.5%</td>
<td>841.9%</td>
<td>44.8%</td>
</tr>
<tr>
<td>Europe</td>
<td>820,918,446</td>
<td>105,096,093</td>
<td>518,512,109</td>
<td>63.2%</td>
<td>393.4%</td>
<td>21.5%</td>
</tr>
<tr>
<td>Middle East</td>
<td>223,608,203</td>
<td>3,284,800</td>
<td>90,000,455</td>
<td>40.2%</td>
<td>2,639.9%</td>
<td>3.7%</td>
</tr>
<tr>
<td>North America</td>
<td>348,280,154</td>
<td>108,096,800</td>
<td>273,785,413</td>
<td>78.6%</td>
<td>153.3%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Latin America/Caribbean</td>
<td>593,688,638</td>
<td>18,068,919</td>
<td>254,915,745</td>
<td>42.9%</td>
<td>1,310.8%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Oceania/Australia</td>
<td>35,903,569</td>
<td>7,620,480</td>
<td>24,287,919</td>
<td>67.6%</td>
<td>218.7%</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>World Total</strong></td>
<td><strong>7,017,846,922</strong></td>
<td><strong>360,985,492</strong></td>
<td><strong>2,405,518,376</strong></td>
<td><strong>34.3%</strong></td>
<td><strong>566.4%</strong></td>
<td><strong>100.0%</strong></td>
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</tbody>
</table>

The numbers in Figure 1 tell us two things. First, at the end of June 2012, global internet users amounted to 2.4 billion or just 34.3% penetration of the world’s population. China tops the countries in terms of internet users (which incidentally has almost the same population count as India), followed by the U.S. Second, there is substantial room for more internet search engine providers, as there is still another sixty-five percent of the world population left to be penetrated with the internet. Given the substantial 566.4% increase in internet penetration from 2000 to 2012, the internet will continue to penetrate other pockets of countries with slow internet growth. Google describes itself as a global company and is present in almost every country of the world with a list of localized domains. It is that 34.3% of global internet users out of the world’s population that Google and its rivals are responsible for serving.

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* Note that the original source states “Internet Users Latest Data”, and this was interpreted to mean June 30, 2012. The data from this source was collected on February 27, 2013 (EST, 17: 44). See Internet Users in the World Distribution by World Region, INTERNET WORLD STATS, http://www.internetworldstats.com/stats.htm (last visited June 1, 2013).


80 See http://www.google.com/supported_domains (showing the vast number of Google’s localized domain names in various countries, such as google.co.uk, google.fi, google.in, etc.).

In figures 2 – 9 below, I will break down Google’s market share in ten regions of the world. I will use 93% as the baseline to select the countries in most of the regions in which Google virtually operates without any form of competition. What is astonishing about the data in the figures is that in some markets, such as Finland, Bulgaria, Turkey, Thailand, and Israel, Google has a whopping 98% of the search engine market.

**Figure 2. – Google’s Market Share in Europe in 2010.** The figure shows that Turkey commands the highest market share for Google with 98.97%, followed by Bulgaria with 98.71% and Lithuania with 98.69% of internet search engine market.

![Google's Market Share in Europe in 2010](image)

Noticeably absent from figure 2 are the largest economies in Europe: France, Germany, the UK and Russia. In these countries, Google also had significant market share. Interestingly, the market share for Google in France, Germany, the UK and Russia was based on more than one source, as collected by Kennedy and Hauksson. Thus, in France Google had a reported market share of 95.59% or 90.9%, while in Germany the reported market share was 97.09% or 91.9%, and in the UK the data revealed that Google had a market share of 92.77% or 89.4%. Only in the UK market did Yahoo and Bing have a registered market share of less than 4% each. The story in Russia was different as the data revealed that Google’s market share was 49.47% or 23.14%. This is mostly due to the strong presence of Russian search services dominated by Yandex, Ramler and Mail.ru.

(Alexa.com, a company that tracks internet usage, lists Google, Yahoo and Baidu in the top five of global internet companies in 2013).
Figure 3 – Google’s Market Share in Asia. The significant finding for Asia was in Thailand where Google had a dominance of 98.93% market share.

Only in Pakistan and Laos, did Yahoo and Bing barely registered, as they each commanded only 4% of the internet search market, where Google had more than 93% market share. However, it was in China, including Taiwan and Hong Kong, where Google faced stiff competition on the internet search market. For example, the data revealed that in Mainland China, Google’s market share in 2010 was 37.39%. No data was produced for Yahoo or Bing, but this relatively low market share is primarily due to local search competitors such as Baidu on the Mainland. In Hong Kong, Google held on to the dominant search engine spot with 52.34% and Yahoo at 46.06%. In Taiwan, the data suggested that Google was again in a minority role, with Yahoo commanding 56.29% compared to Google’s 42.48%. However, in Macao, Google had 59.11% market share and Yahoo 36.09%. See the Appendix, for a detailed explanation.
Figure 4 – Google’s Market Share in the Middle East. In Israel, Google is the undisputed King, with 98.22%, keeping a trend that is similar in Thailand, Turkey, Bulgaria and Lithuania.

![Graph of Google's Market Share in the Middle East]

Only in Bahrain did Bing and Yahoo manage to have an impact, with Yahoo commanding 2.9%, Bing 1.56%, and other search engines responsible for the rest of the search market in Bahrain, where Google had more than 93% market share. In Kuwait, Google’s search engine market share was similar to that of Jordan with a close 94.24%.

Figure 5.1 – Google’s Market Share in the Caribbean.

The largest Caribbean country, Cuba, had the most of Google’s market share, at 96.08%, even though internet penetration in Cuba is very low. There are two observations about this figure and the wider Caribbean: (1) Bing and Yahoo managed to penetrate only in Aruba, the Netherlands Antilles and Guadeloupe, where Google had market share north of 86%; and (2) linguistics, to which the former observation is closely tied. Aruba and the Netherlands Antilles, which up until recently were considered a single entity, are now seen as separate countries and administrative regions of the Netherlands. Thus, Dutch is spoken both in Aruba and the Netherlands Antilles. The other linguistic factor is French for both Guadeloupe and Martinique, which are also considered overseas departments of France. Thus, by and large, Google’s market share in these entities, can be associated with the market share held in their European motherland. The final linguistic factor is Spanish, and in Figure 5.1, apart from Cuba, only in the Dominican Republic does Google command market share north of 95%.
In the Anglo-Caribbean, where it was reported that Google had market share north of 81%, the two largest economies, Jamaica and Trinidad and Tobago, were trailing smaller Anglo-Caribbean countries such as Dominica, where Google had market share of 83.81%, and St. Vincent and the Grenadines, where Google had market share of 87.83%. In two other Anglo-Caribbean countries, St. Kitts and Nevis, Google had market share of 81.07%, while in the British territory of Turks & Caicos, Google’s market share was 81.44%. However, the most significant finding in Figure 5.2, was that Google had stiff competition from Bing and Yahoo, which made several inroads in those markets. This suggests that it might be of linguistic nature, given the more established Yahoo and MSN Bing, which served those markets from the start, as an offshoot of the North American market, where English is the main language.
Figure 6 – Google’s Market Share in Africa.

Google dominates the African Market, in particular, North Africa, where Google’s market share was constantly above 95%. Only South Africa came close to the North African countries in terms of Google’s market share with 94.75%. Sub-Saharan and East Africa were noticeably absent in terms of high market share for Google.

In the African Market, Bing and Yahoo had a miniscule impact, as they managed to dent Google’s market share of 95%, by 1.66% and 2.48% respectively.

Figure 7 – Google’s Market Share in Oceania. The major markets in this region are New Zealand and Australia.
In theory, this is a region dominated by New Zealand and Australia, but what was noticeably absent were any inroads from Bing or Yahoo, thus Google retains high market share in the region, and as the six countries in the figure reveals, that market share averages at 95%.

**Figure 8.1 – Google’s Market Share in South America.**

With the exception of the English-speaking countries of Guyana and the Falkland Islands, Yahoo and Bing are virtually absent from the South American market according to the 2010 data. Google’s market share in South America averages 97%.

Google’s market share in South America has similar characteristics with Google’s market share in parts of Europe, such as Bulgaria and Finland, or Israel or Thailand in Asia, in that Google operates unhindered without any form of competition in the internet search market based on the 2010 data. In the leading economy in the region, Brazil, Google’s market share was 97.44%, and countries such as Bolivia, Uruguay, and Venezuela saw Google’s market share above 97%. In Colombia and Ecuador, Google’s market share was neck and neck at 96.89%. In close proximity was Argentina, where Google’s market share was 96.59%, Paraguay 96.83%, and Peru 96.41%. The trend was also similar in Central America.
Only in Nicaragua, Honduras, and Belize did Google have some form of competition where Yahoo and Bing managed very small inroads of 5% in Honduras and 3.5% in Nicaragua. The only English speaking country in Central America, Belize, which is similar to the Anglo-Caribbean, saw significant competition to Google, where Bing had 8.39% market share and Yahoo had 10.8%.

Figure 9 – Google’s Market Share in North America.

In the home of Google, there are conflicting signals based on the 2010 data in terms of Google’s market share. See the Appendix for full details. Nevertheless, I used the highest numbers from those reports, as cited by Kennedy & Hauksson. The situation is the same for Canada, where Yahoo and Bing are reported to have the same market share of 4% each.

From Figure 9, we can also see that Yahoo has the largest percentage in the U.S., as opposed to Bing, with 17%.
C. Rivals and Dominance in the Internet Search Market

The internet search market is a continuously evolving process, and the survival or dominance of a search engine provider is a result of the cognitive searching habits of internet users. At this time, Google is the dominant search engine provider due to these cognitive habits, and therefore, Google is going through a stage of natural selection. The shift or result of this dominance is that its organic algorithm methods have enabled it to be an essential facility. And, as king, with the power of natural selection, the argument is that Google should use its dominance to promote rivalry and innovation by linking similar search engines in its organic black toolbar. The rival search engines that would be linked would be search engines, other than Google, that command a significant market share in the local market, such as Seznam in the Czech Republic, Naver in Korea, or Yandex in Russia. In the general Anglo-Saxon market, Yahoo and Bing should be linked. The result of this would be that Google would resolve one aspect of its antitrust dilemma. However, this is only a proposition, and in this regard, there is no obligation for Google to use its dominant position as a search engine, which the market share data suggests it occupies, to provide a fairer competitive process in the internet search market. That would be an issue for antitrust law to resolve when evidence of market power, as a result of market share and the abuse of that market power, if any, is presented before the courts in claims against Google. The stronger the evidence, the stronger a plaintiff can make his case under Section 2 of the Sherman Act or Article 102 of the TFEU.

VI. Conclusion

One of the findings in this paper is that Google has astronomical market share in every country in which it operates, with market share hovering over the 95 percentage mark on most occasions, with the exception of the African and Caribbean markets. In the Caribbean market, Google’s market share, according to the data, hovered north of 70%, while in the African market, Google’s market share was constantly over 85%. But Bing and Yahoo are giving Google noticeable competition in the Caribbean, particularly in markets where English is the main language. The similarity of the market shares in the English-speaking Caribbean and North America for Bing and Yahoo can also be attributed to the advertising of those search engines on American cable networks, which are streamed simultaneously in the Caribbean. However, Google’s stiffest competition was from Yahoo, and other search engines such as Baidu, in the Chinese market (this includes Hong Kong, Taiwan, and Macao).
One interesting finding from the data is that Google has dominance in some particular markets, such as Bulgaria, Finland, Turkey, Lithuania, Thailand, and Israel, with market share more than 98%.

The main conclusion from this paper is that Google has morphed into an essential facility from a commercial perspective, but it does not necessarily meet the criteria of an essential facility under antitrust law. Google arises as an essential facility as a result of the cognitive searching habits of its users, where, as humans, our brains are wired for information search, query, and retrieval, a similar trait that Google possesses. Thus, from a business perspective, Google can morally link to its rivals, which would be an admission on Google’s part that it is an essential facility, but yet a demonstration that it is not evil. Where Google admits that it is providing an essential facility or at least is morphing into an essential facility, then it can take a moral stand – and demonstrate that it is not evil – by providing a link to the “other players” in the internet search market, such as Yahoo and Bing. Such a step would create a team of rivals for information retrieval and result in the greater good of internet competition and consumer satisfaction.

VII. Appendix – Descriptive Statistics and Notes with Google’s Global Market Share

The market share held by Google is illustrated in the tables in this appendix, and Google’s market share is compared to the market share held by the two other major search engines, Yahoo and Bing. The appendix lists the countries and markets in which Google is compared to Bing and Yahoo. However, there were occasions in which other search engines have a chunk of the market share, but are not listed in the appendix, such as Baidu in China, Yandex for the Russian speaking countries, Naver in South Korea, and others. I focused specifically on the market share Google held at the time the authors collected the data in August 2010, even though the data itself revealed a number of other interesting features, such as how Google’s market share rose sharply in a number of years leading up to August 2010. In some instances, there was more than one source cited for Google’s

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82 From an economics perspective, some researchers have made similar comparisons and argue that search engines create “residual demand.” See Rahul Telang et al., The Market Structure for Internet Search Engines, 21 J. MGMT INFO. SYS. 137, 141 (2004) (arguing that residual demand leads to higher quality and less differentiation. “Residual demand leads to higher overall demand for [search] engines.”).

83 See KENNEDY & HAUSSON, supra note 8, at Index C. Internet and Search Engine Usage by Country (the authors used data ending in August 2010).
market share, particularly where there was a local search engine that is widely popular, such as Seznam in the Czech Republic or Йandex for the Russian speaking population of Russia, Belarus, and other parts of Central Asia. On other occasions, it was reported that Bing and Yahoo’s market share was “little bit over” a certain percentage, so this makes it difficult to isolate whether Bing and Yahoo shared the amount of market share or their market share was split evenly. Where the percentage was less than 100 with all three search engines combined, another local player holds the remaining percentage for that market. On some occasions, there were search engines enhanced by Google, such as araina.it in Italy, and thus it was difficult to determine whether to group their market share with Google’s. However, this was excluded from my observations. In the African market, again, Google held the majority of market share; however, there is significant competition from Yahoo in that market, where Google’s average market share is 88 percent. One notable feature about the African internet market is the low penetration rate of the internet. In only four North African Countries: Tunisia, Morocco, Libya, and Algeria, was Google’s market share north of 95 percent. For Asia, China was the largest internet search market, and based on the 2010 data, Google faced significant competition from Baidu and Yahoo, both in Mainland China, Taiwan, and Hong Kong. On Mainland China, Google had a reported market share of just over 39% in 2010, and in Taiwan, Yahoo held the lead market share position with 56.29% compared to Google’s 42.48% in 2010. In India, Google had significant market share, with 97%, which closely matched with Google’s 91% market share in Sri Lanka. However, the only Asian market where Google had complete dominance in the internet search market was in Thailand, with a market share of 98.93%, and according to Kennedy and Hauksson, “Google has no competitor in the market for Thailand.” Other countries in Europe, such as Finland, Bulgaria, Turkey, Lithuania, and Israel in the Middle East, are comparable to Thailand, where Google had a whopping 98.22% share of the internet search market.
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</tr>
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<td>2%</td>
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<td>Italy</td>
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<td>Malta</td>
<td>91.22%</td>
<td>4.35%</td>
<td>3.92%</td>
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<td>Russia</td>
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<td>San Marino</td>
<td>96.77%</td>
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<tr>
<td>Serbia</td>
<td>97.83%</td>
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<tr>
<td>Country</td>
<td>Google’s Market Share</td>
<td>Bing’s Market Share</td>
<td>Yahoo’s Market Share</td>
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<td>Slovakia</td>
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<td>Slovenia</td>
<td>90.53%</td>
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<td>Spain</td>
<td>93.02%, 97.31%*</td>
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<td>Turkey</td>
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<td>Ukraine</td>
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<td>United Kingdom</td>
<td>92.77%, 89.4%*</td>
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<td>4%*</td>
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**TABLE 2: GOOGLE’S MARKET SHARE IN SOUTH AMERICA**

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<tr>
<th>Country</th>
<th>Google’s Market Share</th>
<th>Bing’s Market Share</th>
<th>Yahoo’s Market Share</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>96.59%</td>
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<td>Bolivia</td>
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<tr>
<td>Brazil</td>
<td>97.44%</td>
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<td>Chile</td>
<td>91.25%</td>
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<tr>
<td>Colombia</td>
<td>96.89%</td>
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<tr>
<td>Ecuador</td>
<td>96.89%</td>
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<tr>
<td>Falkland Islands</td>
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<td>4%*</td>
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<td>French Guiana</td>
<td>93.36%</td>
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<td>Guyana</td>
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<td>6.42%</td>
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<td>Paraguay</td>
<td>96.83%</td>
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<td>Peru</td>
<td>96.41%</td>
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<tr>
<td>Suriname</td>
<td>90.3%</td>
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<tr>
<td>Uruguay</td>
<td>97.68%</td>
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<tr>
<td>Venezuela</td>
<td>97.47%</td>
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**TABLE 3: GOOGLE’S MARKET SHARE IN CENTRAL AMERICA**

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<td>79.58%</td>
<td>8.39%</td>
<td>10.8%</td>
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<td>Costa Rica</td>
<td>95.76%</td>
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<td>El Salvador</td>
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<td>Guatemala</td>
<td>95.17%</td>
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<td>Honduras</td>
<td>90.5%</td>
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<td>Mexico</td>
<td>93.35%</td>
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</tr>
<tr>
<td>Nicaragua</td>
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<td>3.5%*</td>
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<tr>
<td>Panama</td>
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### Table 4: Google’s Market Share in the Caribbean

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<tr>
<th>Country</th>
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<th>Yahoo’s Market Share</th>
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<td>80.47%</td>
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<td>Antigua &amp; Barbuda</td>
<td>78%</td>
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<td>Aruba</td>
<td>86.52%</td>
<td>9.34%</td>
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<td>74.19%</td>
<td>19.19%</td>
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<td>77.74%</td>
<td>15.82%</td>
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<td>Cayman Islands</td>
<td>82.99%</td>
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<td>Cuba</td>
<td>96.08</td>
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<td>95.62%</td>
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<td>Grenada</td>
<td>81.82%</td>
<td>19.19%</td>
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<td>Guadeloupe</td>
<td>92.94%</td>
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<td>8.73%</td>
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<td>Puerto Rico</td>
<td>87.16%</td>
<td>7%*</td>
<td>7%*</td>
</tr>
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<td>81.07%</td>
<td>13.24%</td>
<td>4.6%</td>
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<td>79.75%</td>
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<td>Turks &amp; Caicos</td>
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### Table 5: Google’s Market Share in North America

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<th>Google’s Market Share</th>
<th>Bing’s Market Share</th>
<th>Yahoo’s Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bermuda</td>
<td>80.59%</td>
<td>11.79%</td>
<td>6.96%</td>
</tr>
<tr>
<td>Canada</td>
<td>92.93%, 82.72%</td>
<td>4%*</td>
<td>4%*</td>
</tr>
<tr>
<td>Greenland</td>
<td>93.75%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>United States</td>
<td>65.8%, 82.03%</td>
<td>11%, 7-8%</td>
<td>17.1%, 7-8%</td>
</tr>
</tbody>
</table>

### Table 6: Google’s Market Share in Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Google’s Market Share</th>
<th>Bing’s Market Share</th>
<th>Yahoo’s Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>96.57%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Angola</td>
<td>91.02%</td>
<td>5.74%</td>
<td>-</td>
</tr>
<tr>
<td>Benin</td>
<td>90.88%</td>
<td>5%*</td>
<td>5%*</td>
</tr>
<tr>
<td>Botswana</td>
<td>81.99%</td>
<td>8%*</td>
<td>8%*</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>87.13%</td>
<td>3.18%</td>
<td>8.21%</td>
</tr>
<tr>
<td>Burundi</td>
<td>86.82%</td>
<td>3.17%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Cameroon</td>
<td>89.64%</td>
<td>2.71%</td>
<td>6.13%</td>
</tr>
<tr>
<td>Country</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>92.26%</td>
<td>5.19%</td>
<td>1.94%</td>
</tr>
<tr>
<td>Central African Rep.</td>
<td>87.69%</td>
<td>3.96%</td>
<td>6.58%</td>
</tr>
<tr>
<td>Chad</td>
<td>90.72%</td>
<td>1.51%</td>
<td>7.02%</td>
</tr>
<tr>
<td>Comoros</td>
<td>89.61%</td>
<td>5%*</td>
<td>5%*</td>
</tr>
<tr>
<td>Congo</td>
<td>90.32%</td>
<td>3.22%</td>
<td>5.36%</td>
</tr>
<tr>
<td>Congo Democratic Rep.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cote d’Ivoire</td>
<td>93.13%</td>
<td>4%*</td>
<td>4%*</td>
</tr>
<tr>
<td>Djibouti</td>
<td>90.46%</td>
<td>5.5%</td>
<td>2.95%</td>
</tr>
<tr>
<td>Egypt</td>
<td>95%</td>
<td>1.66%</td>
<td>2.48%</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>83.27%</td>
<td>8.56%</td>
<td>-</td>
</tr>
<tr>
<td>Eritrea</td>
<td>90.02%</td>
<td>6.92%</td>
<td>2.44%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>88.09%</td>
<td>6.62%</td>
<td>4.19%</td>
</tr>
<tr>
<td>Gabon</td>
<td>88.25%</td>
<td>3.37%</td>
<td>6.94%</td>
</tr>
<tr>
<td>Gambia</td>
<td>88.35%</td>
<td>4.25%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Ghana</td>
<td>88.69%</td>
<td>3.68%</td>
<td>5.66%</td>
</tr>
<tr>
<td>Guinea</td>
<td>89.96%</td>
<td>2.34%</td>
<td>6.84%</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>84.22%</td>
<td>11.79%</td>
<td>3.61%</td>
</tr>
<tr>
<td>Kenya</td>
<td>90.93%</td>
<td>5%*</td>
<td>5%*</td>
</tr>
<tr>
<td>Lesotho</td>
<td>85.18%</td>
<td>7%*</td>
<td>7%*</td>
</tr>
<tr>
<td>Liberia</td>
<td>87.97%</td>
<td>7.37%</td>
<td>11.96%</td>
</tr>
<tr>
<td>Libya</td>
<td>95.63%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Madagascar</td>
<td>93.94%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Malawi</td>
<td>86.51%</td>
<td>5.19%</td>
<td>7.32%</td>
</tr>
<tr>
<td>Mali</td>
<td>86.61%</td>
<td>3.83%</td>
<td>8.25%</td>
</tr>
<tr>
<td>Mauritania</td>
<td>93.78%</td>
<td>3%*</td>
<td>3%*</td>
</tr>
<tr>
<td>Mauritius</td>
<td>87.26%</td>
<td>6%*</td>
<td>6%*</td>
</tr>
<tr>
<td>Morocco</td>
<td>96.79%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mozambique</td>
<td>93.68%</td>
<td>2.9%*</td>
<td>2.9%*</td>
</tr>
<tr>
<td>Namibia</td>
<td>89.51%</td>
<td>4-5.5%*</td>
<td>4-5.5%*</td>
</tr>
<tr>
<td>Niger</td>
<td>86.81%</td>
<td>-</td>
<td>9.21%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>89.25%</td>
<td>4-5.5%*</td>
<td>4-5.5%*</td>
</tr>
<tr>
<td>Rwanda</td>
<td>91.76%</td>
<td>5%*</td>
<td>5%*</td>
</tr>
<tr>
<td>Sao Tome, Principe</td>
<td>89.64%</td>
<td>6%*</td>
<td>6%*</td>
</tr>
<tr>
<td>Senegal</td>
<td>92.27%</td>
<td>3%*</td>
<td>3%*</td>
</tr>
<tr>
<td>Seychelles</td>
<td>86.21%</td>
<td>7.5%*</td>
<td>7.5%*</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>81.58%</td>
<td>3.85%</td>
<td>12.51%</td>
</tr>
<tr>
<td>Somalia</td>
<td>90.36%</td>
<td>7.61%</td>
<td>-</td>
</tr>
<tr>
<td>South Africa</td>
<td>94.75%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sudan</td>
<td>90.08%</td>
<td>5.5%*</td>
<td>5.5%*</td>
</tr>
<tr>
<td>Swaziland</td>
<td>87.52%</td>
<td>5-6%*</td>
<td>5-6%*</td>
</tr>
<tr>
<td>Tanzania</td>
<td>88.93%</td>
<td>4.36%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Togo</td>
<td>90.34%</td>
<td>4%*</td>
<td>4%*</td>
</tr>
<tr>
<td>Tunisia</td>
<td>96.13%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Uganda</td>
<td>88.9%</td>
<td>5%*</td>
<td>5%*</td>
</tr>
<tr>
<td>Zambia</td>
<td>86.75%</td>
<td>4.77%</td>
<td>7.35%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>89.48%</td>
<td>5%*</td>
<td>5%*</td>
</tr>
</tbody>
</table>
Table 7: Google’s Market Share in Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Google’s Market Share</th>
<th>Bing’s Market Share</th>
<th>Yahoo’s Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>89.1%</td>
<td>5%*</td>
<td>5%*</td>
</tr>
<tr>
<td>Armenia</td>
<td>90.34%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>95.91%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>90.97%</td>
<td>-</td>
<td>4.45%</td>
</tr>
<tr>
<td>Bhutan</td>
<td>90.34%</td>
<td>5%*</td>
<td>5%*</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>89.53%</td>
<td>4.14%</td>
<td>5.76%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>89.22%</td>
<td>5%*</td>
<td>5%*</td>
</tr>
<tr>
<td>China (Google)</td>
<td>37.39%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Georgia</td>
<td>93.82%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Hong Kong (SAR China)</td>
<td>52.34%</td>
<td>-</td>
<td>46.06%</td>
</tr>
<tr>
<td>India</td>
<td>97.08%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Indonesia</td>
<td>96.5%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Japan</td>
<td>81.42%</td>
<td>-</td>
<td>15.97%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>76.81%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>South Korea</td>
<td>45.29%</td>
<td>-</td>
<td>6.48%</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>86.98%</td>
<td>4%*</td>
<td>4%*</td>
</tr>
<tr>
<td>Laos</td>
<td>93.05%</td>
<td>4%*</td>
<td>4%*</td>
</tr>
<tr>
<td>Macao (SAR China)</td>
<td>59.11%</td>
<td>-</td>
<td>36.09%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>82.04%</td>
<td>-</td>
<td>12.89%</td>
</tr>
</tbody>
</table>

* Note that Baidu accounted for 60.74% of the market share in China. The following was also noted by the authors: “China had a big change in search engine use at the beginning of 2009. In February 2009, Google was the leading search engine with 95.18% market share. Then Baidu entered the market and increased automatically. In March 2009, it took 42.13% of the market and Google fell behind. In May 2009, Baidu had 51.93% market share and Google 37.38%.”

The authors also noted some discrepancies in the sources they used to collect the market share data: “Google and Yahoo are battling for the [Hong Kong] market. Yahoo got a big increase in October 2008 and afterward Google and Yahoo switched places in the leading search engine ranking. In August 2010, Google had a market share of about 52.34%; and Yahoo, 46.06%. Search Engine Market Watch listed Google China with 36.55%, Google Hong Kong with 23.77% and Yahoo with only 20.45% in June 2010. Baidu reached 3.61% in Hong Kong.”

The authors also found further discrepancies in their data based on the Japanese search market, where Google and Yahoo had significant presence: “StatCounter and Search Engine Market Share give us two different results. In September 2009, Search Engine Market Share measured a market share for Yahoo of about 51.2%, and for Google, 39%. In September 2009, Yahoo had 21.01% on StatCounter, and Google had 76.66%. In August 2010, the latest numbers on StatCounter were 15.97% for Yahoo and 81.42% for Google. Other sources also confirm Yahoo as the leading search engine in Japan, so in this case we can take Search Engine Market Watch more seriously.”
The authors explained: “Yahoo and Google are battling for the Taiwanese market. In October 2008, Yahoo started to rise and took a lot of Google’s market share. In December 2008, Yahoo had a market share of about 65.82 and left Google behind with a market share of about 32.96%. Since then, both are established on the Taiwanese market, but Yahoo has a greater market share than Google. The latest numbers from August 2010 show Yahoo with 56.29% and Google with 42.48% market share.”
<table>
<thead>
<tr>
<th>Country</th>
<th>Google’s Market Share</th>
<th>Bing’s Market Share</th>
<th>Yahoo’s Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Papua New Guinea</td>
<td>81.74%</td>
<td>10.55%</td>
<td>6.77%</td>
</tr>
<tr>
<td>Samoa</td>
<td>88.34%</td>
<td>5.9%</td>
<td>4.47%</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>88.01%</td>
<td>6%*</td>
<td>6%*</td>
</tr>
<tr>
<td>Tonga</td>
<td>92.24%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>82.37%</td>
<td>6.22%</td>
<td>9.36%</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>89.63%</td>
<td>5.88%</td>
<td>3.83%</td>
</tr>
<tr>
<td>Wallis &amp; Futuna</td>
<td>83.46%</td>
<td>7.5%*</td>
<td>7.5%*</td>
</tr>
</tbody>
</table>

### TABLE 9: GOOGLE’S MARKET SHARE IN THE MIDDLE EAST

<table>
<thead>
<tr>
<th>Country</th>
<th>Google’s Market Share</th>
<th>Bing’s Market Share</th>
<th>Yahoo’s Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>95%</td>
<td>1.56%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Iran</td>
<td>91.56%</td>
<td>3.53%</td>
<td>4.28%</td>
</tr>
<tr>
<td>Iraq</td>
<td>90.61%</td>
<td>-</td>
<td>6.93%</td>
</tr>
<tr>
<td>Israel</td>
<td>98.22%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Jordan</td>
<td>94.91%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kuwait</td>
<td>94.24%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lebanon</td>
<td>93.6%</td>
<td>4%*</td>
<td>4%*</td>
</tr>
<tr>
<td>Oman</td>
<td>93.31%</td>
<td>4%*</td>
<td>4%*</td>
</tr>
<tr>
<td>Palestine</td>
<td>97.34%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Qatar</td>
<td>88.87%</td>
<td>-</td>
<td>7.96%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>95.42%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Syria</td>
<td>95.61%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>91.15%</td>
<td>2.32%</td>
<td>5.96%</td>
</tr>
<tr>
<td>Yemen</td>
<td>93.31%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
IMPACT OF THE AMERICA INVENTS ACT

Justin Nifong†

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†Justin R. Nifong is an intellectual property attorney with a practice focus on patent law. The author is also a proud graduate of the Wake Forest School of Law.
I. Scope of Practitioner’s Note

This practitioner’s note covers various Intellectual Property (IP) specific issues and considerations for business and general counsel with reference to the latest changes in IP legislation and case law. Recently, the America Invents Act (AIA) was signed into law, creating many new procedures and rights that will place an even greater emphasis on patent and IP ownership. Topics covered include changes brought about by the AIA and IP ownership issues related to patents. This note is not meant to serve as a broad overview of IP law; instead it is for use as a practice-friendly tool for aiding business and general counsel in issue spotting.

II. America Invents Act

The AIA was signed into law on September 16, 2011 and has brought about sweeping patent reform in the United States (“U.S.”). The AIA fundamentally changes the legislative landscape governing patent law in the U.S. and brings about corresponding changes in the manner in which business and intellectual property attorneys must address intellectual property issues. The most significant change brought about by the AIA is the move from a first-to-invent to a first inventor-to-file system that harmonizes U.S. patent practice with that of most foreign countries. Other changes include: additional pre-issuance and post-issuance review processes for parties to initiate review of a patent application or issued patent; patent marking requirements that provide more cost-effective approaches to patent marking and have largely eliminated expensive false marking suits that businesses have had to defend against in recent years; modification of the United States Patent and Trademark Office (“USPTO”) fee structure; creation of “Micro Entity” status for fee payment; and a prioritized examination process.

The legislation was widely viewed with skepticism by the profession and this may be best evidenced by the move by applicants and patent attorneys to file applications before the March 16, 2013 effective date. For example, 24,259 provisional applications were

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3 Id.
filed in the week ending on March 15th, compared to 4,099 provisional applications filed in the previous week. 4

III. MOVING TO A FIRST INVENTOR-TO-FILE SYSTEM

Although the move from a first-to-invent to a first inventor-to-file system met resistance for many years, it was seen as inevitable by much of the profession and has harmonized U.S. Patent law with much of the foreign world. Under the former patent law system, an individual who was the first-to-invent was entitled to a patent over those that invented later, assuming the requirements for novelty, non-obviousness, and usefulness were met. 5 Both novelty and non-obviousness of a patent application were considered in light of a one-year grace period. This grace period gave an inventor the possibility of obtaining a patent even if a prior public use or sale occurred less than 12 months before the filing date of the inventor’s patent application, so long as the original inventor could prove that he invented the relevant subject matter before the public use or sale. 6

A. Filing Example

\[
\begin{array}{c|c|c}
\text{John Invents} & \text{Jane Invents and Files Application} & \text{John Files Application} \\
\text{January} & \text{June} & \text{December} \\
\end{array}
\]

For example, before the enactment of the AIA, John would be entitled to a patent in the Filing Example, even though he filed a patent application after Jane, if John could prove that he was the first-to-invent. However, John would not be entitled to a patent in most foreign countries. The new first inventor-to-file provisions of the AIA became effective on March 16, 2013. 7 Applications filed at this time and later will be examined based on the first inventor-to-file system and the 12-month grace period will be eliminated, except for certain

7 USPTO AMERICA INVENTS ACT: EFFECTIVE DATES, supra note 1, at 6.
“carve-outs.” A carve-out exists for public disclosures by the inventor within 12 months of the filing date of the patent application, however, it should be noted that many foreign countries do not provide for this carve-out.

B. Under the AIA, does Jane now get the issued patent in the Filing Example?

Yes, provided that Jane conceived of and reduced to practice the claimed invention without derivation from John.

1. Take Away for Business Counsel

The move to the first inventor-to-file system is a significant change and presents new concerns for business attorneys and their clients. Under the old law, the U.S. provided a one-year grace period in which an inventor could file for patent protection. This grace period allowed a company to test the commercial market for an invention before investing resources in patent protection. In the event that a third party filed a patent application claiming the same subject matter during the grace period, the inventor could show prior conception and reduction to practice in order to have priority over the intervening third party filed patent application. However, the AIA now assigns priority to the first-filed patent application. Accordingly, businesses and their attorneys should proactively address patent-related intellectual property protections early in the product development stage. This may mean more patent filings, more often. An increase in patent filings may be used in conjunction with increased protections employed by companies through the use of Non-Disclosure Agreements, strengthened intellectual property and confidentiality-

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12 Sean T. Carnathan, Patent Priority Disputes-A Proposed Re-Definition of "First-to-Invent", 49 ALA. L. REV. 755, 790 (1998) (“In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.”).
related provisions in employment agreements, as well as other trade secret-related mechanisms.

C. Challenging and Asserting Issued Patents

During the legislative back and forth leading up to the AIA, it was important for Congress to introduce new procedures for challenging issued patents with suspect validity. The AIA addressed these concerns by including a collection of new pre-issuance and post-issuance challenge proceedings.\(^\text{13}\)

1. Post Grant Review

For example, a Post Grant Review ("PGR") allows a third party to initiate a challenge to a patent within nine months after grant or reissue.\(^\text{14}\) This proceeding may make patentees hesitant to send out cease-and-desist letters within the first nine months after issuance of a patent, for fear of a subsequent patent being placed into the PGR program.

2. Inter Partes Review

Similarly, an Inter Partes Review ("IPR") process allows a third party to challenge a patent at any time after issuance, provided that either the petition is filed nine months after the patent is granted or the petition is filed after the date of termination of a post-grant review.\(^\text{15}\) It should be noted that the excess claim fees for both PGR and IPR\(^\text{16}\) may be cost prohibitive for many parties where a patent with a voluminous amount of claims is at issue. However, that cost may still represent a significant savings compared to litigating in Federal Court.

3. Other Procedures

Patentees may also request a Supplemental Examination if additional prior art is discovered after issuance of a patent.\(^\text{17}\) This process may help to “shore up” a patent in view of newly discovered prior art. Additionally, third parties will have an expanded period of

\(^{13}\) 35 U.S.C.A. § 122 (c)-(e) (West 2013).
\(^{14}\) 35 U.S.C.A. § 321(c) (West 2013).
\(^{17}\) 35 U.S.C.A. § 257 (West 2013).
time in which they may submit prior art to the USPTO during prosecution of a particular application.\textsuperscript{18} Under the prior legislation, a third party could only submit prior art to the USPTO within a two month period of time – a time period which most third parties were not aware of because of the events required to trigger the two month period.

4. \textit{Best Mode Requirement}

Other changes brought about by the AIA include elimination of the best mode requirement as a defense to invalidate a patent during litigation.\textsuperscript{19} The best mode required that the patentee provide the best manner which they were aware of for making or using the claimed invention.\textsuperscript{20} Previously, a patent could be invalidated if it was determined that the inventor(s) did not provide the best mode for practicing the invention.\textsuperscript{21} With the elimination of the best mode requirement, patentees may be able to disclose less than was previously required when applying for a patent.

5. \textit{Advice of Counsel in Willful Infringement Cases}

Another important provision in the AIA provides that the failure of a party to obtain the advice of counsel may not be used to prove willful infringement of a patent in dispute. This provision codified\textsuperscript{22} common law under \textit{Seagate},\textsuperscript{23} a case in which the Federal Circuit eliminated the presumption that the failure to obtain the advice of counsel in regards to infringement of a particular patent brought rise to willful, and potentially treble, damages.

6. \textit{Venue and Joining Parties}

\textsuperscript{18} 35 U.S.C.A. § 122(e) (West 2013).
\textsuperscript{23} In re Seagate Technology, LLC, 497 F.3d 1360, 1370 (Fed. Cir. 2007) (citing Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1341 (Fed. Cir. 2004) (“We now hold that no adverse inference that an opinion of counsel was or would have been unfavorable flows from an alleged infringer's failure to obtain or produce an exculpatory opinion of counsel.”)).
Additionally, the AIA makes it more difficult for a patentee to employ a “shot gun” litigation tactic where multiple defendants are joined in an infringement suit. This new provision became effective on the date of AIA enactment and provides for joinder of multiple accused infringers only if: 1) a right to relief is asserted with respect to the same transaction or occurrence, or series of transactions or occurrences, and related to the same accused product or process, and 2) questions of fact common to all defendants or counterclaim defendants will arise in the action. However, joint defense groups and joint scheduling and discovery orders remain common even after enactment of the AIA.

7. Take Away for Business Counsel

Defending against suspect patents and litigious patentees is a fear that many parties have had to face in recent years. The AIA provides several procedures that will be helpful in defending against patent infringement suits, particularly against non-practicing entities (so-called “patent trolls”). These added protections for targets of non-practicing entities are expected to lead to a decrease in the number of patent infringement suits filed by non-practicing entities.

The various new review processes offered to patentees, accused infringers, and interested parties will also impact how companies address their intellectual property protections, including how they respond to threats from competitors. For example, the PGR procedure may make patentees hesitant to send cease-and-desist letters within the first 9 months after patent issuance since that is the time period in which patents may be challenged under the PGR. However, various party-specific estoppel issues impacting accused infringers brought about by the review processes may make these processes less than desirable, particularly because the estoppel provisions appear to be very onerous to a losing party.

D. Patent Marking

1. Marking Requirements

The AIA also contains significant changes to the patent marking requirements. Under the old law, a patentee had to mark “patented” or

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“pat.” on a patented product, along with the patent number, in order to obtain monetary damages for infringement.\textsuperscript{26} For products that were not marked with the patent number, or had the wrong patent number marked thereon, this represented a significant loss of potential litigation damages and leverage for settlement. The AIA contains virtual marking provisions, which permit the patentee to mark “patent” or “pat.” on the product, along with a website address in which the patent numbers for a particular article can be accessed. The AIA also allows a business to update patent markings on their website, a relatively low-cost endeavor, as opposed to marking on the physical product, which usually required an expensive change to a mold or manufacturing process for the patented product.\textsuperscript{27}

2. False Marking

Congress had previously provided for \textit{qui tam} suits in which third parties could sue a patentee for falsely marking patent numbers on products in commerce.\textsuperscript{28} This led to hundreds of false marking suits being filed within the past few years, particularly for products marked with a patent number for an expired patent.\textsuperscript{29} The \textit{qui tam} suits were typically used to force companies to settle with \textit{qui tam} plaintiffs or risk thousands in litigation fees and potential damages. However, the AIA largely eliminated lawsuits for marking a product with a patent number that did not, in fact, cover the marked product.\textsuperscript{30} Additionally, marking a product with an expired patent number may no longer form the basis of a false marking claim. In an attempt to become “grandfathered in” under the pre-AIA false marking standards, a large number of false marking suits were filed before the AIA enactment date.

3. Take Away for Business Counsel

It is much more cost-effective to virtually mark products under the

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AIA than the old marking on product requirements. Patentees should look to modernize their patent marking to include the much more cost-effective virtual marking. However, patentees must carefully check the patent marking requirements of all jurisdictions to determine the best course of action for their client.

E. Patent Prosecution and Filing

1. Oath/Declaration and Inventor Cooperation

Previously, when a business entity wanted to file a patent application in the U.S., cooperation from inventors was crucial. This was because the inventor was required to declare, via a signed oath and/or declaration, that he was the first to invent the subject matter claimed in the patent application.\(^{31}\) Frequently, insubordinate employees, or disgruntled former employees, would refuse to sign the oath and/or declaration, leading to expensive and protracted disputes between the company and inventor. The AIA now provides a vehicle for business entities to file patent applications when the inventor refuses to sign or cannot be located, provided that the inventor is under an obligation to assign to the employer.\(^{32}\) Furthermore, the oath and declaration are not even required at the time of filing of a patent application and may be filed at a later date (although best practices will continue to be to execute the oath and declaration in the early stages of prosecution).

Therefore, legal counsel should carefully review their clients’ employment agreements so that it is clear that the business owns any intellectual property developed as part of employees’ responsibilities. Counsel should be certain that appropriate documentation exists for a company to make application for patent on behalf of a non-cooperative inventor.

2. Accelerated Examination

One of the much-discussed provisions of the AIA has been the introduction of Track 1 Prioritized Examinations. With a surcharge of $4,000 for large entities, and $2,000 for small entities, an application will now be advanced in line for examination.\(^{33}\) A recent report from

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\(^{33}\) 37 C.F.R. 1.102(e) (2011) (permitting prioritized examination); 37 C.F.R. § 1.17(c) (2013) (setting out the prioritized examination fee for each respective type of entity).
the USPTO indicates that applicants participating in the Track 1 program have generally received a first Office Action or Notice of Allowance within three months of the filing date of the application.\textsuperscript{34} This accelerated prosecution may prove particularly beneficial to startups in search of funding, or help established companies which intend to roll out a product in the near future.\textsuperscript{35}

3. Fee Changes

A significant increase in most USPTO fees was also introduced by the AIA. However, some relief is offered for “Micro Entities,” which are entitled to a 75% reduction for most fees.\textsuperscript{36} Micro Entities may include universities, companies licensing to universities, and individuals being named as an inventor on less than five patents and having an income below a certain threshold.\textsuperscript{37} Additionally, the USPTO now has fee setting authority and recently announced a new fee schedule that generally raises fees for most actions.\textsuperscript{38}

4. Take Away for Business Counsel

The Track I program may be very beneficial for commercially important technology. It is quite possible to have a patent issued within 9-12 months from the earliest filing date in the United States. Additionally, the cost of the Track I program may be entirely offset by quicker and compact prosecution, as prolonged prosecution normally brings about increased cost. The fee increases are modest in total cost and should not have a substantial impact on a party’s patent budget, although patent maintenance fees have increased significantly. Also, the new Oath/Declaration rules will make having an Employee Agreement that effectively articulates the patent rights of employers even more important.


\textsuperscript{37} Id.

F. AIA and Trade Secrets

The AIA provides for a prior user defense which applies to any patents issued on or after the date of enactment.\footnote{39} Prior to the AIA, US patent laws provided for a prior user defense only against method claims of doing or conducting business.\footnote{40} The AIA creates a prior user defense for parties who commercially used the product on which they are being sued in the United States more than one year prior to the effective filing date of the patented invention or before the date on which the patented invention was disclosed to the public.\footnote{41} Of particular importance to the pharmaceutical industry, commercial use includes the period during which an application for marketing approval is pending before a regulatory body.\footnote{42} The intersection between the prior user defense provided under the AIA and trade secrets may increase the value of trade secrets for an organization, as trade secret matter may now be used for defending against a patent infringement suit.

1. Take Away for Business Counsel

The prior user defense and the elimination of the best mode requirement may allow for parties to maintain trade secrets without fear of later being sued for patent infringement. However, the prior user defense has a relatively high burden of proof, so good records are essential if one is going to rely on this defense.

\footnotesize{\begin{itemize}
  \item 39 35 U.S.C.A. § 273(a) (West 2013).
  \item 41 35 U.S.C.A. § 273(a) (West 2013).
  \item 42 35 U.S.C.A. § 273(c) (West 2013).
\end{itemize}}
PLAYING MONEYBALL IN THE IN-HOUSE LEGAL DEPARTMENT: USING MONEYBALL CONCEPTS TO PROVIDE IN-HOUSE COUNSELORS WITH OBJECTIVITY AND INDEPENDENCE

Matthew S. Wigton†

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† Matthew S. Wigton is a 2013 JD/MBA graduate of Wake Forest University School of Law and School of Business. He was also the Symposium Editor for the Wake Forest Journal of Business & Intellectual Property Law in 2012-13 and was thus responsible for putting together the 2013 symposium entitled “The Role of Corporate Counsels in the New Reality.” He would like to thank all the participants of the Symposium and those individuals who helped complete the Symposium edition of the Journal. Matthew will begin practicing as a business transactional Associate at Blanco Tackabery & Matamoros, P.A. in Winston-Salem in the fall of 2013.
I. INTRODUCTION

The attorney in the in-house legal counsel position has a distinct role, one that is utterly different from any other that an attorney can fill. As former Chief Justice of the Delaware Supreme Court and renowned authority on the corporate counsel position, Norman Veasey, puts it in his book with Christine Di Guglielmo, “[t]he chief legal officer straddles the world of business and law, and thus occupies a status that is unique among both lawyers and business people.”¹ Having one foot in the realm of business and one foot in the realm of law creates unique demands for an individual who fills the position of in-house legal counsel. They must be both the “business partner” and the “guardian of the corporate integrity.”² The chief legal officer, and thus the in-house legal department, are “‘business partner[s]’ with the CEO, CFO, and other members of the senior management ‘C suite’ in dealing with the company’s strategy, opportunity, and risk.”³ They also act as “the ‘guardian[al]s’ of the corporate integrity’ in the C-suite and in the boardroom by seeking to ensure that the corporation and its constituents adhere to the highest legal and ethical principles.”⁴ Due to the uniqueness of the in-house counsel role, it is imperative that the in-house attorney maintain her objectivity and independence. However, the in-house counsel position encompasses particular things that can undermine and undercut the necessary objectivity and independence.

This paper will explore some of those things that weaken the in-house counsel’s ability to be objective and independent, and examines how applying Moneyball concepts can help maintain that independence and objectivity.

II. THE IMPORTANCE OF OBJECTIVITY AND INDEPENDENCE

At the heart of any legal representation is objectivity. Many of the Model Rules of Professional Conduct promulgated by the American Bar Association attempt to prevent lawyers from being influenced by personal feelings, interpretations, or prejudices.⁵ As the casebook

² Id.
³ Id.
⁴ Id.
⁵ See MODEL RULES OF PROF’L CONDUCT R. 5.4(a) (2012) (prohibiting a lawyer or law firm from sharing legal fees with non-lawyers to prevent lawyers from being unduly influenced); see also MODEL RULES OF PROF’L CONDUCT R. 1.8(i) (2012) (prohibiting lawyers from taking a proprietary interest in a cause of action or subject continued . . .
Professional Responsibility A Contemporary Approach states, “the retention of counsel carries with it an implied expectation that the attorney will advocate devotedly and diligently, and will spurn conduct inimical to the clients’ interests.” Objectivity and the analogous concept of independence are the foundation of carrying out this expectation. Specifically, in order for in-house counsel to serve the corporation,

the lawyer needs something more than the business knowledge and imagination to see the risks and pitfalls and to point them out. He needs the objectivity that comes from not being himself the author of the transaction in hand, from not having a personal career interest in glossing over its risks and pitfalls in the hope of being remembered as an outstanding entrepreneur, and from not being himself obliged to weigh the risks he identifies and decides whether to accept them or reject them.

Alan Braverman, Senior Executive Vice President, General Counsel and Secretary of the Walt Disney Company, notes regarding independence and the general counsel position, “[t]he trick and one of the real challenges of being a general counsel is maintaining independence without the erosion of trust.” Independence is fundamental to the in-house counsel being able to conclude what is in the best interest for the client. Veasey and Di Guglielmo place it as one of the most important aspects in contemplating a general counsel’s relationship with senior management and the board.

Despite the fact the ABA Model Code is no longer the most
pertinent authority from the ABA, it still possesses valuable contemplations on independence and in-house counsel. Ethical Consideration 5-18 of the Code, in providing direction for lawyers representing an organization, reads in part, “[i]n advising the entity, a lawyer should keep paramount its interest and his professional judgment should not be influenced by the personal desires of any person or organization.” Filling the “business partner” and “guardian of the corporate integrity” aspects of the chief legal officer position, as head of the in-house legal department, requires a sense of independence. “The CLO [chief legal officer] must continually wrestle with her need to support management and the board as persuasive counselor on the one hand and her need to exercise courage and independence in providing unvarnished advice and to ‘apply the brakes’ when needed.” Thus, any decision as to which need an in-house counsel should address must derive from a critical thinking process that is unbiased and can express an impartial view.

To ascertain the importance of objectivity and independence one does not have to look any farther than the Enron scandal. According to William C. Powers’ “Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp.,” important elements to the scandal from those providing corporate counsel were the “absence of forceful and effective oversight [of the company’s disclosures] and [of] objective and critical advice…” The report further criticizes corporate counsel claiming they “should have brought a stronger, more objective and more critical voice to the disclosure process.” Thus, as the Power’s Report on Enron demonstrates, objectivity and independence are essential attributes that must be brought by the in-house corporate counsel role to combat any potential for the corporation to engage in illegal or unethical conduct.

12 Id.
13 VEASEY & DI GUGLIELMO, supra note 1, at 47-48.
14 Id. at 48.
16 Id. at 181.
III. DETRACTIONS FROM THE OBJECTIVITY AND INDEPENDENCE OF IN-HOUSE CORPORATE COUNSELS

A. Relationship with Management

Although there is great significance placed on the objectivity and independence of the corporate counsel position, the position entails inherent detractors from an in-house counsel’s ability to maintain objectivity and independence. As Dick Thornburgh, former U.S. attorney-general, former governor of Pennsylvania, and the Examiner in the WorldCom bankruptcy proceedings points out,

[c]omplicated issues of loyalty can arise in a corporate setting. Corporate lawyers may develop [a] close working relationship with the chief executive officer. In many instances, they become the de facto ‘counselor’ to the CEO and typically owe their job security to the CEO. However, they must keep in mind constantly that their client is the company and not necessarily the CEO. 17

At times, it can be difficult for the in-house counsel to maintain the distinction that as the principal legal advisor to the company, the company is the in-house counsel’s only client.18 Those in the C-level management positions are only “a constituent of [the in-house counsel’s] corporate client, as are other senior officers and directors.”19

This situation where the in-house counsel is responsible to the corporation as the client, but works with management as the embodiment of the corporation, has been identified by many commentators, practitioners, and scholars as a potentially compromising setting for an in-house counsel. Some have explained that “close working relationships create a sense of identification or association between the general counsel and other senior managers.”20 Moreover, this sense of identification can be tied to a development of “loyalty to superiors’ that can compromise [the in-house counsel’s]

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19 Id.
20 VEASEY & DI GUGLIELMO, supra note 1, at 60 (citing Susanna M. Kim, Dual Identities and Dueling Obligations: Preserving Independence in Corporate Representation, 68 TENN. L. REV. 179, 252 (2001)).
ability to view management plans with an independent, critical eye.”

Duke University Professor of Law Deborah DeMott labels this sense of identification or association with senior managers and “loyalty to superiors” as the socialization of the in-house corporate counsel position. She expounds the concern with the socialization of the position, by stating “to the extent general counsel is socialized as a member of the senior management team, general counsel may be reluctant to jeopardize ongoing membership in the team and inclusion in its informational loops...”

The story of Franklin C. Brown, former corporate counsel for Rite Aid, exemplifies the concerns surrounding the compromising of the objectivity and independence of the in-house counsel as a result of the relationship with management. Throughout his tenure as a member of the Rite Aid legal department, Brown developed “an overwhelming sense of loyalty to the company.” This overwhelming sense of loyalty to the company manifested itself when the founder of Rite Aid’s son became CEO. The relationship between Brown and the founder of Rite Aid’s son now CEO was described as “since [the son] was a kid...the son ‘got his neck in incredible situations’ from which Mr. Brown rescued him.” As a result of disconcerting low earnings and a restatement of three years’ pretax earnings in a record setting amount (at the time), Rite Aid’s audit committee conducted an investigation. The investigation uncovered facts that hinted the CEO and CFO had engaged in “serious breaches of their fiduciary duties.” Specifically regarding Brown, his conduct surrounding the audit committee’s investigation and a separate but related SEC investigation caused him to be indicted.

Moreover, a FBI examination into the Rite Aid situation unfurled that Brown “agreed to backdate letters and to take other measures in an attempt to conceal fraudulent accounting practices.” Additionally, Brown gave his secretary $25,000 so she would alter

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21 Id.
22 See id.
25 Id. at 976.
26 Id.
27 Id.
28 Id.
29 Id.
30 Id.
In concluding Franklin Brown’s story, Professor McDermott does an excellent job of placing Brown’s situation and decisions into context. She writes, “It would be a mistake to dismiss Mr. Brown’s story as simply a vignette about a sadly misguided individual. Solidarity between a general counsel and other members of senior management can compromise counsel’s service as a legal adviser and as the company’s agent in its dealings with third parties.”

B. The Single Client

Another factor that can have a limiting effect on the objectivity and independence of an in-house counsel is that she only has one client. Those individuals composing the in-house counsel department are “the principal legal advisor[s] to the company, which is—or should be—[their] only client.” A significant difference between in-house counsel positions versus outside counsel positions is the inability for the in-house counsel “to spread employment risk over multiple clients.” This single client situation and the employment risk create a strong concern for the in-house counsel role. As it has been noted, “a general counsel’s dependence on a single client may call into question counsel’s capacity to bring an appropriate degree of professional detachment to bear.”

The single client scenario and the associated employment risk creates the motivation for an in-house counsel member to “go along to get along” with management. The inability for the in-house counsel to detach herself and maintain a sense of independence and objectivity is the essence of the “go along to get along” problem. Norman Veasey and Christine Di Guglielmo describe the temptation to “go along to get along” within the context of the exacerbated employment risk due to having one client:

[i]n-house counsel’s inability, as distinct from the ability of most outside counsel, to spread employment risk over multiple clients may result in a temptation to ‘go along to get along’—perhaps by rationalizing problematic business decisions—the courses of action

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31 Id.
32 Id. at 976-77.
33 Veasey & Di Guglielmo, supra note 18, at 58.
34 VEASEY & DI GUGLIELMO, supra note 1, at 57 (citing GEOFFREY C. HAZARD, JR. & W. WILLIAM HODES, 2 THE LAW OF LAWYERING § 17.7 (2d ed. Supp. 2004)).
35 DeMott, supra note 23, at 956.
36 See VEASEY & DI GUGLIELMO, supra note 1, at 56-57 (citing DeMott, supra note 23, at 956).
sought by the managers who hold the power to hire, promote, compensate, and fire them.\textsuperscript{37}

A significant compromising factor to the independence and objectiveness of the in-house counsel as a result of “going along to get along” with management is the rationalizing of problematic business decisions mentioned in the above quote. Prolific scholar Professor Stephen Bainbridge from the UCLA School of Law elaborates on this compromising factor by quoting former Delaware Chancellor Allen. Bainbridge identifies former Chancellor Allen’s statement in City Capital Assoc. Ltd P’ship v. Interco Inc., that “human nature may incline even one acting in subjective good faith to rationalize as right that which is merely personally beneficial.”\textsuperscript{38} Bainbridge would take former Chancellor Allen’s quote further by noting,

\[\text{[it typically is personally beneficial for lawyers to refrain from antagonizing the corporate managers who hire and fire them. The claim is not that lawyers are pervasively co-opted or immoral. The claim is only that lawyers have both economic incentives and cognitive biases that systematically incline them to stay on the good side of the corporation’s managers.}\textsuperscript{39}\]

Therefore, the desire to stay on the good side of the corporation’s managers and abstain from antagonizing these managers creates an inclination, despite the attorney’s overarching legal obligations, to “intentionally or subconsciously ‘overlook’ marginal conduct.”\textsuperscript{40} Thus, in-house counsels are tempted to undertake the disposition of “going along to get along” by rationalizing and overlooking problematic and marginal behavior in order to protect their employment interest.

One needs to only consider the savings and loan crisis during the 1980s and the more recent pitfalls of Enron to discern how in-house counsels can fall into the “go along to get along” trap and the harm this attitude creates. As Judge Stanley Sporkin’s famous question in the midst of the savings and loan crisis asks,

\[\text{[w]here were these professionals, a number of whom are now asserting their rights under the Fifth Amendment, when these clearly improper transactions}\]

\textsuperscript{37} Id. at 57 (citing GEOFFREY C. HAZARD, JR. & W. WILLIAM HODES, 2 THE LAW OF LAWYERING § 17.7 (2d ed. Supp. 2004)).
\textsuperscript{38} BAINBRIDGE, supra note 15, at 196.
\textsuperscript{39} Id.
\textsuperscript{40} Id. at 188.
were being consummated? Why didn’t any of them speak up or disassociate themselves from the transactions? . . . What is difficult to understand is that with all the professional talent involved (both accounting and legal), why at least one professional would not have blown the whistle to stop the overreaching that took place in this case.  

This memorable quote was again poignant as the Enron fraud unfolded. In looking at the Enron scandal and beyond Bainbridge writes, “[t]here is little doubt that lawyers played an important role in the scandals. Sometimes their negligence allowed management misconduct to go undetected. Sometimes lawyers even acted as facilitators and enablers of management impropriety.”

Consequently, the fundamental importance that is associated with objectivity and independence to the function of the in-house counsel position and the powerful influences that can compromise those traits creates an essential need to give the in-house counsel lawyer courage to fight against the detractions to those traits. Thus, there is a vital desire to find the tools to give the in-house counsel lawyer a better ability “to exert independent judgment when providing legal advice to the corporation or when examining and advising corporate constituents on compliance practices or risk-taking decisions.” It is as a mechanism to fortify the foundation of the in-house counsel’s ability to administer the objectivity and independence in her role that the concepts of *Moneyball* can be incorporated into an in-house corporate legal department.

**IV. What is Moneyball?**

At a cursory glance, *Moneyball: The Art of Winning an Unfair Game* by Michael Lewis is a book about “a small group of undervalued professional baseball players and executives, many of whom had been rejected as unfit for the big leagues, who turned themselves into one of the most successful franchises in Major League Baseball.” It is a story exploring how in the context of the belief that the game of baseball “was ceasing to be an athletic competition and becoming a financial one,” and that “only rich teams could afford the

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41 Id. at 180 (citing Lincoln Sav. & Loan Ass’n v. Wall, 743 F.Supp. 901, 920 (D.D.C. 1990)).

42 Id. at 180.

43 VEASEY & DI GUGLIELMO, supra note 1, at 57.

best players,” while “a poor team could afford only the maimed and the inept, and was almost certain to fail.” the Oakland Athletics, with one of the lowest or next to lowest payrolls in baseball, had been one of the most winning teams in the sport.45

However, Moneyball: The Art of Winning an Unfair Game goes beyond baseball. As Ryan McConnell, partner at Baker & McKenzie LLP in Houston, Daniel Trujillo, current head of Walmart’s international legal compliance46 and former deputy general counsel and director of compliance at Schlumberger, Ltd., and law student Katelyn Richardson contend, Moneyball “more broadly illustrates how empirical data and statistics have changed the way we analyze and solve problems.”47 Author of the annual Baseball Abstract and driving force behind rethinking the use and calculation of baseball statistics Bill James called it the ability for the statistics to acquire the power of language.48 In discussing his complaint with the concept of the baseball fielding statistic of an error, James wrote,

> fielding statistics made sense only as numbers, not as language . . . When the numbers acquire the significance of language, . . . they acquire the power to do all of the things which language can do: to become fiction and drama and poetry . . . And it is not just baseball that these numbers, through a fractured mirror describe. It is character. It is psychology, it is history, it is power, it is grace, glory, consistency, sacrifice, courage, it is success and failure, it is frustration and bad luck, it is ambition, it is overreaching, it is discipline. And it is victory and defeat . . .49

In another telling passage from James in defining Moneyball, James held these thoughts regarding offensive baseball statistics,

> I am a mechanic with numbers, . . . tinkering with the records of baseball games to see how the machinery of the baseball offense works. I do not start with the numbers any more than a mechanic starts with a

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45 Id. at xi-xii.
48 See LEWIS, supra note 44, at 64.
49 Id. at 67.
monkey wrench. I start with the game, with the things that I see there and the things that people say there. And I ask: Is it true? Can you validate it? Can you measure it? How does it fit with the rest of the machinery? And for those answers I go to the record books... What is remarkable to me is that I have so little company. Baseball keeps copious records, and people talk about them and argue about them and think about them a great deal. Why doesn’t anybody use them? Why doesn’t anybody say, in the face of this contention or that one, ‘Prove it’?50

Thus, as the above quotes from James display, the Moneyball concepts go beyond simply statistics and numbers and what one is trying to calculate. As Michael Lewis analyzed, “[i]ntelligence about baseball had become equated in the public mind with the ability to recite arcane baseball stats. What James’ wider audience had failed to understand was that the statistics were beside the point. The point was understanding; the point was to make life on earth just a bit more intelligible...”51 The Moneyball ideas are to find statistical measures that truly define the heart of the matter at issue. In using James’ analogy of numbers as language, the Moneyball concepts are finding the numbers and statistics that accurately portray the real story. It is the process of finding the numbers and statistics that convey a particular meaning. As Lewis asserts this in the baseball context, it is the “desire to... make baseball more efficient—to measure and value precisely the events that occur on a baseball field, to give the numbers new powers of language.”52

Though, the Moneyball concepts do not end with just measuring and valuing precisely the events that occur in a particular field, be it sports or otherwise. Once one has found the poignant statistical measures and numbers, the Moneyball approach entails deriving decision making from what these statistical measures and numbers convey. Put another way, one needs to use the numbers imbued with the powers of language to dictate how the story should next unfold. For example, in 2002 the Oakland Athletics lost one of their premier players, leadoff hitter and center fielder Johnny Damon, to free agency.53 In ascertaining how to fill the hole left by the departure of Damon, Oakland assistant general manager Paul DePodesta54 used the
idea discovered by Bill James that there was a stable relationship between season run totals and season win totals.\textsuperscript{55} Therefore, he had calculated how many runs the Athletics would need to win enough games to likely make the playoffs.\textsuperscript{56} By focusing on the statistic of a player’s ability to get on base, “an attribute that was most critical to the success of a baseball team” and significantly undervalued “compared to the ability to hit with power,” the Athletics’ management was more accurately able to value what Damon brought to the Athletics’ offense the prior year.\textsuperscript{57} Especially when comparing Damon’s ability to get on base to the league average, from an offensive perspective he became easy to replace.\textsuperscript{58} Moreover, by contemplating historical statistical data in a way that could derive a value, DePodesta “could take every ball hit in the area broadly defined as center field [Damon’s defensive position] and determine its ‘expected run value.’”\textsuperscript{59} Consequently, by way of analyzing the multitude of balls hit by opponents of the Athletics “in the vicinity typically covered by the center fielder” and “totaling up the outcomes when Johnny Damon was in the field, and comparing them to the average, Paul [DePodesta] was able to see how many runs Damon had saved the team.”\textsuperscript{60} As a result, the statistical measures used by the Oakland management gave them a more accurate way to determine how to replace Johnny Damon.

V. \textit{Moneyball} Concepts and the In-House Counsel Position

Despite the fact an in-house counsel is highly unlikely to ever have to contemplate how many runs need to be scored to make the playoffs or an individual’s ability to get on base; \textit{Moneyball} concepts can provide a strong benefit for one filling the in-house counsel role. As in-house counsel departments are better able to measure and value precisely events and behaviors that lead to ramifications under their bailiwick, they can more effectively fulfill the in-house counsel capacity in the context of the operation of a corporation. This leads to the in-house legal department being a greater asset to the corporation. McConnell, Trujillo, and Richardson call attention to how many in-
house counsel departments are incorporating *Moneyball* concepts as an aid to completing the responsibilities of the position.\(^{61}\) *Moneyball* concepts are being conducted “to effectively manage allegation programs, document production, due diligence, compliance audits, and training.”\(^{62}\) Consider the software programs of Ethics Point and the Ethisphere company. Ethics Point enables in-house lawyers to monitor allegations from their inception to resolution.\(^{63}\) As a result of the software, “on an annual basis, empirical compliance allegation data can tell in-house counsel where to allocate additional compliance resources, such as training and audits, to address risk.”\(^{64}\) The Ethisphere company permits in-house counsel attorneys access to compliance data. This database “provides lawyers with a way to empirically analyze compliance problems.”\(^{65}\) Fundamentally, the execution of *Moneyball* concepts within in-house legal departments “is changing the way companies address risk.”\(^{66}\)

Beyond just changing the way companies address risk, the incorporation of *Moneyball* concepts can be a boon to the objectivity and independence of the in-house counsel. They can provide a fortifying device to help encapsulate the necessary objectivity and independence the in-house counsel function demands. As a passage in *Moneyball* notes, in comparing the financial field to the business of baseball,

> [p]eople in both fields operate with beliefs and biases. To the extent you can eliminate both and replace them with data, you gain a clear advantage. Many people think they are smarter than others in the stock market and that the market itself has no intrinsic intelligence— as if it’s inert. Many people think they are smarter than others in baseball and that the game on the field is simply what they think it is through their set of images/beliefs. Actual data from the markets means more than individual perception/belief. The same is true in baseball.\(^{67}\)

Similar statements could also be made about the in-house counsel field. As the above section detailing factors that can diminish the

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\(^{61}\) See McConnell et al., *supra* note 47.

\(^{62}\) *Id.*

\(^{63}\) *Id.*

\(^{64}\) *Id.*

\(^{65}\) *Id.*

\(^{66}\) *Id.*

\(^{67}\) LEWIS, *supra* note 44, at 90-91.

\(^{68}\) See *supra* notes 17-43 and accompanying text.
objectivity and independence of one administering the in-house counsel role exhibits.\textsuperscript{68} Individuals in this occupational field also operate with biases. Because of the susceptibility to biases, actual data on matters such as compliance can be of great value for the in-house counsel in fulfilling her function. The use of Moneyball concepts and the associated application of data, numbers, and statistics give objectivity to the in-house counsel position.

Objectivity is representing things as they really are.\textsuperscript{69} It “means fairness and impartiality. Someone who ‘isn’t objective’ has allowed prejudice or self-interest to distort a judgment.”\textsuperscript{70} As R.M. Newell compares it in his book Objectivity, Empiricism, and Truth, “[o]bjective judgments are contrasted with prejudiced, biased or dogmatic judgments and objectivity is associated with impartiality, detachment, disinterestedness and a willingness to submit to standards of evidence.”\textsuperscript{71} He would further elaborate objectivity as holding an impartial regard for reason and evidence to the highest value.\textsuperscript{72} As a result of the importance placed on an impartial regard for reason and evidence, objectivity “is to be constrained” by reason and evidence.\textsuperscript{73} The Moneyball concepts provide the standards of evidence. They are the mechanism through which reason and evidence is able to constrain the operation of the in-house counsel function.

The Moneyball concepts are able to deliver the standards of evidence and an avenue for reason and evidence to create parameters for the in-house counsel due to the quantification enveloped by the concepts. As was examined previously,\textsuperscript{74} essential to the Moneyball concepts is quantification. Inherent to finding and using statistical measures that truly define the heart of the matter at issue and finding the numbers and statistics that convey a particular meaning is quantification. The quantification provides objectivity because it is “a neutral, objective language, a basis for minimizing arbitrariness, and hence for overcoming suspicion and winning allies.”\textsuperscript{75} Moreover, quantification entails measurement and “measurement means nothing


\textsuperscript{70} Porter, supra note 69, at 4.

\textsuperscript{71} R.W. Newell, Objectivity, Empiricism, and Truth 17 (1986).

\textsuperscript{72} Id. at 33.

\textsuperscript{73} Id.

\textsuperscript{74} See supra notes 44-60 and accompanying text.

Additionally, as a component of mathematics, quantification and consequently the *Moneyball* concepts, are “highly structured and rule-bound [...] and they exact] a severe discipline from [their] users...” Theodore M. Porter, in one of his essays, discusses quantitative objectivity and the functioning of elites and expertise derived from a dearth of experience and notes, “[i]f others in positions of power [(the elites)] share their outlook and experiences, there is little need to make their reasoning explicit, and hence little reason to have recourse to the rigid forms of quantified decision procedures.” These structures, rules, and discipline that the *Moneyball* concepts dispense to a decision flowing through the application of them create a bulwark against bias seeping into and dominating the operation of in-house counsels. The *Moneyball* concepts and associated quantification facilitates objectivity and independence by reducing choices to rules and “grounding those rules in the impersonal laws of nature and of number.” In fact, the *Moneyball* process of unlocking statistics’ ability to have the power of language and using those statistics to drive the choices pursued provides the principles rooted in the impersonal laws of nature and number.

With the principles of the impersonal laws of nature and number, the *Moneyball* concepts lead to decisions that are no longer guided “by impulse or subjective considerations, but would be based on a rigorous and calculable... rationale.” Thus, the in-house counsel that conducts her role while implementing *Moneyball* concepts fortifies herself from impulsive or subjective considerations that allow for biases related to her relationship with management and having a single client. Through the rigorous and calculable rationale, the *Moneyball* concepts can provide independence and objectivity to a decision and can bestow a safeguard against bias dictating and blinding an in-house counsel. It is because the quantification, measurement, numbers, and statistics at the core of the *Moneyball* concepts operate beyond the inherent detractors of independence and objectivity in the in-house counsel position that they are able to offer these attributes.

Moreover, the objectivity the *Moneyball* concepts can bestow also

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76 PORTER, supra note 69, at 23.
77 Id. at ix.
78 Porter, supra note 75, at 206.
79 Id. at 227.
80 See LEWIS, supra note 44, at 64 (quoting BILL JAMES, THE BILL JAMES BASEBALL ABSTRACT 1985 (1985)).
81 Peter Miller, Accounting and Objectivity: The Invention of Calculating Selves and Calculable Spaces, in RETHINKING OBJECTIVITY 239, 251 (Allan Megill ed., 1994).
creates a resource to prevent an in-house lawyer from falling into the “going along to get along” problem. It can provide a significant and influential tool that an in-house counsel can employ in convincing management to deter from activities that could ultimately be harmful to the corporation. This is echoed by Porter who writes, “[t]he crucial insight here is to see objectivity as a way of forming ties across wide distances. It epitomizes the possibility of effective communication between parties whose goals, interests, and beliefs may differ fundamentally.” Additionally, Porter notes how objectivity in instances can be a substitute for trust. Therefore, with the objectivity delivered by the Moneyball concepts being an instrument for effective communication between an in-house lawyer and the management, and instilling the element of trust, the in-house counsel has the support necessary to stand-up to management when required.

In closing, the ideas of William Whewell, one of the most important and influential figures in nineteenth-century Britain, provide an acute view of why Moneyball concepts can deliver independence and objectivity to an in-house counsel department. Whewell looked to statistics as an alternative or at least an indispensable supplement to abstract theory in economics. He looked to statistics as an alternative or supplement to provide more concrete realities because “[v]erbal reasoning . . . is too slippery.” “It does not require that the premises be made clear, and permits auxiliary hypotheses to slip in unnoticed. It provides no clear checks against errors of reasoning.” Whewell believed “mathematical economics” could “overcome these defects.” Similarly, incorporating Moneyball concepts into the execution of the in-house counsel duties can overcome the defects of bias resulting from her relationship with management or having a single client by providing a check against errors of reasoning, making premises clear, and closing out auxiliary hypotheses. As a result of providing the remedy to these defects, the Moneyball concepts can provide objectivity and independence to the in-house counsel function.

82 Porter, supra note 75, at 226.
83 See id.
85 PORTER, supra note 69, at 52.
86 Id.
87 Id.
VI. Conclusion

As the “guardian of the corporate integrity” and “business partner,” the in-house corporate counsel occupies a pivotal point in the corporation. Vital to successfully fulfilling the demands of the in-house counsel position is maintaining objectivity and independence. Yet, there are fundamental aspects of the in-house counsel role that can compromise the necessary objectivity and independence through an insertion of bias. The relationship with management and having only a single client are elements of the in-house counsel position that can inhibit an in-house counsel operating in an objective and independent manner.

The priority placed on an in-house attorney asserting objectivity and independence create an essential need to incorporate features in executing her function that will preserve these traits and guard against bias. It is from this essential need that the incorporation of *Moneyball* concepts in the operation of an in-house legal department can provide significant value. The *Moneyball* concepts’ process of an in-house counsel department being able to measure and value precisely events and behaviors that lead to ramifications under their bailiwick instills an objectivity and independence into the department. Their use of measurements, statistics, and quantification that give the power of language to the numbers to drive decisions establishes a barrier against the bias intrinsic to the in-house position marring the position’s requisite objectivity and independence. Therefore, the *Moneyball* concepts are not just for determining how to best replace a leadoff hitter and center fielder; they can also be applied to prevent the question, “where were all the lawyers”\(^{88}\) from being asked.

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\(^{88}\) See Bainbridge, *supra* note 15, at 180.

Jacob A. Lopes†

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† Jacob A. Lopes, B.A. Political Science, minor in Sociology (summa cum laude), McDaniel College (2010); J.D. Candidate (2014), Wake Forest University School of Law; Senior Notes and Comments Editor, Wake Forest Journal of Business and Intellectual Property Law (2013-2014). The author would like to thank the Editors of the Wake Forest Journal of Business and Intellectual Property Law for their work on this article. He would also like to give thanks to his family, friends, and professors for their continuing support, and without whom this article would not have been possible.
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“To best protect consumers, we need federal regulators and federal enforcement authorities ensuring rules are applied uniformly to all national banks.”¹

- Richard Hunt, Former President of the Consumer Bankers Association, 2011

I. INTRODUCTION

The 2008 financial crisis that rocked the United States, and much of the world, sent tremors through the banking industry and drastically changed the framework for how experts and the public at large view the business of banking. Partly in response to public outcry, the federal government reacted to the 2008 crisis by enacting a string of legislation that heavily impacted lending and banking operations.² The general public sentiment now holds banks as the enemy, and President Obama has expressed his view that government must take a more active role in regulating the size and activities of the nation’s largest banking institutions.³

Yet the debate over banking regulation should not focus on whether banking regulations are implemented, but rather who will implement them, and which banks will be subject. A healthy and stable financial system can drive innovation and spur business growth that ultimately leads to a solid national economy. Our legislation should, but so far has failed to consider the relative impact of overregulation and competing interests on national banks specifically, and on a macroeconomic level, the effect of these regulations on the national economy.

The dual-banking system in the United States has severe implications for the security of larger national banks, and business in general, if not properly controlled. The fundamental goal of traditional banking regulation is to protect the safety and soundness of

the banking system. Yet large national banks are often subjected to regulations handed down from not only the federal government, but also the legislatures of the multiple states in which they operate. Nuanced versions of multiple regulations can raise administrative costs and increase the burden on national banks. The effect of these state laws, especially those that affect the right of national banks to collect debts, can lead to uncertainty, increasing the risk of every investment, and driving down lending.

In 2004, the Office of the Comptroller of Currency (OCC) promulgated new regulations designed to address these concerns by preempting various types of state laws that were particularly restrictive on national banks. While courts were at first willing to find preemption of cumbersome state repossession laws, recent shifts in Congress and jurisprudence have signaled a change in the way federal preemption is applied to state repossession laws that affect national banks. As a result, current practices hold that national banks are subject to the repossession laws in every state in which they operate when collecting on non-real estate consumer loan debt, thereby exposing national banks not only to cumbersome notice requirements, but also liability and stringent penalties for non-compliance.

This comment explores the current shift, in Congress and the courts, away from the federal preemption of state notice and repossession laws as applied to national banks’ non-real estate

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5 Epps v. JP Morgan Chase Bank, N.A., 675 F.3d 315, 320 (4th Cir. 2012) (“Federally chartered banks are subject to state laws of general application in their daily business to the extent such laws do not conflict with the letter or the general purposes of the NBA.” (citing Watters v. Wachovia Bank, N.A., 550 U.S. 1, 11 (2007))).
7 See generally John Mingo & Benjamin Wolowitz, The Effect of Regulations on Bank Balance Sheet Decisions, 32 J. FIN. 1605, 1605 (1977) (stating that risks and liabilities are just as important of considerations as the rate of return in a bank’s portfolio and investing choices).
10 Epps v. JP Morgan Chase Bank, N.A., 675 F.3d 315, 326 (4th Cir. 2012); see also Aguayo v. U.S. Bank, 653 F.3d 912, 928 (9th Cir. 2011).
consumer lending activities. In discussing this shift, this work investigates the history and purpose behind federal protection of national banks, and the likely impact this shift towards non-preemption will have on the business of banking and industry in general. Finally, this work proposes a rational change in course from the current trend that will result in a more efficient regulation of national banks that is more in line with the historical policy and purpose behind national banks, and will retain the balance of the dual banking system that benefits the economy.

II. BACKGROUND

A. The Development of Federal Preemption under the National Bank Act

In part due to its Federalist roots, the United States utilizes a dual banking system\(^\text{11}\) wherein both federal and state governments issue charters and regulate banking activity.\(^\text{12}\) In 1864, Congress enacted the National Bank Act (NBA) to establish a national banking system and monitor national banks.\(^\text{13}\) Under the NBA, national banks are authorized to exercise “all such incidental powers as shall be necessary to carry on the business of banking . . . [including] . . . by loaning money on personal security.”\(^\text{14}\) At the forefront of the drafters’ minds in crafting the NBA was the concern that states would attempt to protect state chartered banks and undermine the newly established national banking system.\(^\text{15}\) In a general sense, it can be said that the NBA was drafted with preemption in mind,\(^\text{16}\) and the natural preemptive force of the NBA has long been recognized.\(^\text{17}\) In fact, the

\(^\text{12}\) Wilmarth, supra note 11, at 1153.
\(^\text{13}\) Aguayo, 658 F. Supp. 2d at 1231.
\(^\text{16}\) Id.
\(^\text{17}\) Id. at 315 (citing First Nat’l Bank of San Jose v. California, 262 U.S. 366, 369 (1923) (holding that a state’s attempt to regulate national banks is “void whenever it conflicts with the laws of the United States or frustrates the purpose of the national legislation or impairs the efficiency of the bank to discharge the duties for which it was created”)); see also Barnett Bank of Marion v. Nelson, 517 U.S. 25, 31 (1996) (holding a state’s laws regulating national banks are preempted when they “stand as an obstacle to the accomplishment and execution of the full purpose and objectives of Congress”).
preemptive force is so strong that the ordinary presumption against federal preemption of state law does not apply to federal banking regulations.\textsuperscript{18}

To effectively monitor the activities of national banks, Congress established the OCC and authorized it to issue rules and regulations as necessary to preserve the purpose and sound operation of the national banking system.\textsuperscript{19} The OCC is an executive agency, with its director appointed by the President for a five-year term.\textsuperscript{20} The OCC is charged with the primary responsibility of ensuring that national banks operate in a sound manner and are able to exercise their powers to the full extent of federal law, should they choose to do so.\textsuperscript{21} To carry out its obligations under the NBA, the OCC may promulgate rules and regulations that preempt certain state laws that would interfere with the ability of national banks to function under federal law.\textsuperscript{22} Courts have recognized that regulations issued by a federal agency like the OCC have no less preemptive effect than a federal statute on a matter within the agency’s power to regulate.\textsuperscript{23}

\section*{B. 2004 OCC Preemption Regulations: The Old Standard}

In 2004, the OCC amended, restated, and codified its regulations regarding the extent to which national banks are subject to state law in certain aspects of their consumer lending and depositing activities.\textsuperscript{24} In doing so, the OCC expressly recognized the general rule that “a national bank may make, sell, purchase, participate in, or otherwise deal in loans […] that are not secured by liens on, or interests in real estate, subject to such terms, conditions, and limitations prescribed by the Comptroller of Currency and any other applicable Federal law.”\textsuperscript{25} These regulations also laid out standards for preemption of state laws as applied to national banks’ non-real estate consumer lending

\begin{enumerate}
\item[$^{19}$] 12 U.S.C. § 93a (2006); 69 Fed. Reg. 1904, 1907 (Jan. 13, 2004). As an official appointed by the president, the Comptroller of the Currency may be subject to pressure from the White House, making the OCC, like all executive agencies, a slightly political governing body.
\item[$^{20}$] About the OCC, OCC, http://www.occ.gov/about/what-we-do/mission/index-about.html (last visited 3/8/2013). As an official appointed by the President, the Comptroller of the Currency may be subject to pressure from the White House, making the OCC, like all executive agencies, a slightly political governing body.
\item[$^{24}$] Eager & Muckenfuss, supra note 8, at 28; 69 Fed. Reg. 1904 (Jan. 13, 2004).
\item[$^{25}$] 12 C.F.R. § 7.4008(a) (2013).
\end{enumerate}
In support of its regulations, the OCC cited an increase in states and localities applying their laws to the activities of national banks, which it found to limit the ability of national banks to conduct their operations to the full extent of federal law. The primary regulation, 12 C.F.R. § 7.4008(d), clearly stated a general rule that state laws were preempted to the extent that they “obstruct, impair, or condition” the exercise of the power of national banks under their federal charters. Section 7.4008(d) essentially provided national banks the freedom to make non-real estate loans without concern for state law limitations regarding “licensing, registration,” “security property,” “disclosure and advertising” and “other credit-related documents.” Additionally, the OCC took steps to protect consumers, including in its regulations provisions that focused on prevention of predatory lending practices. It also expressly subjected national banks to all Federal Trade Commission (FTC) Act regulations dealing with unfair and deceptive trade practices. The original provision also included a savings clause (§ 7.4008(e)) that held certain kinds of state laws, including “rights to collect debts,” were not preempted to the extent that they “only incidentally affect” the ability of a national bank to exercise its powers.

Many states and scholars questioned the wisdom of these actions, and opposed the regulations. States, who generally saw these regulations as a restriction on their ability to experiment and control banking and consumer protection within their borders, urged Congress to intervene and maintain parity in the dual banking system. Similarly, state bank supporters decried the regulations as an affront to the tradition of the dual banking system, engaging in wild speculation about the possible impact that such regulations would have on state banks.

Despite the public pressure, these regulations remained in place for

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31 See Eager and Muckenfuss, supra note 8, at 28-32.
33 See Eager and Muckenfuss, supra note 8, at 34.
34 Id. at 34-35.
35 See generally Arthur E. Wilmarth, Jr., The OCC’s Preemption Rules Exceed the Agency’s Authority and Present a Serious Threat to the Dual Banking System and Consumer Protection, 23 ANN. REV. BANKING & FIN. L. 225, 274 (2004); Eager and Muckenfuss, supra note 9, at 34.
seven years. Yet these regulations were not without their problems. The main issue with the preemption standard outlined in § 7.4008(d) was that it failed to specify exactly which state laws had been preempted. This issue was clearly illustrated in a line of cases dealing with disputes regarding state repossession statutes, and particularly the notice requirements as applied to national banks. Nevertheless, in each of the early cases regarding this issue the district courts had no trouble finding that § 7.4008(d) clearly preempted state repossession laws, and their accompanying notice requirements, when applied to national banks, and that these laws did not fall within the savings clause of § 7.4008(e).

However, in the aftermath of the 2008 financial crisis Congress saw fit to change the preemption standards as part of its banking and regulatory overhaul of the financial system.

C. The Dodd-Frank Act, and the New Preemption Standards for State Consumer Financing Laws

Among the abundant changes implemented in the wake of the 2008 financial crisis, the Dodd-Frank Act made several changes to federal law regarding the preemption of state consumer financing laws; further increasing the burden of compliance on national banks. One of the significant actions was the codification of new federal preemption standards within the text of the NBA. The Dodd-Frank Act created Section 25b, a new code section in the NBA, to expressly deal with, amongst other things, the preemption of state consumer financing laws as applied to national banks and their subsidiaries. Under Section 25b, state consumer financing laws are now preempted when applied to national banks only where . . .

(1) the [state consumer financing law] would have a ‘discriminatory effect’ on national banks when compared to the effect of the [state consumer financing

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36 Aguayo v. U.S. Bank, 653 F.3d 912, 921 (9th Cir. 2011).
38 Id.
law] on state-chartered banks; (2) where ‘[i]n accordance with the legal standard for preemption in the decision of the Supreme Court of the United States’ in *Barnette Bank of Marion County N.A. v. Nelson*, ‘the state consumer financing law prevents or significantly interferes with the exercise by the national bank of its powers’[. . .]; or (3) the [state consumer financing law] is preempted by a provision of federal law other than the NBA.41

Additionally, the Dodd-Frank Act stripped the OCC of some of the power and discretion that it once possessed. Under the new standard, no OCC regulation or order is to be interpreted or applied so as to invalidate or preempt a state consumer financing law unless “substantial evidence” supports the finding of preemption in accordance with the standards set forth by the Supreme Court in *Barnett*.42

**D. 2011 Amendments to § 7.4008: A More Stringent Preemption Standard**

The change in federal law prompted the OCC to amend its rules to comply with the Dodd-Frank Act regarding preemption of state consumer financing laws.43 In substance, the amendments adopted by the OCC simply reasserted the standard set out in the Dodd-Frank Act, to ensure no ambiguity between congressional and OCC mandates.44 The new 2011 rules were published in the Federal Register, and went into effect on July 21, 2011.45 Most significantly, the new 2011 rules eliminated the language in the 2004 rules which allowed for the preemption of any state laws that would “obstruct, impair, or condition” a national bank’s exercise of its federally authorized powers.46 Additionally, the new regulations incorporate the Supreme Court’s *Barnett Bank* standard. This change marks a shift away from the consideration of the impact on the business of a national bank, and instead encourages a traditional preemption analysis.

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41 See Wutscher, Karek & Waguespack, *supra* note 39, at *2.
44 *Id.*
45 *Id.* at *3.
46 *Id.*
E. Barnett Bank of Marion County, N.A. v. Nelson

Both Congress and the OCC have adopted the Supreme Court’s standard for federal preemption of state banking regulations set forth by Barnett in 1996. In Barnett, the Court addressed the issue of whether a federal statute that permitted national banks to sell insurance in small towns preempted a state law which forbade them to do so. The Court found that while the federal and state laws were not in direct conflict, the federal law nonetheless authorized national banks to engage in activities which the state statute expressly forbid. The Court held that the state statute served to “prevent or significantly interfere with the bank’s exercise of its powers,” and was preempted by federal law.

By incorporating the Supreme Court’s Barnett standard, Congress and the OCC have adopted a standard of conflict preemption for state banking laws. While this standard seems to imply a concern for the impact of various state laws on the business of national banks by including the “prevents or significantly interferes” language, in fact, this language has been read to only find preemption in cases where state law substantially conflicts with federal law. In adopting this standard of preemption, Congress exposed national banks to the plethora of state regulations that the NBA was designed to prevent.

Section 1048 of the Dodd-Frank Act provided that the effective date for its changes in the preemption standard would be the “designated transfer date,” July 21, 2011. Therefore, the majority position for courts has been that the new provisions under the Dodd-Frank Act do not apply to transactions entered into prior to July 21, 2011. Accordingly, it appears that transactions like the one entered into in Epps v. JP Morgan Chase Bank, N.A., should be decided under the old standard of preemption. However, despite this mandate, the

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48 Id. at 31.
49 Id. at 31-34.
50 Id. at 33-34.
54 See Natter & Welchslers, supra note 15, at 353-54.
overall approach and clear change in congressional intent may be affecting the determinations of courts in their analysis of preemption under the old regulations.

III. Epps v. JP Morgan Chase Bank, and the Shifting Interpretation of Federal Preemption under the Pre Dodd-Frank Policies

A. The District Court of Maryland Protects National Banks and Finds Preemption

In *Epps v. JP Morgan Chase Bank*, the District Court held that the Maryland Credit Grantor Closed End Credit statute (CLEC) – which provided that a credit grantor such as a national bank could repossess property securing a loan, but only by following certain notice provisions – was preempted when applied to national banks.55

Amongst other things, the CLEC required that a notice be sent within 5 days after repossession which included language regarding: 1) the borrower’s right to redeem property; 2) the borrower’s rights as to resale and liability for deficiency; and 3) the exact location where the property is stored.56 Additionally, the CLEC mandates a lender provide the debtor with notice of the exact time and place of the sale ten days prior to the sale,57 and a detailed accounting post sale.58 Under the CLEC, failure to follow the appropriate notice requirements will prevent the lender from collecting a deficiency judgment59 and can result in the lender having to pay a penalty of up to three times the amount of any interest or charges the debtor has paid to the bank.60

In *Epps*, a debtor defaulted on an auto-loan she obtained in 2007, which was secured by the vehicle.61 On December 9, 2009, when the debtor failed to pay, Chase repossessed the vehicle.62 On December 11, 2009, Chase sent a notice to the debtor informing her that the vehicle would be sold at a private sale sometime after December 28, 2013.
The vehicle was sold on January 25, 2010, and on February 10, 2010, Chase sent a post-sale notice to the debtor informing her that there was a deficiency in the amount of $11,904.53 remaining on the loan after the sale. On April 27, 2010, the debtor filed suit against Chase, alleging that Chase had violated the provisions of the CLEC through the issuing of defective notices. The complaint alleged that the pre-sale notices failed to: 1) specify the location of the car once repossessed; and 2) give the specific date and location of sale, and that the post-sale notice failed to, inter alia, specify the number of bids sought and received.

The district court, in part relying on precedent from other courts addressing the same issue under a different statute, held that the notice requirements were clearly preempted by the § 7.4008 regulations when applied to national banks. The court first held that the notices required under the CLEC constituted “other credit related documents” within the meaning of § 7.4008(d)(viii), and were thus expressly preempted by the regulations. In making this determination, the court analogized such post-repossession notices to billing statements, as both reflect the current status of the credit arrangement and prescribe the action to be taken by the borrower. The court also held that the state law’s notice provisions were “disclosure” requirements which were also specifically preempted by § 7.4008(d)(viii). Finally, the court found significant the burden that a finding of non-preemption would place on national banks. The court noted that “the burden that would be imposed on national banks of complying with the various notice and disclosure statutes” would be so substantial as to interfere with the national bank’s exercise of its federally authorized powers. In so finding, the court declined to apply the savings clause to this case, finding that the CLEC more than “incidentally” affected the exercise of a national bank’s non-real estate lending powers.

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63 Id.
64 Id.
65 Id.
66 Id.
69 Id. at *4.
70 Id. at *3.
71 Id. at *5.
72 Id.
73 See generally id. at *3-6.
The district court concluded that by levying additional post-repossession notice requirements on national banks, voiding deficiency judgments for failure to abide by its notice requirements, and imposing the possibility of additional penalties, the state laws interfered with the federal rights of national banks and must be preempted by the OCC regulations. On appeal, the Fourth Circuit reversed, joining the Ninth Circuit in setting a new trend against federal preemption, under the 2004 OCC regulations, of state repossession laws as applied to national banks. In analyzing the facts of this case, the Fourth Circuit ignored the burden that the overlapping regulations would place on the national banks, and instead undertook a traditional preemption analysis.

B. The Fourth Circuit and the Move Away from Federal Preemption Under the 2004 OCC Regulations

First, the Fourth Circuit in Epps found that because the right to repossess arose under state law, the state statute did not condition any power expressly granted by the national government, and was thus not expressly preempted by either the NBA, or § 7.4008. In making this determination, the court rejected Chase’s argument that the state statute placed a “readily apparent” burden on national banks so as to interfere with a national bank’s ability to exercise its federally authorized non-real estate lending powers. In so finding, the court stated that the CLEC did not directly condition any power expressly granted to a national bank.

The court then rejected the rationale that the notice documents were encompassed in the phrase “other credit related documents.” Citing the Ninth Circuit with approval, and referencing no other authority, the court held that the “other credit related documents” language in § 7.4008(d)(2)(viii) only referred to those documents that are used in an ongoing lending relationship. The court reasoned that because the CLEC’s notice provisions were only triggered after a

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75 Epps v. JP Morgan Chase Bank, N.A., 675 F.3d 315, 326 (4th Cir. 2012). See also Aguayo v. U.S. Bank, 653 F.3d 912, 928 (9th Cir. 2011).
76 Epps, 675 F.3d at 322.
77 Id. at 323.
78 Id.
79 Id.
80 Id. at 325.
81 Id.
breakdown of the lending relationship and repossession of the secured property, and not during the establishment or continuation of a credit relationship, these notice documents were not “credit related.”82

Finally, the court rejected the district court’s finding that the savings clause did not apply.83 In doing so it rejected the argument that the power to collect debts was implied by the power to make loans, to the extent that a restriction on debt collection would disrupt the business of a national bank and interfere with its powers under the federal charter.84 While accepting the basic premise that the power to make loans includes an implicit right to collect debts, the court nonetheless ruled that the distinct differences in the extension of credit and the collection of debt were pronounced by the regulations, and found that the savings clause of § 7.4008(e) exempted “debt collection” as a state matter.85 In reaching this determination, the court found significant that there was no comparable federal notice statute that would govern a national bank’s exercise of self-help recollection,86 but ignored the possible effects that such a decision would have on the business of the national banks and the purpose of the NBA.

IV. AN ANALYSIS OF EPPS, THE SHIFTING PREEMPTION STANDARD, AND THE ECONOMIC IMPACT

A. Analysis of the Fourth Circuit’s Holding in Epps

As previously mentioned, case law dealing with the issue of state repossession and notice statutes as applied to national banks is still crucial because the provisions of the Dodd-Frank Act do not apply to loans entered into before July 21, 2011. The significance of the decision in Epps is that it has likely cemented the trend of non-preemption of state repossession and notice statutes for non-real estate loans as applied to national banks. In the months following the Epps decision, a district court in Ohio decided the same issue regarding the Ohio repossession and notice requirements. Citing Epps and the Ninth Circuit with approval, this district court found that the Ohio statutes were not preempted by the 2004 OCC regulations.87

82 Id.
83 Id.
84 Id. at 323-24.
85 Id.
86 Id. at 326 (reasoning that under the theory proposed by Chase, any state debt collection would burden the exercise of a national bank’s lending power).
While there are many jurisdictions that have yet to address this issue, with two circuits strongly supporting the non-preemption approach in the non-real estate repossession sphere — and another district court endorsing the same approach — the trend seems strong and unlikely to change. This trend is especially worrisome given the damaging implications for the business of national banks. In analyzing the Fourth Circuit’s decision in *Epps*, it becomes clear that the court made several errors that affected the outcome of the case, damaging the business of the national banks.

First, in analyzing the “obstruct, impair, or condition” language formerly contained in §7.4008(d)(1), the court erred in its application of the “condition” standard. The Fourth Circuit in *Epps* held that the Maryland CLEC was not expressly preempted by § 7.4008(d) because it did not “directly condition any power expressly granted to a national bank by Congress.” However, direct conditionality is not the standard. By holding that a state law must “directly condition” the exercise of a national bank’s powers under its federal charter, the *Epps* court foreclosed on the use of the OCC regulations to preempt a state law that surreptitiously places an indirect condition on a national bank’s exercise of its federal powers; placing national banks’ powers at the whims of crafty state law makers.

Second, the *Epps* court erred in determining that a notice is not an “other credit related document,” preempted by § 7.4008(d)(viii). In making its determination, the Fourth Circuit attempted to distinguish a post-repossession notice from other lending documents by holding that a “credit related document” is one that is issued during “the establishment of the lending relationship” and that the CLEC notice requirements only dealt with the collection of the debt. This is ultimately an unsatisfactory distinction. “Related” is a term commonly defined as “a relationship or connection.” Even if there is a breakdown in the lending relationship due to a failure by the debtor to

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88 See generally *Epps*, 675 F.3d at 315; Aguayo v. U.S. Bank, 653 F.3d 912 (9th Cir. 2011).
89 See generally White, LEXIS 149233.
90 12 C.F.R. § 7.4008(d)(1) (2004) (“Except where made applicable by Federal law, state laws that obstruct, impair, or condition a national bank's ability to fully exercise its Federally authorized non-real estate lending powers are not applicable to national banks.”).
91 *Epps*, 675 F.3d at 323.
92 Id. at 325.
93 Id.
94 Id.
make good on her payments, such a notice is still a document “related” to credit. Additionally, Black’s Law Dictionary defines “credit” as *inter alia*, “the time that a seller gives the buyer to make a payment that is due.”96 The notice requirements under the Maryland law allow a creditor to serve a written notice on the debtor 10 days before a repossession and requires one within 5 days after the repossession.97 Using the *Epps* court’s rationale, the first of these notices would be a credit related document, but the latter would not. This differential treatment is unsupported by either the language of the regulation, or the definition of “credit.” Moreover, the notice in this case required the creditor to disclose the conditions under which the debtor could redeem the property and resume payment.98 Thus, the notice required under the CLEC did contain terms as to the re-establishment of the lending relationship, placing it squarely within the Fourth Circuit’s definition of a “credit related document.”99 This misinterpretation of the clear meaning of the statutory language under § 7.4008 directly impacted the court’s finding of non-preemption.

Finally, the most significant shortcoming in the *Epps* decision is the Fourth Circuit’s failure to consider the aggregate impact of such state laws on national banks. In its decision, the Fourth Circuit summarily dismissed Chase’s assertion that the state law placed more than an incidental burden on national banks.100 It has long been established in Commerce Clause jurisprudence that courts may consider the aggregate impact of economic activity in determining whether Congress has the power to regulate on the issue under its Commerce Clause power.101 While *Epps* is certainly not a Commerce Clause case, the general principle of considering the aggregate effect of individual and state action is a wise approach, and should nevertheless be employed when addressing issues that impact the national economy. While a single state’s repossession and notice regulations may no more than “incidentally affect”102 a national bank’s exercise of its powers, the disparate regulations of 50 states will more than “incidentally affect” a national bank seeking to exercise its

96 BLACK’S LAW DICTIONARY 424 (9th ed. 2009).
97 Compare MD. CODE. ANN., COM. LAW § 12-1021(c) (LexisNexis 2012), with MD. CODE. ANN., COM. LAW § 12-1021(e) (LexisNexis 2012).
98 MD. CODE. ANN., COM. LAW § 12-1021(e) (LexisNexis 2012).
99 *Epps* v. JP Morgan Chase Bank, N.A., 675 F.3d 315, 325 (4th Cir. 2012) (holding that a credit related document is one that refers to the establishment of a lending relationship).
100 Id. at 325-26.
102 *Epps*, 675 F.3d at 325.
federally authorized powers. In considering the effect of only one state’s regulations, the Fourth Circuit failed to employ preemption to protect national banks from state regulations that, in the aggregate, will impair their ability to operate under their federal charter – having severe implications for the national economy.

B. Economic Impact of Non-Preemption of State Repossession Statutes on National Banks and the National Economy, a View From 30,000 Feet

The above analysis and background shows that currently under both the old and new preemption schemes, federal statutes and jurisprudence hold that state non-real estate repossession and notice requirements are not preempted by federal law when applied to national banks. This analysis begs the question, what does the shifting preemption standard have to do with the national economy and the business of banking, especially in the context of non-real estate consumer loans? It is axiomatic that what is bad for banks is bad for business. Further, it is likely a common misconception that consumer lending has no effect on business. On the contrary, consumer lending is just as important as other lending activities on business and the economy. Along the same line, excessive and overlapping regulations on the ability of national banks to realize their security interest in non-real estate consumer loans will have an effect on lending practices that will impact the national economy. Even courts have recognized that “[t]he application of multiple, often unpredictable, state or local restrictions and requirements prevents [national banks] from operating in the manner authorized by federal law, is costly and burdensome, interferes with their ability plan their business and manage risk, and subjects them to uncertain liabilities and potential exposure.”

National banks, especially larger banks

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103 See Appellee’s Brief, supra note 6, at 22-23.
104 Joseph R. Mason, Robert Kulick, and Hal J. Singer, The Economic Impact of Eliminating Preemption of State Consumer Protection Laws, 12 U. PA. J. BUS. L. 781, 797-98 (2009) (arguing that the promotion of uniform national markets ensures the availability of low cost credit to American consumers, helping to establish the efficient function of securitization which enhances liquidity the area of home loans, car loans, credit cards, and commercial loans. It is extremely difficult to “convert cash flows from disparately-regulated loans into standardized streams that could be securitized, resulting in significant negative implications for the U.S. economy”).
105 Id.
that operate in multiple states, will likely feel the effects of this preemption shift for years to come if Congress does not act quickly.\footnote{TSintegration2011June.pdf [hereinafter ABA Letter].} As previously alluded to, the effect of the trend towards non-preemption of state non-real estate notice and repossession laws, as applied to national banks, is primarily to place the rules and notice requirements of no fewer than fifty state and local jurisdictions on each national bank. Under such a system, the national bank must ensure that it is in full compliance with every notice requirement in every state in which it is seeking to recover secured property on a valid debt owed to it. Failing to precisely follow such statutes can, as illustrated in \textit{Epps}, have serious economic consequences, resulting in national banks being unable to fully recover the debt owed.\footnote{See Mason, Kulick, and Singer, supra note 104, at 799 (discussing the economic benefits that flow from removing geographic restrictions and regulations and replacing them with uniform standards). \textit{See also} John D. Hawke, Jr., \textit{Condition and Performance of Commercial Banks}, 23 OCC Quarterly Journal 1, at 30 (June 2004) (“When national banks are unable to operate under uniform, consistent, and predictable standards, their business suffers, and their customers may face higher costs or more limited product offerings—or both—as a result.”).} “The imposition of an overlay of 50 [s]tate and an indeterminate number of local government rules on top of Federal requirements has a costly consequence that can materially affect national banks and their ability to serve consumers efficiently and effectively across the nation.”\footnote{ABA Letter, supra note 106, at 2.}

Moreover, many states utilize multiple statutes in effecting their guidelines on the collection of non-real estate consumer debts.\footnote{See, e.g., Md. Code Ann., Com. Law §§ 9-614, 12-615, 12-624, 12-921, 12-1021 (LexisNexis 2012); \textit{See also} Appellee’s Brief, supra note 6, at 22-23.} For example, Maryland alone has five statutes on this point.\footnote{See Appellee’s Brief, supra note 6, at 22-23.} If the same holds true for all fifty states, a national bank operating in every state could be subject to as many as 250 separate state laws with regard to the collection of non-real estate security interests.\footnote{Id. at 22.} This approximation does not even include any local statutes that may apply. It does not require a quantum leap to determine that keeping abreast of individual state repossession and notice regulations will substantially increase operating costs.\footnote{See Courtney Gaughan, Note, \textit{Some More Watters Please: The Dodd-Frank Act’s New Preemption Standards Lighten Consumers’ Wallets}, 63 FLA. L. REV. 1459, 1482 (2011) (“Large, national financial institutions like Wells Fargo, which operates in thirty-nine states with subsidiaries throughout the country, will find the cost of doing business to be much greater after Dodd-Frank.”).}
That being said, it is unclear what the exact economic impact on national banks will be if this system remains in place, so much so that scholars and practitioners have declined to quantify the likely economic impact of such disparate regulations. However, it is not inappropriate to speculate that national banks are sure to incur massive logistical costs to guarantee compliance with the extensive notice and collection requirements of every state. First, national banks will have to sift through hundreds of state statutes and determine the provisions that apply to them. Additionally, national banks will likely be required to make substantial changes to their lending and collection documents, and tailor them to comply specifically with each state’s individual statutory specifications. If that is not enough, these banks will then have to continuously monitor these statutes for any pertinent changes that will affect their consumer non-real estate lending practices. Imposing higher regulatory costs on national banks operating in several states will harm both banks and consumers.

At the risk of stating the obvious, it is unlikely that national banks will absorb these costs themselves. Like any commercial enterprise, national banks will be forced to cope with the increased costs of doing business by passing costs on to consumers and increasing the cost of credit. In their review of the economic impact caused by the elimination of federal preemption of state consumer laws, Mason, Kulick, and Singer concluded that the elimination of barriers to bank expansion, such as disparate state banking regulations, increased the number of banking services available to consumers while lowering the

114 See Mason, Kulick, and Singer, supra note 104, at 799 (noting that any estimate as to the impact of fifty different state laws on ATM fees on consumer banking services and the national economy would be purely speculative, and declining to elaborate). See also Appellee’s Brief, supra note 6, at 19-23; ABA Letter, supra note 106, at 4.

115 See Gaughan, supra note 113, at 1481-82.

116 ABA Letter, supra note 106, at 4 (“ABA notes that there would be many practical consequences for banks if the existing application of federal preemption did not remain in effect. Banks would face substantially increased upfront and ongoing legal and compliance costs. [...] Compliance with any newly applicable state laws would require revision to processes, policies, staff training initiatives, consumer documentation and disclosures [...].”).

117 See Appellee’s Brief, supra note 6, at 21.

118 See Mason, Kulick, and Singer, supra note 104, at 799.

119 See id. (citing a 1997 study which found that once geographic banking restrictions were lifted, loan losses and operating costs fell, resulting in lower loan rates for consumers). See also Gaughan, supra note 113, at 1480 (“Congress’s solution ignores the fact that many financial consumers will find it difficult to afford pricy mortgages and high risk interest rates resulting from the banks’ attempts to remain profitable.”).
Therefore, it stands to reason that if disparate regulations are imposed on national banks, the opposite will hold true, and the number of banking services will decline, and the costs of those services will increase.

Additionally, imposing too many state notice and repossession regulations on national banks – with their varying penalties for non-compliance – may make lending on non-real estate security too risky for some national banks, and cause an exodus of national banks from certain state markets. Withdraw from certain state markets, while an extreme example of the possible economic impacts, is not improbable. The result, if national banks begin to withdraw lending activities in certain state markets because of the substantial risk of not being able to realize their security interest, would be a serious disruption to the dual-banking system - a result the NBA was enacted to prevent.

C. The Disruption of the Dual-Banking System

It has been a primary argument of those who support the non-preemption standard that allowing each state to enact its own repossession and notice regulations preserves the dual-banking system by controlling the operation of banks within its borders. Nothing is farther from the truth. This argument is fundamentally flawed in that it fails to consider the opposite end of the spectrum.

Abuse of power is never a one-way street. While those who advocate a non-preemption standard cite as justification concern over unwieldy and predatory national banks, they fail to consider that the

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120 See Mason, Kulick, & Singer, supra note 104, at 799.
121 See Adam J. Levitin, Hydraulic Regulation: Regulating Credit Markets Upstream, 26 YALE J. ON REG. 143, 224 (2009) (discussing hydraulic regulations that impose targeted regulatory costs on secondary market purchasers of debt, and the possibility that national banks may opt out of specific state markets to avoid hydraulic regulations).
122 See Wilmarth, supra note 35, at 257 (discussing how Congressional Acts, like the National Bank Act, help preserve the dual banking system by preventing “[...]competitive factors from becoming so ‘lopsided’ in favor of one system that the other system is unable to make adjustments in order to reestablish a competitive equilibrium.”).
123 See generally Wilmarth, supra note 35, at 274.
124 See Hensley, supra note 51, at 193 (suggesting that preemption contributed to a “deterioration in lending standards” that led to the 2008 financial crisis); Mason, Kulick, and Singer, supra note 104, at 791 (“[S]ome critics have attempted to argue that preemption threatens the stability of the dual banking system.”). See generally Wilmarth, supra note 35, at 274-79 (discussing the OCC’s 2004 preemption regulations threat on the dual banking system).
states have an interest in promoting financial institutions chartered under their laws. The non-preemption standard for state non-real estate repossession laws, like the non-preemption standard for consumer protection laws, significantly hampers the ability of national banks to exercise their powers under their federal charters. This opens the door for states to engage in protectionism, and act in a manner that promotes the interest of the state banks at the expense of the national banks.

The Dodd-Frank Act makes some effort to protect national banks from such protectionist activities by preempting state consumer financial laws that would have a “discriminatory effect on national banks.” However, the Act fails to consider that allowing states to impose their own notice requirements regarding the repossession of non-real estate security interests places state banks at a distinct advantage over national banks. This was the exact situation that the NBA was enacted to prevent.

While the dual banking system is criticized by some, many others hail the system as a unique, innovative, and flexible system of banking that allows banks to better finance growth and rebound from financial crises. Studies show that the dual banking system may be responsible for producing “important macroeconomic benefits” for national economies. The increased competition between state and national banking entities fosters superior performance in the US banking industry that provides benefits to the national economy and business. If this is the case, then the destruction of the dual banking

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125 See generally WilmARTH, supRA note 35, at 274-78.
126 The Ninth Circuit in Aguayo noted that the California law at issue was a consumer protection law for the purposes of its discussion, while the Fourth Circuit in Epps declined to make a firm ruling as to the classification, but suggested it was not a consumer protection law. Compare Aguayo v. U.S. Bank, 653 F.3d 912, 917 (9th Cir. 2011), with Epps v. JP Morgan Chase Bank, N.A., 675 F.3d 315, 321 (4th Cir. 2012). Nonetheless, the similarity in operation and purpose between these state repossession and notice requirements and consumer protection laws, makes inquiry into the economic impact of consumer protection measures instructive.
127 See Mason, Kulick, and Singer, supRA note 104, at 792-94 (discussing one of the primary roles of preemption as shielding national banks from state protectionist measures).
129 See Eager & Muckenfuss, supRA note 8, at 27 (stating that the purpose of the National Bank Act and its subsequent amendments was to ensure competitive parity between the national and state banking systems).
130 WilmARTH, supRA note 35, at 261.
131 Id. at 263.
132 Id. at 264.
133 See generally id. at 263-65; See also id. at 265 (“[T]he disappearance of a vibrant dual banking system would likely undermine the competitive health of our continued . . .
system by allowing regulations to list in the favor of one banking system, here the states, should be prevented in order to maintain competition and growth. “As the Supreme Court has recognized [. . .] Congress has followed a ‘policy of equalization’ designed to maintain a basic parity of competitive opportunities between national and state banks.”\textsuperscript{134}

V. THE FEDERAL SOLUTION TO THE PREEMPTION PROBLEM

A. Judicial and Administrative Solutions Will be Ineffective in Reversing the Trend of Non-Preemption

With potentially serious national economic implications if the system remains in its current state, it is clear that some action must be taken to return the dual banking system to its ideal equilibrium. Historically, courts and administrative agencies like the OCC have taken active roles in protecting national banks from burdensome regulations.\textsuperscript{135} However, as previously mentioned, the clear mandate of congressional intent to limit preemption determinations contained in the recent Dodd-Frank legislation has had a chilling effect on independent judicial and administrative preemption determinations.\textsuperscript{136}

While it is undoubtedly possible for courts and agencies to reverse the trend through their holdings and rulemaking activities, it is unlikely in the face of these recent barriers.

As previously discussed, the Fourth and Ninth Circuits – the only two circuits to address the issue of federal preemption of state notice and repossession regulations regarding consumer non-real estate lending activities – overturned the formerly unanimous district court consensus that the NBA, by virtue of the OCC regulations, preempted state law on this issue.\textsuperscript{137} With such swift opinions that concur on

\textsuperscript{134} Id. at 257 (quoting First Nat’l Bank of Logan v. Walker Bank & Trust Co., 385 U.S. 252, 261 (1966)).

\textsuperscript{135} See Eager & Muckenfuss, supra note 8, at 28; see also National City Bank of Indiana v. Turnbaugh, 463 F.3d 325, 332-33 (4th Cir. 2006) (affirming federal preemption of state mortgage lender law regarding regulatory and visitatorial powers of national bank subsidiaries).

\textsuperscript{136} See 12 U.S.C. § 25b (2012). Additionally, the Fourth and Ninth Circuits have, in the wake of the Dodd-Frank legislation, overturned well-grounded district court decisions finding preemption under the old OCC regulatory schemes. See generally Epps v. JP Morgan Chase Bank, N.A., 675 F.3d 315 (4th Cir. 2012); Aguayo v. U.S. Bank, 653 F.3d 912 (9th Cir. 2011).

\textsuperscript{137} See generally Epps, 675 F.3d at 315; Aguayo, 653 F.3d at 912.
virtually every substantive point raised, it is difficult to perceive the remaining circuits acting in unison to change the jurisprudence, making a federal solution by judicial determination unlikely.

Conditions are not much better when considering the possibility of agency action to remedy the problem. Under recent changes in the NBA made by the Dodd Frank Act, it is now significantly harder for the OCC to preempt state law that interferes with national banking activities. According to these new regulations, the Comptroller of the Currency can no longer preempt certain classes of state laws that interfere with the activities of national banks, but can only preempt state law on a “case-by-case basis.” This approach would require the OCC to consider each of the fifty states’ non-real estate repossession and notice laws, and conduct an independent inquiry into the impact of each state’s laws on the business of the national banks.

With judicial and administrative outlets unlikely to provide a sufficient remedy, the federal branch most equipped to cure this issue is fittingly the one that is responsible for causing the unrest in the first instance – Congress.

**B. Congressional Action for Uniformity in Debt Collection and Repossession for National Banks in Their Non-Real Estate Consumer Lending Capacities**

It is important to note that at no time during their arguments for federal preemption did national banks contend that they should not be subject to regulation regarding the repossession of non-real estate security interests. Rather, their argument centered on the need for uniform regulations as applied to their lending and collection

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138 *See Epps*, 675 F.3d at 324-26 (citing the Ninth Circuit with approval in its determination that the notice requirements were not disclosures or “other credit related documents,” and that the saving clause protected the state laws as they related to the “right to collect debts”).

139 12 U.S.C. § 25b(1)(B) (2012) (showing that the Comptroller of Currency may only preempt state laws on a case-by-case basis as opposed to preempting classes of state laws).

140 *Id.*

141 *See id.* Note that there is some language in the legislative history to suggest that the OCC has the power to make a single determination regarding multiple states’ consumer finance laws, provided that the laws are substantially equivalent. *See Natter & Wechsler, supra* note 15, at 353. However, especially in the context of so many disparate state regulations, as mentioned herein, it is unclear how far such a decision would go.

142 *See Appellee’s Brief, supra* note 6, at 22.
activities. In this scenario, it seems that Congress is the only branch of government that is capable of adopting effective, uniform regulations for repossession and notice requirements for national banks regarding their non-real estate securities collection activities.

While this area is traditionally one of state regulation, as previously mentioned it is essential to the continuing vitality of the dual banking system to place national banks on the same level as state banks regarding repossession of non-real estate security interests. A uniform federal act that incorporates the same values as those expressed in the various state statutes would not be a difficult and arduous undertaking for Congress. Every state has some variety of regulation governing the notice and repossession procedures in banks’ efforts to collect secured consumer debts. The procedures will likely be somewhat similar – good fundamental principles on which Congress can draw – but as with most things, the devil is in the details. In adopting an act governing the notice and procedural requirements applied to national banks, Congress can impose similar restrictions and penalties for non-compliance as are present under most state laws, but do so in a way that applies to national banks uniformly throughout the country.

Such an act would provide little substantive advantage for national banks over state banks, in that they will not necessarily have to comply with less stringent regulations. However, it will equalize procedural benefits in giving national banks confidence and security that by complying with the uniform federal regulation they will be able to realize their security interest. This uniform act will expressly preempt disparate state laws as applied to national banks, limit the risk and uncertainty for national banks regarding consumer lending, and provide national banks the assurance they need to lend to consumers, knowing that they will be able to reclaim their investment should the debtor fail to pay.

143 Id. at 22-23.
144 Aguayo v. U.S. Bank, 653 F.3d 912 (9th Cir. 2011) (“[D]ebt collection, and specifically the right to repossess property that is the subject of a secured transaction, has deep roots in common law and remains a fixture of state, not federal, law.”).
145 See Wilmarth, supra note 35, at 263-65.
146 See Appellee’s Brief, supra note 6, at 22-23.
147 See generally id. (comparing the notice and repossession laws from California, Maryland and Delaware, showing that most require notices to be sent to defaulting debtors, but with substantially different time frame and content requirements).
148 The idea behind such a proposal is to provide parity between national and state banks, making it easier for national banks to operate interstate following a uniform system, without providing a competitive disadvantage by including substantially more lenient terms.
VI. CONCLUSION

In the midst of the recent financial crisis the government should favor approaches that will produce stable growth and security to consumers. Numerous disparate state repossession and notice regulations for non-real estate security interests will have a serious dilatory effect on the business of national banks, and inhibit growth from these lending institutions. To prevent such a result, Congress should adopt uniform repossession and notice regulations for non-real estate security interests that allow national banks to operate with the same confidence as their state-chartered partners. Such an act would maintain the essential balance in the dual banking system, and provide security to national banks without an unfair advantage over their state-chartered counterparts. Such a result would help spur more confident and cost-effective consumer lending that will positively impact the business and financial sectors.


150 See generally Mason, Kulick, & Singer, supra note 104, at 800-02 (discussing the positive impact of uniform regulatory standards in other U.S. industries).
GOING FOR BROKE: SUI GENERIS COPYRIGHT PROTECTION FOR THE NCAA STUDENT-ATHLETE

Nathan G. Harrill†

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† J.D. Candidate, May 2014, Wake Forest University School of Law; B.A., Political Science & Exercise and Sport Science, The University of North Carolina at Chapel Hill, 2011. The Author would like to give a special thanks to Ronald Harrill, Denise Harrill, Aaron Harrill, and Kenyon Mauney for their continuing love and support. Additionally, the Author would like to thank Professors Simone Rose and Timothy Davis for their helpful insight, as well as the Editors and Staff of the Wake Forest Journal of Business and Intellectual Property Law for their many hours of hard work to prepare this Note for publication.
I. INTRODUCTION

In 2010, college football officially became a billion-dollar industry. The sport’s longtime exclusive video game producer, Electronic Arts, Inc., has successfully piggybacked on the emergence of this billion-dollar machine, reporting college football-related incomes in excess of $800 million. Despite these impressive revenue figures, student-athletes continue to receive no compensation for their input into this highly profitable business model.

Originally rooted in strong principles of amateurism, the relationship between student-athletes at major college football programs and the National Collegiate Athletic Association (“NCAA”) has strained as college football revenues skyrocket. After decades in which the spirit of amateurism has dominated discussions concerning paying student-athletes, enormous athletic department revenues have changed the landscape of the debate. Accordingly, the discussion over whether student-athletes should be compensated has been the subject of significant scholarly dialogue.

As the 2010 figure noted above highlights, the 68 teams that play in college football’s six major conferences collectively pocket a yearly figure in excess of $1 billion dollars. On average, each team nets an amount well above $1 million per game. Although these figures appear astronomical standing alone, the biggest names in college football generate revenues well in excess of this average. The University of Texas, The University of Michigan, and The University of Georgia reported profits of $103.8 million, $85.2 million, and $75

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3 Associated Press, As College Football Revenue Skyrockets, Debate Over Money for Players Changes from if to How, FOX NEWS (Jan. 6, 2013), http://www.foxnews.com/sports/2013/01/06/as-college-football-revenue-skyrockets-debate-over-money-for-players-changes/.
5 Isidore, supra note 1.
6 Isidore, supra note 1.
million, respectively in 2010-2011. These increasingly lucrative figures have contributed to big time college football programs emerging as the ultimate business model without having to pay athletes.

Major universities have not been the only party to benefit financially from this rise in revenues. As one of the leading video game producers in the United States, Electronic Arts, Inc. (“EA”) produces the “NCAA Football” series of video games, with the first installment of the series appearing in 1998, and the most recent release in 2013. Allowing users to revel in the pageantry, passion, and excitement of college football game days, “the NCAA Football franchise has generated over $868 million in revenue.” However, these revenues have not come without a number of legal battles. For example, EA successfully defended a lawsuit against NFL hall-of-fame and Cleveland Browns running back, Jim Brown, in 2010. More recently in 2012, EA agreed to a proposed settlement that forced the company to relinquish its exclusive rights to the NCAA Football series, as well as allocate $27 million in settlement funds to consumers. More specific to the financial plight of student-athletes is the recent rise in EA litigation in which current and former athletes have brought suit concerning the video game’s depiction of college football players.

The emergence of college football programs as major business machines has provided little to no dividend to current and former student-athletes. Student-athletes are awarded athletic scholarships that often cover full or partial tuition costs, although some critics continue to argue that an athletic scholarship may not be sufficient compensation for an athlete’s performance. The NCAA has also

8 Id.
9 Gaudioso, supra note 2.
13 Miller, supra note 4, at 1156 (discussing the sufficiency of a scholarship as continued . . .
produced a proposal that would provide players with a $2,000 stipend to cover expenses outside the scope of the traditional scholarship. This initial proposal was passed by the NCAA’s board of directors; however, 161 schools combined to override the legislation in December of 2011. Nevertheless, student-athletes remain able to pursue more traditional avenues to financial aid, including the Free Application for Federal Student Aid (“FAFSA”), Federal Pell Grants, and academic merit awards.

Despite these avenues to financial aid, the typical student-athlete fails to cover the cost of living and continues to live below the poverty line. Major college football programs and licensees such as EA report multi-million dollar revenue streams, relying primarily on the names and faces of student-athletes as the main input to this highly profitable business model. Players seeking additional “pocket change” have solicited cash through illegal avenues resulting in major scandals at NCAA institutions including The University of Miami, The Ohio State University, and The University of North Carolina. Although these scandals appear frequently in the press, academia and the judiciary have taken a much more watchful eye over the recent outbreak of litigation between student-athletes and EA over the use of student-athlete likenesses in video games.

A number of legal scholars have proposed solutions aimed at solving the collision between the business and amateurism models of compensation for student-athletes).

Jeremy Fowler, *NCAA President Mark Emmert Hopes to Unveil New Stipend Plan in April*, CBS SPORTS (Jan. 1, 2013 1:26 PM), http://www.cbssports.com/collegefootball/blog/jeremy-fowler/21483211/ncaa-president-mark-emmert-hopes-to-unveil-new-stipend-plan-in-april (explaining that in January of 2013, NCAA President Mark Emmert revealed his plan to propose a new stipend plan to his board of directors by April 2013. This new stipend plan is likely to include a “need-based component”).

Id.

Miller, *supra* note 4, at 1143.

Wong, *supra* note 4, at 1070 (“[v]ery little of that revenue makes it to the pocket of the students whose names and faces actually drive those sales.”).

*A List of the Worst Scandals in College Sports*, ESPN.COM (July 22, 2010 2:58 PM), http://sports.espn.go.com/espn/wire?section=ncf&id=8189312. In 2011, 73 players of The University of Miami football program were implicated in NCAA violations including accepting money, prostitutes, cars, and vacations.

Id. In 2010, several notable players of The Ohio State University football program traded sports memorabilia for illegal NCAA benefits including cash and tattoos.

the NCAA. Michael P. Acain argues that “athletic scholarships do not adequately and fairly compensate student-athletes in light of the substantial revenue they generate for their schools.” Accordingly, Acain proposes an extensive revenue-sharing plan for major college football programs that would allow student-athletes to receive a share of the profits offered to teams for post-season tournaments, academic benchmark accomplishments, and athletic awards. Similarly, Michael A. Corgan proposes a number of solutions under which the NCAA may provide compensation for student-athletes within its amateurism model including: The Pay-for-Play Model; The Revenue-Sharing Plan; Laundry Money; and The Endorsement Deal Model. The above-mentioned solutions focus primarily on altering the internal structure of the NCAA to provide compensation for the efforts of student-athletes.

In juxtaposition with these internal modifications to the NCAA structure, legal scholars have discussed the applicability of legal remedies in solving the financial plight of student-athletes. A federal right of publicity statute has been offered as a solution that better protects the financial interests of student-athletes. Bearman states:

Celebrity has become an integral part of our culture. . . . Likewise, college athletics has also become a billion-dollar industry. Unfortunately, the law fails to protect college athletes the same way it protects other celebrities . . . Indeed, the current state-law system is inadequate and fails to represent the interests of student athletes. Therefore, student athletes need a federal system and an escrow fund to provide consistent, equitable protection.

Accordingly, such a federal standard governing the right of publicity would protect the financial interests of former student-athletes such as Samuel Keller and Ryan Hart, the subjects of Keller v. Electronic Arts, Inc., and Hart v. Electronic Arts, Inc. respectively. In both cases,

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21 Acain, supra note 4, at 308.
22 Acain, supra note 4, at 336-39.
25 Id.
26 Id. at 115-16.
27 Id. at 96.
former players at major college football programs sued EA alleging that EA knowingly misappropriated the players’ identities and likenesses for commercial gain.\textsuperscript{28} However, as Bearman identifies, “these cases demonstrate how differences in the right-of-publicity laws, as well as differences in the way courts apply the laws, render the protection afforded student-athletes inadequate.”\textsuperscript{29} Accordingly, the likeness of student-athletes remains unprotected.

Contrary to the inadequacies of state statutes concerning the right of publicity, copyright law has emerged in the federal system as a comprehensive body of statutory protection for certain works. Where inadequacies in federal copyright law have emerged due to technological and social shifts, \textit{sui generis} amendment to this comprehensive system has filled in the gaps for additional protected works. The growing litigation provided by cases such as \textit{Keller} and \textit{Hart} has provided the technological and social catalyst necessary to urge Congress to craft a \textit{sui generis} amendment to current copyright law that specifically addresses the lack of legal and financial protection afforded student-athletes.

This comment examines the lack of legal protection afforded to student-athletes despite the emergence of college football as a billion-dollar industry. Specifically, this comment analyzes the inability of current copyright law to protect the use of student-athlete’s likeness in the \textit{NCAA Football} series produced by Electronic Arts, Inc. Part II of this comment discusses pending student-athlete litigation over EA’s depiction of former college players in the \textit{NCAA Football} series. Part III provides a brief history of copyright law in the United States, with particular emphasis placed on the emergence of the fair use doctrine and transformative use defense. Part IV provides a discussion of past \textit{sui generis} amendments to copyright law, including the Semiconductor Chip Protection Act & The Vessel Hull Design Protection Act. Part V borrows the rationale from these \textit{sui generis} amendments in discussing why copyright law might reform to afford protection to NCAA student-athletes. Part VI concludes by predicting the protections afforded under such \textit{sui generis} law.


\textsuperscript{29} Bearman, supra note 24, at 96.
II. Keller v. Electronic Arts, Inc. and Hart v. Electronic Arts, Inc.

Two recent cases litigated at the federal level provide examples of the lack of legal recourse afforded to NCAA student-athletes. In both instances, former college football players filed suit against video game publisher Electronic Arts, Inc., asserting right of publicity claims. However, the difference between the outcomes of the two cases illustrates the inability of state-based rights of publicity to universally protect NCAA student-athletes. By contrast, the federal grasp of sui generis copyright amendment provides a much more effective vehicle for protection.

A. Keller v. Electronic Arts, Inc.

Samuel Keller’s twenty-touchdown campaign in 2005 marked him as one of the top passers in Division 1-A football. After injuring his thumb and being released from his scholarship at Arizona State University, Keller finished his career at the University of Nebraska. Following his playing career, Keller became the focal point of a highly scrutinized judicial action in the U.S. District Court for the Northern District of California.

In 2010, Keller filed suit against Electronic Arts, Inc. (“EA”), the National Collegiate Athletics Association (“NCAA”), and the Collegiate Licensing Company (“CLC”). Amongst other claims, Keller alleged EA violated his California right of publicity. Specifically, Keller claimed EA designed virtual players to resemble real-life athletes. He further asserted that he and EA’s virtual players shared commonalities in their jersey numbers, physical characteristics,

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32 Bearman, supra note 24, at 96.
34 Id.
35 Keller, 2010 WL 530108, at *1.
36 Id. at *2. See also CAL. CIV. CODE. § 3344(a). California’s statute provides: “Any person who knowingly uses another's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for purposes of advertising or selling, or soliciting purchases of, products, merchandise, goods or services, without such person's prior consent, or, in the case of a minor, the prior consent of his parent or legal guardian, shall be liable for any damages sustained by the person or persons injured as a result thereof.”
37 Keller, 2010 WL 530108, at *1.
and home states.\textsuperscript{38} Adding fuel to the fire, Keller also charged the NCAA with a myriad of statutory and common law claims, including violation of Indiana’s right of publicity statute, breach of contract, and civil conspiracy.\textsuperscript{39}

Keller’s complaint against the NCAA was dismissed with leave to amend allegations that the NCAA misappropriated his likeness or violated his right of publicity.\textsuperscript{40} By contrast, EA did not contest the sufficiency of Keller’s claims.\textsuperscript{41} Instead, EA asserted that Keller’s right of publicity claims were wholly barred by the First Amendment’s transformative use defense.\textsuperscript{42}

In balancing the First Amendment against Keller’s right of publicity, the district court formulated the transformative use test as:

Whether the celebrity likeness is one of the “raw materials” from which an original work is synthesized, or whether the depiction or imitation of the celebrity is the very sum and substance of the work in question. We ask, in other words, whether a product containing a celebrity’s likeness is so transformed that it has become primarily the defendant’s own expression rather than the celebrity’s likeness. And when we use the word “expression,” we mean expression of something other than the likeness of the celebrity.\textsuperscript{43}

With this formulation in mind, the court analyzed Keller’s claim amongst the spectrum of California Supreme Court decisions utilized to gauge a work’s transformative nature.\textsuperscript{44} The infamous case of Comedy III v. Saderup provided one bookend of this spectrum, in finding a literal depiction of The Three Stooges devoid of sufficient transformative elements deserving of First Amendment protections.\textsuperscript{45}

\textsuperscript{38}Id.
\textsuperscript{39}Id. at *2.
\textsuperscript{40}Id. at *3.
\textsuperscript{41}Id.
\textsuperscript{42}Id.
\textsuperscript{43}Id. at *4 (citing Comedy III Prods., Inc., v. Saderup, 21 P.3d 797 (Cal. 2001)). The court also supplemented this formulation of the transformative use test with a number of California judiciary decisions. \textit{See, e.g.}, Winter v. DC Comics, 69 P.3d 473, 477 (Cal. 2003) (an artist depicting a celebrity must contribute something more than a merely trivial variation, but create something recognizably his own, in order to qualify for legal protection.).
\textsuperscript{44}Keller, 2010 WL 530108, at *4.
\textsuperscript{45}Id. \textit{See also} Comedy III, 21 P.3d at 810. The Comedy III decision has also been famously interpreted by the Ninth Circuit along the lines of celebrity merchandising. In Hilton, the Ninth Circuit stated “it is clear that merely merchandising a celebrity’s image without that person’s consent [. . .] does not continued . . .
On the opposite end of the spectrum, the court found *Winter v. DC Comics* to be a paradigmatic example of images that were sufficiently transformative.\(^{46}\)

Keller’s claim against EA was found to be closer in nature to *Comedy III*.\(^{47}\) Whereas Keller and EA’s virtual players shared the same jersey number, height, and weight, and the game’s setting was “identical to where the public found [Keller] during his collegiate career,” the District of California found EA’s depiction far from the transformative use of *Winter*.\(^{48}\) As such, the court rejected EA’s request for a broad view of the transformative use defense that would examine the transformative elements of the video game as a whole.\(^{49}\) Instead, the court focused on the actual depiction of Keller himself in the video game and subsequently rejected EA’s transformative use defense at the motion to dismiss stage.\(^{50}\)

Keller appealed this decision to the Ninth Circuit Court of Appeals. This appeal is currently pending as of the date this article was written by the Author. However, the implications of the appeal have already been recognized by academia as potentially changing the landscape of intellectual property rights.\(^{51}\)

**B. *Hart v. Electronic Arts, Inc.***

In the *Hart* case, along substantially similar lines as the *Keller* case, former Rutgers University quarterback Ryan Hart filed suit against EA in the US District Court for the District of New Jersey alleging violations of his New Jersey right of publicity.\(^{52}\) Again

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\(^{46}\) See *Winter*, 69 P.3d at 479 (“Although the fictional characters Johnny and Edgar Autumn are less-than-subtle evocations of Johnny and Edgar Winter, the books do not depict plaintiffs literally. Instead, plaintiffs are merely part of the raw materials from which the comic books were synthesized.”).

\(^{47}\) *Keller*, 2010 WL 530108, at *5.

\(^{48}\) *Id.* In finding that EA’s transformative use defense failed, the court also found it necessary to distinguish Kirby’s application of the transformative use doctrine to the video game context. *Compare Kirby v. Sega of Am., Inc.*, 50 Cal. Rptr. 3d 607, 616 (Cal. Ct. App. 2006) (“[The character] contains sufficient expressive content to constitute a ‘transformative work’ under the test articulated by the [California] Supreme Court.”), with *id.* (“Further, unlike in *Kirby*, the game’s setting is identical to where the public found Plaintiff during his collegiate career: on the football field.”).

\(^{49}\) *Keller*, 2010 WL 530108, at *5.

\(^{50}\) *Id.*

\(^{51}\) Bearman, *supra* note 24, at 98.

similar to the Keller litigation, EA conceded Hart’s complaint stated a prima facie right of publicity violation. As a result, the court focused solely on EA’s First Amendment defense.

The court analyzed Hart’s claim between the competing interests of the right of publicity and the First Amendment, noting the existence of eight judicial balancing tests. However, the court was satisfied applying two key tests: 1) the transformative use test, as borrowed from the copyright fair use doctrine; and 2) the Rogers test, as borrowed from trademark actions.

After applying a number of instructive decisions and distinguishing Keller, the court found EA’s use sufficiently transformative. This finding was moderately surprising given the court’s explicit “appreciation of the plight of college football players who are prohibited by NCAA bylaws from entering into license agreements and other ‘commercial opportunities’ during their playing years.” Nevertheless, the court upheld EA’s use, relying primarily on the expressive effects added by the game’s designers, and EA’s “creation of a mechanism by which the virtual player’s height, weight, 

53 Id. at 766.
54 Id. at 768.
55 Id. at 775.
56 Id. at 776. See also Rogers v. Grimaldi, 875 F.2d 994, 1000 (2d Cir. 1989).
57 Hart, 808 F. Supp. 2d at 776.
58 See, e.g., Comedy III Prods., Inc. v. Gary Sanderup, Inc., 21 P.3d 797, 808 (Cal. 2001); Winter v. DC Comics, 69 P.3d 473 (Cal. 2003); Hilton v. Hallmark Cards, 580 F.3d 874, 891 (9th Cir. 2009); Kirby v. Sega of Am., Inc., 50 Cal. Rptr. 3d. 607 (Cal. Ct. App. 2006).
59 Hart, 808 F. Supp. 2d at 787 (“Finally, I disagree with Keller’s approach of focusing solely on the challenged image, as opposed to the work as a whole. Contrary to Keller’s reasoning, I read Kirby as looking at the video game in that case, as a whole. […] Moreover, in my view, it is logically inconsistent to consider the setting in which the character sits, which Keller does in its analysis, yet ignore the remainder of the game.”).
60 Id.
61 Id. at 783 (“Placing present and former college athletes, including Hart, into the fittingly-titled NCAA Football game setting strongly suggests that the goal of the game is to capitalize upon the fame of the players. Indeed it seems ludicrous to question whether video game consumers enjoy and, as a result, purchase more EA-produced video games as a result of the heightened realism associated with actual players . . . Nevertheless, a game developer that bases its work on real players, may walk a fine line between using reality as a building block for the developer’s own creative work and exploiting the hard-earned reputations of college players for its own profit.”).
62 Id. at 784 (“[T]he NCAA Football game contains “virtual stadiums, athletes, coaches, fans, sound effects, music, and commentary, all of which are created or compiled by the games’ designers.”).
hair style, etc. may be altered." Accordingly, the court upheld EA’s First Amendment defense.

Almost as a matter of form over substance, the court analyzed Hart’s claim under the Rogers test traditionally limited to trademark actions. In short, Judge Wolfson for the majority remained unconvinced by EA’s arguments for applying the Rogers test as opposed to the transformative use defense. After offering a brief discussion on the merits of the Rogers test, the court noted that it need not explicitly endorse either test where EA prevailed on its First Amendment defense.

Hart appealed this decision to the Third Circuit Court of Appeals. This appeal is currently pending as of the date this article was written by the Author. However, the indecisive balancing in the right of publicity arena, in conjunction with the discrepancies between state systems, will likely hinder the Third Circuit’s ability to create lasting jurisprudence. This hindrance could be solved by sui generis amendment in the copyright realm aimed at solving the unique plight of NCAA athletes.

III. The History of Copyright Law: The Fair Use Doctrine

The United States Constitution grants Congress the authority “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.” Commonly known as the Copyright Clause, this provision has allowed Congress to enact a series of comprehensive copyright laws. Most notable in terms of

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63 Id. at 785.
64 Id. at 787-88. (“Like the transformative test, [the Rogers test] is created to balance the competing interests of intellectual property rights and First amendment freedom-of-expression rights. In contrast to the transformative test, it was developed in the context of trademark law rather than copyright.”).
65 Hart, 808 F. Supp. 2d at 793 (“Accordingly, although I am not convinced by EA’s arguments as to the applicability of the Rogers test, and, in my view, the transformative test better balances First Amendment and right of publicity interests, I will assume for the sake of argument that the test applies.”).
66 Id. at 794.
67 U.S. CONST. art. I, § 8, cl. 8.
68 See Craig W. Dallon, The Problem with Congress and Copyright Law: Forgetting the Past and Ignoring the Public Interest, 44 SANTA CLARA L. REV. 365, 365 (2004) (“Although the term ‘copyright’ is never used, this provision of the Constitution is commonly known as the Copyright Clause.”).
69 See Copyright Act of May 31, 1790, ch. 15, 1 Stat. 124 (1848); Copyright Act of Feb. 3 1831, ch. 16, 4 Stat. 436 (1831); Copyright Act of July 8, 1870, ch. 230, 16 Stat. 198 (1871); Copyright Act of Mar. 1909, ch. 320, 35 Stat. 1075 (1909). See continued . . .
sweeping copyright reform is the Copyright Act of 1976 ("the 1976 Act").

Prior to 1976, copyright laws in the United States had been amended numerous times throughout history in response to emerging social and technological trends. The first comprehensive act was enacted in 1790. Comprehensive revisions occurred in 1831, 1870, and 1909. A number of copyright revisions were introduced during the period between 1924 and 1940, all of which failed to reach enactment “because of controversy among private interests over differences between the Berne Convention and the U.S. Law.” Additionally, after World War II, “the United States participated in the development of the new Universal Copyright Convention, becoming a party in 1955.”

Despite the above-mentioned occurrences, the 1909 legislation remained in effect until 1976, when the most recent comprehensive revisions occurred in reaction to the development of a number of technologies including motion picture, radio, television, and audio and

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_also id_. at 366 ("Congress has exercised this power in a series of major copyright laws beginning with the Copyright Act of 1790, followed by the respective Acts of 1831, 1870, 1909, and 1976.").

72 See, e.g., Mary L. Mills, _New Technology and the Limitations of Copyright Law: An Argument for Finding Alternatives to Copyright Legislation in an Era of Rapid Technological Change_, 65 CHI.-KENT L. REV. 307, 310 (1989) ("From its inception, copyright law has developed largely in response to technological change, and this factor has had a greater impact on copyright law than any other."); Fred H. Cate, _The Technological Transformation of Copyright Law_, 81 IOWA L. REV. 1395, 1397 (1996) ("Digital technologies are rapidly changing the application of copyright law to prohibit access, protect ideas, and facts, and dramatically expand the monopoly granted to copyright holders"); Dallon, _supra_ note 68, at 366 ("Through the centuries, copyright law has developed and adapted to changing conditions. In particular, new technology has driven changes and advancement in copyright law."). _See also_ Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 430-31 (1984) ("From its beginning, the law of copyright has developed in response to significant changes in technology. Indeed, it was the invention of a new form of copying equipment—the printing press—that gave rise to the original need for copyright protection.").
74 Id.
75 Id.
76 Id.
video recording equipment.\textsuperscript{77} The legislative history of the 1976 Act reflects this role of technology in serving as an impetus for copyright reform. Primarily, the legislative history reflects:

Since that time significant changes in technology have affected the operation of the copyright law. Motion pictures and sound recordings had just made their appearance in 1909, and radio and television were still in the early stages of their development. During the past half century a wide range of new techniques for capturing and communicating printed matter, visual images, and recorded sounds have come into use, and the increasing use of information storage and retrieval devices, communications satellites, and laser technology promises even greater changes in the near future. The technical advances have generated new industries and new methods for the reproduction and dissemination of copyrighted works, and the business relations between authors and users have evolved new patterns.\textsuperscript{78}

A number of scholars continue to call on Congress to make further revisions of the copyright law;\textsuperscript{79} however, Congress has remained cautious in altering the balance between public and private incentives struck by the 1976 Act. Accordingly, the statutory framework of the 1976 Act remains as the main source of copyright protection in the United States.

\textbf{A. Fair Use}

In light of the recent hotbed of NCAA litigation,\textsuperscript{80} the most significant addition embodied in the 1976 Act is the formal codification of the fair use doctrine. Generally, fair use emerged in the 1976 Act as a legislative attempt at balancing “the exclusionary rights

\textsuperscript{77} Mills, \textit{supra} note 72, at 313-14.

\textsuperscript{78} H.R Rep. No. 94-1476.

\textsuperscript{79} See, \textit{e.g.}, Mills, \textit{supra} note 72, at 336 (recommending Congressional enactment of a voluntary licensing scheme to facilitate royalty arrangements); Kevin M. Lemley, \textit{The Innovative Medium Defense: A Doctrine to Promote the Multiple Goals of Copyright in the Wake of Advanced Digital Technologies}, 110 Penn. St. L. Rev. 111, 157 (2005) (recommending an “innovative medium defense” to determine the legality of innovative mediums).

 Granted to authors and the social benefits provided to the public." However, the origins of the fair use doctrine first appeared in the judicial arena with the leading case of Folsom v. Marsh, and appeared more recently at the United States Supreme Court in Campbell v. Acuff-Rose Music.

In Folsom, the private papers of the nation’s first President, entitled “The Writings of George Washington,” provided the backdrop for the District of Massachusetts’ primitive account of the fair use doctrine. In finding that the defendant Folsom violated the copyright of author Jared Sparks, Justice Story enunciated a crude description of factors in determining if a use constitutes piracy or a “work entirely distinct from and independent” of a derivative work. According to Story,

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\text{[t]he identity of the two works in substance, and the question of piracy, often depend upon a nice balance of the comparative use made in one of the materials of the other, the nature, extent, and value of the materials thus used; the objects of each work; and the degree to which each writer may be fairly presumed to have resorted to the same common sources of information, or to have exercised the same common diligence in the selection and arrangement of the materials.}
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Story further engaged in a discussion of the economic rationale of copyright and fair use in recognizing “[i]f so much is taken, that the value of the original is sensibly diminished, or the labors of the original author are substantially to an injurious extent appropriated by another, that is sufficient, in point of law, to constitute a piracy pro tanto.” This economic analysis not only became a codified factor in the 1976 Act, but it has also been the subject of heavy scholarly discussion. Thus, as gleaned from the penmanship of Story, “fair use

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81 Lemley, supra note 79, at 128.
84 Folsom, 9 F. Cas. at 342.
85 Id. at 349.
86 Id. at 342.
87 Id.
88 Id. at 348.
remained exclusively judge-made doctrine until the passage of the 1976 Act, in which Justice Story’s summary [remains] discernible."

Long after *Folsom* and slightly before the Supreme Court’s decision in *Campbell*, Congress codified the statutory underpinnings of the fair use doctrine at 17 U.S.C. § 107. Section 106 of the Copyright Act grants the owner of a copyright exclusive rights to his work. These exclusive rights extend an owner’s ability to authorize a number of actions including: “to reproduce the copyrighted work,” “to prepare derivative works based upon the copyrighted work,” and “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.” However, as section 106 explicitly notes, these exclusive rights are “subject to sections 107 through 122.” For purposes of this Note, the most important of these limitations is the fair use doctrine, codified in section 107.

Section 107 of the Copyright Act provides in pertinent part: “the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright.” The section provides a list of factors for courts to consider in “determining whether the use made of a work in any particular case is a fair use.” These factors include:

1. The purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
2. The nature of the copyrighted work;
3. The amount and substantiality of the portion used in

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93 *Id.* at § 106(1).
94 *Id.* at § 106(2).
95 *Id.* at § 106(3).
96 *Id.* at § 106.
98 *Id.*
99 *Id.* at § 107(1).
100 *Id.* at § 107(2).
relation to the copyrighted work as a whole;\textsuperscript{101} and

(4) The effect of the use upon the potential market for or value of the copyrighted work.\textsuperscript{102}

Despite the inclusion of these factors, legislative history and scholarly criticism demonstrate that the inquiry calls for a case-by-case analysis.\textsuperscript{103} Senate reports filed in conjunction with the codification of the fair use doctrine recognized:

Although the courts have considered and ruled upon the fair use doctrine over and over again, no real definition of the concept has ever emerged. Indeed, since the doctrine is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts. On the other hand, the courts have evolved a set of criteria which, though in no case definitive or determinative, provide some gage for balancing the equities.\textsuperscript{104}

Likewise, House Reports dictate that section 107 was intended “to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way.”\textsuperscript{105} This legislative intent to create a flexible standard has been the topic of legal criticism and scholarly discussion.\textsuperscript{106} Samuelson argues that the considerable flexibility provided by the fair use doctrine is of great value in “balancing the interests of copyright owners . . . as well as the interests of the public in having access to new works and making reasonable uses of them.”\textsuperscript{107} However, to the same extent, fair use is “often decried for the unpredictability said to attend the fact-intensive, case-by-case nature of fair use analysis and/or to result from the lack of judicial consensus on the fundamental principles that underlie fair use.”\textsuperscript{108}

In the judicial arena, the cases of Harper & Row, Publishers, Inc. v. Nation Enterprises, and Campbell v. Acuff Rose Music, Inc. remain

\begin{itemize}
  \item \textsuperscript{101} Id. at § 107(3).
  \item \textsuperscript{102} Id. at § 107(4).
  \item \textsuperscript{105} Id.
  \item \textsuperscript{106} See, \textit{e.g.}, Michael J. Madison, \textit{A Pattern-Oriented Approach to Fair Use}, 45 WM. & MARY L. REV. 1525, 1525 (2004); Pamela Samuelson, \textit{Unbundling Fair Uses}, 77 FORDHAM L. REV. 2537, 2540 (2009).
  \item \textsuperscript{107} Samuelson, \textit{supra} note 106, at 2540.
  \item \textsuperscript{108} Samuelson, \textit{supra} note 106, at 2540.
\end{itemize}
leading authority on the fair use doctrine. In *Harper*, President Gerald Ford granted publisher Harper and Row exclusive rights as to the publishing of his memoirs. Harp and Row subsequently entered into a prepublication licensing agreement with *Time Magazine*, allowing *Time* to publish an advance excerpt of the memoir. Shortly before the excerpt was to be published in *Time*, a 2,250-word article appeared in *The Nation Magazine*, “at least 300 to 400 words of which consisted of verbatim quotes of copyrighted expression taken from the manuscript.” Writing for the majority, Justice O’Connor dismissed *The Nation’s* fair use defense after balancing the “unpublished nature of the work and the resulting impact on the potential market for first serial rights of permitting unauthorized prepublication excerpts under the rubric of fair use.”

Similarly, in *Campbell*, the Supreme Court analyzed Luther R. Campbell’s rendition of “Pretty Woman” under the fair use doctrine. According to Campbell, the work was “intended, through comical lyrics, to satirize the original work,” with the original work being a 1964 Roy Orbison and William Dees rock ballad entitled “Oh, Pretty Woman.” Acuff-Rose Music, Inc., the copyright holder of the song, denied Campbell permission to produce the song, explaining: “I am aware of the success enjoyed by ‘The 2 Live Crews,’ but I must inform you that we cannot permit the use of a parody of ‘Oh, Pretty Woman.’” Writing for the majority, Justice Souter ruled Campbell’s rendition could satisfy the fair use defense where the nature of the parody outweighed the degree of copying and the commercial nature of the work.

*Campbell* has traditionally been the subject of scholarly discussion concerning the protection of parodies under the fair use defense. However, far more impactful for the purposes of this Note and EA versus student-athlete litigation, is Souter’s discussion of

110 Id.
111 Id.
112 Id. at 569.
114 Id. (citations omitted).
115 Id. at 572-73.
116 Id. at 572.
transformative use. According to Justice Souter, the first factor in the fair use analysis “draws on Justice Story’s formulation, the nature and objects of the selections made.”\textsuperscript{118} Relying further on Justice Story’s quasi-precedent, Souter states:

\[\text{[T]he central purpose of the investigation is to see . . . whether the new work merely supersedes the objects of the original creation . . . or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is transformative.}\textsuperscript{120}

Souter further announced the proposition that transformative works “lie at the heart of the fair use doctrine’s guarantee of breathing space within the confines of copyright.”\textsuperscript{121}

Campbell marked the first time in which the Supreme Court explicitly endorsed the transformative use analysis.\textsuperscript{122} Souter’s above explanation, in combination with a highly influential Harvard Law Review Article written by Pierre N. Leval,\textsuperscript{123} has generally been cited as the leading authority on transformative use.\textsuperscript{124} As one author has found, since Campbell, lower courts have classified defendant’s transformative use into three different groups:

(1) Secondary works that add no original expression;
(2) secondary works that add original expression, but not in the form of criticism, commentary or

\textsuperscript{118}Campbell, 510 U.S. at 578 (citations omitted).
\textsuperscript{119}Folsom v. Marsh, 9 F. Cas. 348 (D. Mass. 1841).
\textsuperscript{120}Campbell, 510 U.S. at 579 (citations omitted). See also Pierre N. Leval, Toward a Fair Use Standard, 103 HARV. L. REV. 1105, 1111 (1990) (“A quotation of copyrighted material that merely repackages or republishes the original is unlikely to pass the test; in Justice Story's words, it would merely supersede the objects of the original.”) (citations omitted).
\textsuperscript{121}Campbell, 510 U.S. at 579.
\textsuperscript{122}Jeremy Kudon, Form over Function: Expanding the Transformative Use Test for Fair Use, 80 B.U. L. REV. 579, 583 (2000).
\textsuperscript{123}Leval, supra note 120, at 1105.
\textsuperscript{124}Kudon, supra note 122, at 597 (discussing the impact of Campbell and Leval’s article on court’s subsequent fair use analysis); H. Brian Holland, Social Semiotics in the Fair Use Analysis, 24 HARV. J.L. & TECH. 335, 344-45 (2011) (labeling Campbell and Leval as a sharp departure from previous fair use trends); Matthew D. Bunker, Eroding Fair Use: The "Transformative" Use Doctrine After Campbell, 7 COMM. L. & POL’Y 1 (2002) (“After the United States Supreme Court's 1994 decision in Campbell v. Acuff-Rose Music, Inc., fair use analysis in lower courts has become increasingly monistic, focusing to a great degree on whether the use in question was “transformative.”).
scholarship; and (3) secondary works that add original expression that clearly constitute criticism, commentary or scholarship. Of these three groups, only the third generally passes the transformative use test.\textsuperscript{125} Not surprisingly, video games such as those produced by EA in the NCAA Football Series would not fit smoothly into any of the above groups. Nevertheless, transformative use has appeared heavily in the most recent suits involving student-athletes pitted against EA, albeit in the context of common law right of publicity claims.\textsuperscript{126} However, the Supreme Court has found it useful in the past to analogize the goals of copyright law with those of the interests protected by a right of publicity.\textsuperscript{127} More notably, at least one federal court has explicitly discussed Leval’s work, as well as the contours of copyright’s fair use doctrine in discussing the protections afforded to NCAA student-athletes.\textsuperscript{128} This precedent has set the stage for the role of copyright in restoring the balance between the amateur status of student-athletes against the college football business model.

\textbf{IV. \textit{Sui Generis} Amendments: Semiconductor Chip Protection Act & The Vessel Hull Design Protection Act}

Since the time of the Industrial Revolution, calls for additional protection of industrial designs have been a recurring theme amongst intellectual property scholars.\textsuperscript{129} Proponents argue that additional legislation will foster more innovation and allow America to return as a leading world industrial manufacturer.\textsuperscript{130} On the contrary, opponents argue that additional legislation will further the adverse economic effects common to the monopolistic nature of copyright protection.\textsuperscript{131} Despite this scholarly disagreement, Congress has responded with two \textit{sui generis} amendments to the comprehensive body of copyright law: The Semiconductor Chip Protection Act of 1984, and the Vessel Hull Design Protection Act.

\textsuperscript{125} Kudon, supra note 122, at 583.
\textsuperscript{128} Hart, 808 F. Supp. 2d at 778-79.
\textsuperscript{130} Id.
\textsuperscript{131} Id.
A. Semiconductor Chip Protection Act of 1984

Prior to 1984, no per se rule barred competing innovation firms from duplicating the mask work integrated into a semiconductor chip. This lack of intellectual property protection left innovators with little to no effective protections against the emerging practice of “chip piracy.” As Kasch notes, the need for semiconductor chip protection took on an increasing sense of urgency as the costs involved in marketing and designing an industry-leading chip began to skyrocket. A chip whose design could cost anywhere in the neighborhood of $40 million could be copied at a much lower price, and required a much less time-intensive process. The stark contrast between these investment figures largely resulted in market share losses amongst U.S. firms to foreign market competition. Congress responded to this economic threat with the Semiconductor Chip Protection Act ("SCPA") of 1984. The SCPA’s protection of mask works, limited primarily by the defense of reverse engineering in section 906, has since sought to protect against the practice of “chip piracy.” However, as Kasch notes, a considerable lack of common law treatment and litigation of the statute has caused judicial interest to give way to academic interest. This academic interest is particularly reflected in the present litigation concerning NCAA student-athletes. This rise in litigation has provided the same unique socioeconomic pressures that have clearly urged Congresses of the past to formulate sui generis amendment.

B. The Vessel Hull Design Protection Act

The Vessel Hull Design Protection Act of 1998 ("VHDPA") was passed as a subtle addition to the 1998 Digital Millennium Copyright Act. The Act provides that “[t]he designer or other owner of an original design of a useful article which makes the article attractive or distinctive in appearance to the purchasing or using public may secure

134 Id. at 79.
135 Id.
138 Kasch, supra note 133, at 72.
the protection”\textsuperscript{140} of such design. The statute limits the protections afforded by defining both the terms “design” and “useful article.” A design is “original,” and thus protected under the Act, “if it is the result of the designer's creative endeavor that provides a distinguishable variation over prior work pertaining to similar articles which is more than merely trivial and has not been copied from another source.”\textsuperscript{141} A “useful article” is further narrowly delineated as “a vessel hull or deck, including a plug or mold, which in normal use has an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information.”\textsuperscript{142}

Legal scholars have commented that the Act’s \textit{sui generis} protections have been under-utilized since enactment.\textsuperscript{143} Nevertheless, one author has commented that the initial success of the VHDPA could potentially serve as the model for future attempts by legal scholars and lawmakers to “expand \textit{sui generis} design protection legislation to other industries if such an expansion is needed.”\textsuperscript{144} Notwithstanding this legal disagreement, the VHDPA remains particularly relevant to the present issue as another example in which socioeconomic pressures have caused Congress to enact \textit{sui generis} amendment to the 1976 Copyright Act.

In contrast to the SCPA, the spur for the VHDPA came in large part from within the judicial arena. Prior to the VHDPA, boat hull designers enjoyed protection under a minority of state regimes. However, in \textit{Bonito Boats, Inc. v. Thunder Craft Boats, Inc.}, the Supreme Court dealt a blow to such state legislation when faced with the issue of “what limits the operation of the federal patent system places on the States’ ability to offer substantial protection to utilitarian and design ideas which the patent laws leave otherwise

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\item \textsuperscript{140} 17 U.S.C. § 1301(a)(1) (2006).
\item \textsuperscript{141} \textit{Id.} at § 1301(b)(1).
\item \textsuperscript{142} \textit{Id.} at § 1301(b)(2).
\item \textsuperscript{143} See, e.g., Bradley J. Olson, Esq., \textit{The Amendments to the Vessel Hull Design Protection Act of 1998: A New Tool for the Boating Industry}, 38 J. MAR. L. & COM. 177 (2007); see also Keebaugh, \textit{supra} note 129, at 275. (In 2003, the United States Copyright Office and the USPTO released a joint report concerning the status of the Vessel Hull Design Protection Act (VHDPA). According to Keebaugh, “[a]lthough the results of the report do not provide any conclusive information regarding the success of the \textit{sui generis} protection offered by the VHDPA, the [joint] report does provide a positive early assessment of the viability of \textit{sui generis} protection for the design of individual categories of products.”).
\item \textsuperscript{144} Keebaugh, \textit{supra} note 129, at 275 (“With time, legal scholars and lawmakers will have more information to work with and will be better equipped to expand \textit{sui generis} design protection legislation to other industries if such an expansion is needed.”).
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unprotected.” Affirming the decision of the Florida Supreme Court, the U.S. Supreme Court found the state law protections prohibiting “the use of the direct molding process to duplicate unpatented boat hulls” unconstitutional as conflicting with the federal scheme. In analyzing the prudential value of past intellectual property decisions, the Court noted: “state regulation of intellectual property must yield to the extent that it clashes with the balance struck by Congress in our patent laws.” Legal scholars have commented that the subsequent political backlash created by the Bonito Boats decision spurred Congress to add the VHDPA as a means to “fill the void” between state and federal protection.

Much like the SCPA, the legislative history of the VHDPA reveals the presence of socioeconomic motivators in spurring the Act. As one House Committee explained:

Boat manufactures invest significant resources in the design and development of safe, structurally sound, and often high-performance designs. Including research and development costs, a boat manufacturer may invest as much as $500,000 to produce a design from which one line of vessels can be manufactured. “Hull splashing” is a problem for consumers, as well as manufacturers and boat design firms. Consumers who purchase copied boats are defrauded . . . [m]ost importantly for the purposes of promoting intellectual property rights, if manufacturers are not permitted to recoup at least some of their research and development costs, they may no longer invest in a new, innovative boat design that boaters eagerly await.

As a response to these socioeconomic pressures, Congress carved out sui generis protection for boat vessels that is much more narrow than the general protections afforded under the 1976 Copyright Act. Similar socioeconomic pressures have demanded center stage in recent debates concerning the balance between intellectual property rights and NCAA student-athletes. In light of these pressures, the case has been made for narrowly crafted sui generis amendment to the current

146 See Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 515 So. 2d 220 (Fla. 1987).
147 Bonito Boats, Inc., 489 U.S. at 144.
148 Id. at 152.
149 Olson, supra note 143, at 178.
federal scheme to protect student-athletes at the collegiate level.

V. The Argument for *Sui Generis* Amendment to Copyright Law in Protecting Student-Athletes

The primary rationale for the present proposal of *sui generis* protection of NCAA student-athletes stems from a lack of concrete protection at the federal level. However, past *sui generis* amendments illustrate that mere lack of protection alone will be insufficient to spur Congress to enact appropriate legislation. To justify the *sui generis* approach, this lack of protection must be coupled with the emergence of unique social and technological conditions. The present collision course between the emergence of college football’s business model and student-athlete initiated litigation has presented this necessary coupling. Accordingly, Congress should consider enacting *sui generis* protection to supplement the present system of intellectual property rights.

A. Inadequacy of Federal Protection

As a matter of form, it is first relevant to discuss the perceived lack of federal protection of NCAA student-athletes in the traditional bodies of intellectual property rights – copyright, patent, and trademark. First, patents provide the clearest example of a lack of protection. Although patent law in the United States enjoys the protections of a comprehensive federal system this Note seeks to promote, definitional limitations prevail in excluding student-athletes. United States patent law has primarily been reserved for useful articles meeting the standards of “invention.”\(^{151}\) Specifically, patentable subject matter must be both novel\(^{152}\) and non-obvious.\(^{153}\) These requirements simply do not conform to the present issue and financial plight of NCAA student-athletes. Athletes presently seek compensation for the use of their likeness in video games. Although the finer intricacies of the video game may qualify as patentable subject matter, the athletes themselves do not. Furthermore, the procedural posture of the patent process provides an inefficient basis for the protection of student-athletes. Even assuming the likeness of an individual athlete could qualify as patentable subject matter in some abstract sense, the substantial filing and prosecution fees relevant to patents would certainly leave most athletes without protection.

\(^{152}\) Id. at § 101.
\(^{153}\) Id. at § 102(a).
Second, the application of trademark law within the NCAA structure has been discussed in a much more tangible sense. As reflected in the Hart opinion, the Rogers trademark test has limited applicability in the context of misappropriation claims. The majority states the test as: “(1) whether the challenged work has relevance to the underlying work; and (2) if the challenged work is relevant, whether the title misleads the public as to the source of the content of the work.” Where the Rogers test has been applied to misappropriation claims, the inquiry adds another level, asking “whether the use of the plaintiff’s name is a disguised commercial advertisement.”

The precedential value of Hart is limited by the inherent fact that the majority refused to tentatively apply the elements of the Rogers test to the claim at issue. However, the application offered in dicta fails to take into account the realities of the present college football business model. For the sake of argument, this Note agrees that there is likely a small possibility that the use of Hart’s image in the game will lead consumers to believe he has endorsed the video game. However, this is only half of the proper Rogers analysis. It is simply a fallacy to further conclude that the NCAA’s use of Hart’s image is anything but a disguised commercial advertisement.

In analyzing Hart’s claim under the transformative use defense, the court found it useful to note, “[p]lacing present and former college athletes, including Hart, into the fittingly-titled NCAA Football game setting strongly suggests that the goal of the game is to capitalize upon the fame . . . [and] hard-earned reputations of college players for its own profit.” There is no tenable reason as to why the court failed to recognize the same commercial guise in terms of the Rogers test. EA’s depiction of Hart draws solely on the public’s familiarity with Hart’s collegiate football career as one of the nation’s top passers. EA clearly seeks to draw on this public familiarity to advertise and add value to the “pageantry, passion, and excitement” the game purports to create. For example, EA does not seek to increase the profitability of Rutgers University by including one of its players in the video game. Perhaps as an even clearer example, EA does not seek to increase the value of Ryan Hart himself by including his likeness in the game. If this were EA’s goal, Hart would surely be compensated for the use of his height, weight, jersey number, hometown etc. Instead, the only party to benefit from the use of Hart’s likeness is EA itself, blatantly

155 Id. See also Rogers v. Grimaldi, 875 F.2d 994, 1004 (2d Cir. 1989).
156 Hart, 808 F. Supp. 2d at 793.
157 Id. at 783.
marking EA’s use as an advertisement in hiding. Under a conventional application of the Rogers test, such an incorporation of Hart’s likeness solely for the purpose of commercial advertisement would clearly be a violation of an extension of trademark law to misappropriation claims. 158

Despite this logical application, the District of New Jersey was seemingly satisfied with EA’s advertisement and further capitalization on the vulnerability of student-athletes similarly situated with Hart. This Note will assume that Hart has some degree of precedential value in implicitly foreclosing trademark protection of NCAA student-athletes.

Third, the limited application of copyright law precludes extension of the protections struck by the 1976 Act to NCAA student-athletes. This preclusion is accomplished not only in a definitional sense in section 102, but also in the fair use balance struck in section 107, which similarly fails to mesh with the interests of student-athletes.

From a definitional perspective, student-athletes are not likely candidates to qualify as “original works of authorship fixed in [a] tangible medium of expression.” 159 Along similar lines, the athlete persona, at least in its original form, is an intangible concept wholly distinct from the listed examples in section 107. In the context of the NCAA Football series, individual student-athletes are more akin to an integral “concept,” a term that has been expressly precluded from the scope of copyrightable material. 160 Moreover, Congresses of the past have expressed general disapproval of extending the scope of section 107 to commercial concepts intended to be an integral part of a larger process. 161

Where student-athletes are not viewed as copyrightable material, the fair use limitations struck in the present Act are also facially inapplicable. However, as reflected in Hart, recent federal courts have attempted to remove the fair use factors from their copyright underpinnings with extremely inequitable results, albeit in the context of right of publicity cases. For purposes of this Note, the application of fair use principles in the context of these misappropriation claims allows for an effective foreshadowing of copyright application.

158 See George M. Armstrong, The Reification of Celebrity: Persona as Property, 51 LA. L. REV. 443, 467 (1991) (“Otherwise put, ‘[c]ourts have long ago recognized that a celebrity’s right of publicity does not preclude others from incorporating a person’s name, features or biography in a literary work, motion picture, news or entertainment story. Only the use of an individual’s identity in advertising infringes on the persona.’”).
160 Id. at § 102(b).
Because student-athletes enjoy no per se protection under the present copyright scheme, the District of New Jersey took free reign in crafting an appropriate standard in Hart. The court’s characterization of the transformative use defense under the fair use analysis represents the extreme inequity of such an incomplete copyright application. Several aspects of the reasoning in Hart fail to completely account for the vulnerability experienced by student-athletes under the present NCAA amateurism model.

First, the court in Hart elected to consider the transformative nature of the game as a whole, instead of relying solely on the player’s image at issue. 162 Second, focusing on Hart’s likeness alone, the court vastly understated a significant finding in reaching the conclusion that EA’s use was sufficiently transformative. 163 The court noted “[i]t is true that the virtual player bears resemblance to Hart and was designed with Hart’s physical attributes, sports statistics, and biographical information in mind.” 164 This finding is significantly understated and unfortunately served as the basis of the court’s unsubstantiated conclusions. EA did not merely design the game with Hart’s attributes in mind. By contrast, EA designed the virtual starting quarterback for Rutgers University as a carbon copy of the collegiate version of Hart. EA listed the virtual player as “hailing from Florida . . . standing six feet two inches tall . . . and weighing one hundred ninety pounds.” 165 EA even went so far as to accessorize the two players with the same equipment, including a helmet visor and a left wristband. 166 In light of these factual findings, EA’s use is a far stretch from the raw material approach to transformative use taken by Folsom and Campbell.

The mere fact that EA also created a “mechanism by which the virtual player may be altered, as well as the multiple permutations available for each virtual player image” 167 does not post hoc qualify EA’s use as transformative. An alteration established after EA fixed the original expression in a tangible medium does not seem to fit the traditional authorship requirements of the copyright scheme. 168 Moreover, although the creation and subsequent use of such permutations and mechanisms may in fact be deserving of some degree of transformative use protection, the court failed to address the

163 Hart, 808 F. Supp. 2d at 784.
164 Id.
165 Id. at 763.
166 Id.
167 Id. at 785.
likely scenario where a potential user neglects “to alter the virtual player’s physical characteristics, including the player’s height, weight, hairstyle, face shape, body size, [etc.]”\(^{169}\) In this instance, Hart’s unaltered image would remain the sole expression of the athlete in the *NCAA Football* series. The use of this unaltered image is a literal depiction of Hart’s original image, failing to “add something new” as required by Justice Souter in *Campbell*.\(^ {170} \) Further, such a literal depiction of a student-athlete for commercial gain is extremely likely to interfere with the economic interests protected by Justice Story’s early application of the transformative use test in *Folsom*.\(^ {171} \) Despite the clear discrepancies between these instructive decisions, the District of New Jersey found that EA’s exploitation of student-athletes was protected under the transformative use analysis.

The *Hart* court was allowed to craft this disparaging fair use analysis due to the fact that student-athletes do not fit neatly within the definitional scope of copyrightable subject matter. In the absence of such federal protection, courts have borrowed from the principles of copyright to the disadvantage of student-athletes. Accordingly, student-athletes are left with little to no protection of their intellectual property interests.

**B. Unique Social and Technological Circumstances**

Having established a lack of protection at the federal level, the *sui generis* approach must be further supported by unique social and technological conditions. The amateurism model of college football most notably highlights the unique social condition of the NCAA student-athlete. The NCAA was founded in strong principles of amateurism and continues to adhere to these principles at present. However, the societal reality of college football has drastically changed since the body was formally named in 1906.\(^ {172} \) For example, the NCAA was founded “to protect young people from the dangerous and exploitive athletic practices of the time.”\(^ {173} \) At the time of its founding, college football was not a billion-dollar industry. Moreover, student-athlete scandals concerning illegal financial activity were not highlighted daily in the nation’s press. The emergence of college

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\(^{169}\) *Hart*, 808 F. Supp. 2d at 785.


\(^{171}\) *Folsom v. Marsh*, 9 F. Cas. 342, 348 (C.C.D. Mass. 1841) (No. 4901) (“if so much is taken, that the value of the original is sensibly diminished, or the labors of the original author are substantially to an injurious extent appropriated by another, that is sufficient, in point of law, to constitute a piracy pro tanto.”).

\(^{172}\) Miller, *supra* note 4, at 1141.

\(^{173}\) Miller, *supra* note 4, at 1141.
football as a billion-dollar industry has strained the NCAA’s amateurism model to a breaking point. Student-athletes contribute the manual labor to this billion-dollar industry, yet they continue to see no compensation for their efforts. The current lack of intellectual property protection afforded to such student-athletes has perpetuated this cycle of financial exploitation.

Adding to the strain on the NCAA’s amateurism model is the technological emergence of EA as a leading video game developer. Over the lifetime of the product, the NCAA Football series has generated over $800 million in revenue for EA. The sole building block for this product is the individual reputations of student-athletes like Samuel Keller and Ryan Hart. At present, the NCAA amateurism model bars EA from attempting to compensate such student-athletes for the use of their likeness in the video game. Further, definitional limitations in present federal intellectual property schemes allow courts to parse out federal standards at will. This lack of limitation has subsequently allowed EA to cross the fine line of copyright protection typically offered at the federal level. 174

The above social and technological conditions are similar to those Congresses of the past have taken into account in drafting sui generis amendment to copyright law. For example, where the practice of chip piracy posed an economic threat to the semiconductor chip industry, Congress responded by enacting the Semiconductor Chip Protection Act. The purpose of the act was to restrick the balance between public and private incentives, so that innovating firms were incentivized to continue development, while the public remained able to benefit from the ultimate product produced. Congress responded to similar socioeconomic pressures in the instance of the Vessel Hull Design Protection Act. When courts stripped vessel hull designs of any intellectual property protection, 175 Congress again responded to protect the vulnerable manufacturing industry. This immediate response was aimed at incentivizing developers to continue the socially beneficial process of development.

Here, similar social and technological pressures place an incredible strain on the infrastructure of the NCAA’s amateurism model. Student-athletes can hardly be expected to remain incentivized to

174 See Hart, 808 F. Supp. 2d at 783 (“Nevertheless, a game developer that bases its work on real players, in the context of the games that bring them notoriety, may walk a fine line between using reality as a building block for the developer’s own creative work and exploiting the hard-earned reputations of college players for its own profit.”).

sacrifice their bodies on the playing fields while billions of dollars are being exchanged in the front office. Granted, student-athletes are not likely to make the decision to discontinue playing college football at major universities. However, student-athletes can, and will, continue to place pressure on the judiciary through incredibly large class action suits in the absence of federal protection.

The appropriate response to these shifting social and technological conditions is *sui generis* amendment to copyright law. It would be unwise for Congress or federal courts to attempt to incorporate student-athlete protection into the present copyright scheme. The likeness interest presently misappropriated simply does not fit neatly within the concept of “authorship” traditionally protected by copyright. Given Congress’ past hesitation to extend copyright protection to processes of an industrial nature, a *sui generis* amendment provides the most likely vehicle for protection.

**VI. Conclusion: Predicting the Protections Under a *Sui Generis* Approach**

A *sui generis* amendment to the current copyright scheme could effectively strike a balance between EA’s ability to create the *NCAA Football* series on one hand, and the intellectual property rights of student-athletes on the other. This can be accomplished by supplanting an appropriate fair use analysis into a concrete, stand-alone statute, as opposed to the present free reign granted to the federal judiciaries of *Hart* and *Keller*. In supplanting the fair use analysis, the principles from the instructive decisions of *Folsom* and *Campbell* should shine throughout the plain language and policy rationales of the statutory set.

Furthermore, a *sui generis* amendment sufficiently protects the NCAA amateurism model. A *sui generis* amendment would not per se compensate athletes in matters regarding the use of their likeness. On the contrary, it would solely seek to prevent game developers, such as EA, from exploiting the use of an athlete’s raw image solely for commercial gain. *Sui generis* amendment would require EA to incorporate the use of an athlete’s likeness into an expression that is

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176 H.R. REP. NO. 98-781, at 6 (1984), reprinted in 1984 U.S.C.C.A.N. 5750, 5755. In advocating for the *sui generis* approach to the SCPA, two significant conclusions were noted. First, “[i]t would be unwise for Congress to provide copyright protection for semiconductor chips by amendment to the present statute. The basis for this conclusion is that the present copyright statute purports to provide for an author’s copyright.” Second, “[t]he appropriate solution to the problem of protection for semiconductor chips is the creation of an industrial copyright, separate and distinct from the author’s copyright.”
actually transformative, as opposed to a virtual mirror image of the athlete.

The first step in affording such protection is to carefully craft a definitional section specific to the genre of NCAA student-athletes. The SCPA successfully accomplishes this in section 901, with the VHDPA doing so in section 1301. This section should avoid the generic intellectual property language employed in other areas of federal copyright law to prevent confusion amongst the schemes. Narrowly crafting a definitional section places student-athletes into a comprehensive scheme that sufficiently protects the intellectual property rights ultimately afforded. Where NCAA student-athletes are expressly placed in a concrete federal scheme, athletes will be protected from the lack of uniformity appearing recently in Hart and Keller.

The next step, and the most important for purposes of the present sui generis approach, is to place limitations on the ability of student-athletes to control the use of their likeness in socially beneficial works. Such a limitation is consistent with the Constitutional grant of power to Congress in the Copyright Clause. This limitation should arise from the traditional fair use analysis. However, in narrowing the traditional analysis to the context of the NCAA’s amateurism model, the balance must take into account the background and practices of the industry. The primary guide for the fair use balance afforded in such a sui generis statute should be the origins of the original approach. Thus, Congress should focus on the emanations of Folsom and Campbell.

Although archaic in some aspects, the economic rationale applied to George Washington’s private papers in Folsom remains relevant to the present sui generis analysis. Where the reputation of a NCAA athlete is so substantially appropriated as to cause injury, there is little room for EA to claim transformative use as a defense. Additionally, to fall within the narrow breathing space of copyright, Justice Souter’s narration in Campbell requires EA add something new as opposed to merely superseding the object of the original creation. Somewhere in the midst of a billion-dollar NCAA industry, courts have dangerously strayed from this instructive “raw materials” approach.

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177 See 17 U.S.C. § 901(1) (2006) (defining a “‘semiconductor chip product’ [as] the final or intermediate form of any product” and a “‘mask work’ [as] a series of related images, however fixed or encoded. . .”).
overbearing economic impact of inputting student-athletes into the collegiate business model, specifically EA’s NCAA Football series, has convinced courts to focus the fair use analysis instead on the transformative nature of the game as a whole, as opposed to the individual student-athlete’s image alone. Under such a broad scope, the student-athlete remains hopeless in seeking protection against the exploitation of their likeness. However, under a federally crafted sui generis approach that appropriately takes into account the amateurism and social vulnerability of the unique class protected, NCAA student-athletes may be sufficiently protected from reputational exploitation. A sui generis return to the principles of Folsom and Campbell provides an efficient mechanism for accomplishing this socially beneficial goal.