

**CRISPR: CHALLENGES IN GLOBAL REGULATION AND
ENFORCEMENT OF HUMAN GENOME EDITING
TECHNOLOGIES**

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INTRODUCTION

In November 2018, on the eve of the International Summit on Genome Editing, Dr. Jiankui He announced that he had created the world's first genetically edited human babies using a gene editing tool called Clustered Regularly-Interspaced Short Palindromic Repeats (CRISPR, pronounced "crisper").¹ Dr. He used CRISPR for what he thought was a noble ambition: removing HIV from human embryos and thus ensuring the virus was not passed down from HIV-positive parents to their offspring.² However, while the twins born from these edited embryos seemed to display some HIV resistance, even Dr. He was unsure what long-term effects this DNA modification would have on the babies.³ In the absence of global regulations governing human gene editing,⁴ news of this procedure shocked the scientific community.⁵ One of CRISPR's coinventors denounced Dr. He's experiment as reckless, claiming that it shattered scientific, medical, and ethical norms, further characterizing it as one of the most shocking misapplications of any scientific tool in history.⁶ Dr. He's experiment

¹ *Jiankui He (Nonpaid Leave – Department of Biology)*, 南科大官网, <https://bio.sustech.edu.cn/en/?p=243> (last visited Sep. 3, 2019).

² Jon Cohen, *The untold story of the 'circle of trust' behind the world's first gene-edited babies*, SCIENCE (Aug. 1, 2019), <https://www.sciencemag.org/news/2019/08/untold-story-circle-trust-behind-world-s-first-gene-edited-babies>.

³ Helen Regan, et al., *The scientist, the twins and the experiment that geneticists say went too far*, CNN (Dec. 1, 2018), <https://www.cnn.com/2018/11/30/health/gene-edited-babies-he-jiankui-intl/index.html>.

⁴ While there is no universally accepted legal position, scientists and researchers generally believe that using CRISPR to modify DNA to create babies is beyond morally and ethically acceptable use. See Jennifer Doudna, *CRISPR's unwanted anniversary*, 366 SCIENCE 777 (2019).

⁵ Jennifer Doudna, *CRISPR's unwanted anniversary*, 366 SCIENCE 777 (2019).

⁶ *Id.*; Jennifer Doudna, *He Jiankui is on the 2019 TIME 100 List*, TIME, <https://time.com/collection/100-most-influential-people-2019/5567707/he-jiankui> (last visited Sep. 3, 2019).

raised red flags that an urgent need for strong, regulatory frameworks were needed to govern the nascent, yet rapidly growing world of human genome editing, which are topics this note seeks to address.⁷

The use of genetic engineering in human applications has the potential to introduce change that will echo through future gene pools and alter the legacy of human diversity, thus raising immense legal, scientific, ethical, and political conundrums.⁸ CRISPR can manipulate the human genome, essentially reprogramming our chromosomes and DNA that contains all the information needed to build and maintain our organism.⁹ This gives us the potential to reshape the genetic destiny of future human generations with unprecedented precision.¹⁰ CRISPR can be analogized to a word processor’s “search and replace” feature: CRISPR can seek out disease-causing genetic mutations within a genome and replace them with a “clean” copy, ensuring eradication of the disease or undesirable medical condition.¹¹

CRISPR technologies are being adopted in laboratories across the world at a meteoric rate within the last decade¹²—but CRISPR’s promise has not been without controversy.¹³ Deliberately modifying genes in reproductive cells or embryos to ensure that genetic modifications are passed down, known as human germline modification, affects more than just

⁷ Gina Kolata, et al., *Why Are Scientists So Upset About the First Crispr Babies?*, N.Y. TIMES (Dec. 5, 2018), <https://www.nytimes.com/2018/12/05/health/crispr-gene-editing-embryos.html>.

⁸ Carolyn Brokowski & Mazhar Adli, *CRISPR Ethics: Moral Considerations for Applications of a Powerful Tool*, 431 J. MOLECULAR BIOLOGY 88 (2019).

⁹ PAUL KNOEPFLER, *GMO SAPIENS: THE LIFE-CHANGING SCIENCE OF DESIGNER BABIES* (2016); STEVEN OLSON, *INTERNATIONAL SUMMIT ON HUMAN GENE EDITING: A GLOBAL DISCUSSION* (2015).

¹⁰ *Id.*

¹¹ Ekaterina Pak, *CRISPR: A Game-Changing Genetic Engineering Technique*, HARV. U.: SCI. NEWS (July 31, 2014), <http://sitn.hms.harvard.edu/flash/2014/crispr-a-gamechanging-genetic-engineering-technique/>.

¹² Paul Enríquez, *Genome Editing and the Jurisprudence of Scientific Empiricism*, 19 VAND. J. ENT. & TECH. L. 3 (2015).

¹³ Tracey Tomlinson, *A CRISPR Future for Gene-Editing Regulation: A Proposal for an Updated Biotechnology Regulatory System in an Era of Human Genomic Editing*, 87 FORDHAM L. REV. 437 (2018).

the initially consenting individual patient.¹⁴ Groundbreaking technology tends to create polarized camps with regards to the acceptability of the technology; however, even scientists that advocate for the use of CRISPR believe that the tool's potential to alter the legacy of human diversity could have outrun society's ability to deliberate CRISPR's social implications and permissible uses.¹⁵ A dearth of legal scholarship in this area combined with policymakers' and lawmakers' evading to address the wide range of legal, ethical, and social quandaries raised by genetic engineering has resulted in a regulatory vacuum.¹⁶ Players of the scientific community on either side of the debate can be seen to be taking advantage of this vacuum by campaigning for self-serving measures in hopes that internal custom and practice will preempt regulations and subjective standards implemented by external organizations or legislative bodies.¹⁷

This note seeks to narrow the gap between scientific and legal research in the field of human applications of CRISPR-based technologies. Part I of the note provides an introduction to genetic engineering and a synopsis of the CRISPR technology, including its capabilities. The latter half of Part I sets the stage by outlining some notable and contemporary episodes where nonapproved applications of CRISPR have alarmed the global scientific community, followed by a discussion of the ethical, legal, and regulatory concerns that arise from the use of CRISPR.

¹⁴ *Id.*

¹⁵ Sarah Ashley Barnett, *Regulating Human Germline Modification in Light of CRISPR*, 51 U. RICH. L. REV. 553 (2017).

¹⁶ Consider, for example, the questions and commentary by Justices of the Supreme Court during oral argument in a recent case involving complex concepts in genetics and molecular biology. *See generally* Transcript of Oral Argument, *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013) (No. 12-398), http://www.supremecourt.gov/oral_arguments/argument_transcripts/12-398-amc7.pdf.

¹⁷ It can be presumed that Dr. He and other ardent researchers are pushing forward with personal research agendas because there are no legal repercussions in place. *See* Paul Enríquez, *Genome Editing and the Jurisprudence of Scientific Empiricism*, 19 VAND. J. ENT. & TECH. L. 3 at n.28 (2015).

Part II presents a comparative analysis of the current laws, regulations, and enforcement protocols set in place by individual states around the world that govern modification of the human genome. In Part III, this note seeks to propose a framework that combines successful elements from the current body of regulations of individual states and international organizations. The proposed framework is evaluated by applying it to Dr. He's story and analyzing whether the framework could prove to be effective in avoiding such a scenario.

I. BACKGROUND

A. *History and Use of Genetic Engineering*

As CRISPR has garnered more media attention in the last few years—especially in the human context—genetic engineering has become a captivating media topic that has successfully captured the public's attention and imagination.¹⁸ However, humans have implemented methods that can change the genome of organisms through artificial selection in agriculture and selective breeding animal husbandry for thousands of years.¹⁹ The discovery of genes in 1866²⁰ was followed by establishing genes as the basis of heredity in 1869,²¹ which led to the understanding in the 1970s that specific molecules could be programmed to modify DNA.²²

¹⁸ LastWeekTonight, *Gene Editing: Last Week Tonight with John Oliver (HBO)*, YOUTUBE (July 1, 2018), <https://www.youtube.com/watch?v=AJm8PeWkiEU>; Leeor Kaufman & Joe Egender, *Unnatural Selection*, NETFLIX (Oct. 18, 2019).

¹⁹ CLIVE ROOTS, DOMESTICATION (2007).

²⁰ Peter Little, *The Book of Genes*, 402 NATURE 467, 467–68 (1999).

²¹ Edward B. Lewis, *Thomas Hunt Morgan and His Legacy*, NOBELPRIZE (Apr. 20, 1998), http://www.nobelprize.org/nobel_prizes/medicine/laureates/1933/morgan-article.html.

²² Richard J. Roberts & Kenneth Murray, *Restriction Endonucleases*, 4 CRITICAL REV. BIOCHEMISTRY 123 (1976).

This was the first step in genome editing and the groundbreaking precursor to CRISPR-based technologies.²³

1. Applications in Animals

A major aspect of animal husbandry, dating to the Neolithic era,²⁴ is the practice of selective breeding of animal species and domesticating livestock to ensure that food was available when hunting was unproductive.²⁵ Repeated over periods of time, this gradual process ensured that wild animals could coexist and thrive around populations of people, breed freely, and be easy to tend to.²⁶ Starting with dogs, and followed by sheep, goats, pigs, poultry, and cattle, groups of people around the world started selectively breeding and domesticating animals for use in agriculture and consumption.²⁷ Selective breeding in animals was established as a scientific practice during the British Agricultural Revolution in the 18th century.²⁸ For example, native stock of English sheep were selected and bred with the purpose of creating large, fine-boned sheep with long, lustrous wool.²⁹ Throughout history, bees and silkworms have also been domesticated and selectively bred for better production of honey, wax, and silk around the world.³⁰

²³ *Id.*

²⁴ The Neolithic Revolution occurred approximately 12,500 years ago.

²⁵ JULIET CLUTTON-BROCK, *A NATURAL HISTORY OF DOMESTICATED MAMMALS* (1999).

²⁶ *Id.*

²⁷ JOHN WEBSTER, *ANIMAL HUSBANDRY REGAINED: THE PLACE OF FARM ANIMALS IN SUSTAINABLE AGRICULTURE* (2013).

²⁸ BBC History, *Robert Bakewell (1725 - 1795)*,

http://www.bbc.co.uk/history/historic_figures/bakewell_robert.shtml.

²⁹ *Id.*

³⁰ E.J.W. BARBER, *PREHISTORIC TEXTILES: THE DEVELOPMENT OF CLOTH IN THE NEOLITHIC AND BRONZE AGES WITH SPECIAL REFERENCE TO THE AEGEAN* (1992).

Now, similar albeit more scientific techniques are being applied to disease-causing vectors, like mosquitoes, to force selective breeding to reduce the spread of diseases like malaria and Zika to improve public health.³¹ Implemented through gene drives, this CRISPR application forces a trait found in an individual and quickly spreads it through entire wild populations at unprecedented speeds.³² In the case of malaria, which is only spread through female mosquitoes, CRISPR has been used to modify genes in the primary species of the mosquito that carries the disease.³³ Here, a gene drive resulting in a modified gene being passed to offspring ensures that all resulting mosquitoes would be made infertile or that all offspring are male—either of which serve to reduce or eliminate malaria, one of the most widespread and lethal illnesses in the world.³⁴ However, since the long-term ecological impact of eliminating a species or the impact of introducing a genetically modified organism into the wild are unknown, groups of scientists and environmental groups are highly concerned with the use of CRISPR for projects with such wide-reaching consequences.³⁵

2. Agricultural Applications

In the world of agriculture, plant breeding, the science of changing traits of plants to produce more desirable characteristics has been used for thousands of years.³⁶ Species of

³¹ Amy Harmon, *Open Season Is Seen in Gene Editing of Animals*, N. Y. TIMES (Nov. 26, 2015), <https://www.nytimes.com/2015/11/27/us/2015-11-27-us-animal-gene-editing.html>.

³² *Id.*

³³ Valentino M. Gantz et al., *Highly Efficient Cas9-Mediated Gene Drive for Population Modification of the Malaria Vector Mosquito Anopheles stephensi*, 112 PROC. NAT'L ACAD. SCI. U.S. E6736 (2015).

³⁴ Kathryn E. Kistler et al., *Genome Engineering with CRISPR-Cas9 in the Mosquito Aedes aegypti*, 11 CELL REP. 51 (2015).

³⁵ Kevin M. Esvelt, et al., *Emerging Technology: Concerning RNA-Guided Gene Drives for the Alternation of Wild Populations*, 17 ELIFE 3 (2014).

³⁶ Frank Hartung & Joachim Schiemann, *Precise plant breeding using new genome editing techniques: opportunities, safety and regulation in the EU*, 78 PLANT J. 742 (2014).

wheat, rice, and maize as we now know them were significantly different from their wild ancestors.³⁷ These changes have been passed through selective breeding in Mesoamerica and practiced by the Romans, amongst others.³⁸ Plant breeding can be done by propagation, grafting, or deliberate interbreeding to incorporate qualities such as improved nutrition, flavor, or beauty, increased crop yields, increased resistance to viruses, fungi, or pests, and longer storage periods for crops, amongst many other qualities.³⁹

Scientifically advanced methods are now used to produce genetically modified organisms (GMOs) to improve food security in certain parts of the world or simply to increase net profitability.⁴⁰ CRISPR-based agriculture research is well under way and has boomed exponentially⁴¹ since 2013.⁴²

3. Human applications

Gene therapy and stem cell therapies allow treatment of a wide variety of acquired and inherited human diseases.⁴³ Gene therapy attempts to replace defective genes with a normal copy of that gene for single-gene genetic disorders, such as cystic fibrosis or Duchenne muscular dystrophy.⁴⁴ Gene therapy allows the modification of a patient's DNA, which is then

³⁷ BURT C. BUFFUM, *ARID AGRICULTURE: A HAND-BOOK FOR THE WESTERN FARMER AND STOCKMAN* (2008).

³⁸ *Id.*

³⁹ NOEL KINGSBURY, *HYBRID: THE HISTORY AND SCIENCE OF PLANT BREEDING* (2009).

⁴⁰ DB WHITMAN, *GENETICALLY MODIFIED FOODS: HARMFUL OR HELPFUL?* (2000).

⁴¹ Eric Niiler, *Why Gene Editing Is the Next Food Revolution*, NATIONAL GEOGRAPHIC, August 10, 2018.

⁴² Currently, CRISPR is being used to research boosting the cacao plant's immune system to resist a virus that is ravaging cacao crops, producing bananas that are more resilient to a deadly fungus, preventing mildew that interferes with development of wine-quality grapes, producing naturally decaffeinated coffee beans, increasing grain yield of rice by 25-30%, increasing the flavor of tomatoes, preventing mushrooms from browning, and many more. *Id.* However, just like GMOs produced by Monsanto and other multinational corporations, the risks and long-term effects of ingesting such food products is unclear, as are the accompanying ethical and legal implications. See Paul Enríquez, *CRISPR GMOs*, 18 N.C. J.L. & TECH. 432 (2017).

⁴³ Eugene Kaji & Jeffrey Leiden, *Gene and Stem Cell Therapies*, 285 JAMA 545 (2001).

⁴⁴ *Id.*

inserted into the patient's cells as a drug to treat a certain disease or condition.⁴⁵ Stem cell therapy involves harvesting and using preexisting stem cells found in bone marrow or mature organs to regenerate damaged or dormant cells to treat or prevent diseases and conditions like leukemia and lymphoma.⁴⁶

Gene therapy can be classified as somatic or germline.⁴⁷ Somatic cell gene therapy only affects the individual patient to whom the therapy is administered.⁴⁸ The changes made to the patient's DNA, in this case, are not inherited by the patient's offspring.⁴⁹ However, germline gene therapy entails the modification of functional genes in the genome.⁵⁰ Such a modification causes all the organism's cells to contain the modified gene; therefore, the inherited genetic change affects more than just the individual consenting patient as it is also passed onto subsequent generations, raising legal and ethical concerns.⁵¹ Human applications of CRISPR involve germline modification where genetic modifications are passed onto offspring, raising a myriad of constitutional, legal, regulation, and enforcement conundrums.⁵²

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ Paul Enríquez, *Genome Editing and the Jurisprudence of Scientific Empiricism*, 19 VAND. J. ENT. & TECH. L. (2015).

⁴⁸ Fulvio Mavilio & Giuliana Ferrari, *Genetic modification of somatic stem cells*, 9 EMBO REP S64 (2008).

⁴⁹ *Id.*

⁵⁰ Henry Greely, *CRISPR'd babies: human germline genome editing in the 'He Jiankui affair'*, 6 J. L. BIOSCIENCES 111 (2019).

⁵¹ *Id.*

⁵² Paul Enríquez, *Genome Editing and the Jurisprudence of Scientific Empiricism*, 19 VAND. J. ENT. & TECH. L. 3 (2015).

B. *CRISPR: The human genome-editing tool*

1. Description

CRISPR is a naturally occurring molecule found in bacteria, but in the field of genetic engineering, CRISPR is used as an all-encompassing term for systems that allow scientists to program the CRISPR molecule to make precise modifications in a cell's genome.⁵³ CRISPR allows scientists to remove undesirable or harmful genetic sequences responsible for causing diseases or health conditions and replacing them with neutral or beneficial genetic material accurately, quickly, and cheaply.⁵⁴ Scientists can delete undesirable traits and potentially add desirable traits with unfounded precision in plants, animals, and humans.⁵⁵ This technological feat has allowed large numbers of scientists around the world to delve into the world of gene editing, but the current vacuum of regulatory and enforcement mechanisms has raised significant and urgent legal and ethical questions.

The term genome editing, as used in this note, generally encompasses the scientific technologies that enable genetic engineering at a local (gene) level or at the global (genome) level to facilitate the precise insertion, removal, or substitution of fragments of DNA into the cells of an organism's genome.⁵⁶ The term genome editing is often used interchangeably with

⁵³ Tracey Tomlinson, *A CRISPR Future for Gene-Editing Regulation: A Proposal for an Updated Biotechnology Regulatory System in an Era of Human Genomic Editing*, 87 *FORDHAM L. REV.* 437 (2018).

⁵⁴ *Questions and Answers About CRISPR*, BROAD INST., <https://www.broadinstitute.org/what-broad/areas-focus/project-spotlight/questions-and-answers-about-crispr>.

⁵⁵ Brad Plumer et al., *A Simple Guide to CRISPR, One of the Biggest Science Stories of the Decade*, *VOX* (Dec. 27, 2018), <https://www.vox.com/2018/7/23/17594864/crispr-cas9gene-editing>.

⁵⁶ Paul Enríquez, *Genome Editing and the Jurisprudence of Scientific Empiricism*, 19 *VAND. J. ENT. & TECH. L.* 3 (2017).

gene editing, genetic engineering, and other terms, and while many specific definitions exist, for the purposes of this note, genome editing will be used as the umbrella term.⁵⁷

Although CRISPR has only recently garnered heavier media attention, its concepts date back at least forty years.⁵⁸ As its name suggests, CRISPR, or Clustered Regularly Interspaced Short Palindromic Repeats, are short, repeating sequences in the DNA of *E. coli* and other bacteria discovered by Japanese researchers in the 1980s.⁵⁹ It was not for another twenty years that scientists finally realized that the CRISPR sequences resembled the DNA of viruses that were taken from viral DNA that the *E. coli* had captured during past viral invasions.⁶⁰ When another viral attack occurred, the *E. coli*'s immune system compared the virus's genetic material to the sequences stored in its CRISPR sequence; if a match was detected, it would launch an enzyme to cut up the incoming viral DNA to repel the invasion.⁶¹ This detail of the recognize-and-destroy process proved critical in developing CRISPR's gene-editing potential.⁶²

Bacterial CRISPR sequences are always accompanied by genes that are programmed to slice DNA sequences.⁶³ CRISPR scientists named them Cas, for CRISPR-associated genes.

⁵⁷ *Merriam-Webster Dictionary* defines genetic engineering as “the group of applied techniques of genetics and biotechnology used to cut up and join together genetic material and especially DNA from one or more species of organism and to introduce the result into an organism in order to change one or more of its characteristics.” *Genetic Engineering*, MERRIAM-WEBSTER ONLINE DICTIONARY, [http://www.merriam-webster.com/dictionary/genetic%](http://www.merriam-webster.com/dictionary/genetic%20) (last visited Nov. 23, 2019).

Genome editing involves the precise modification of the nucleotide sequence of the genome. *See, e.g.*, Matthew H. Porteus, *Towards a New Era in Medicine: Therapeutic Genome Editing*, 16 *GENOME BIOLOGY* 1 (2015).

The term genetic engineering was coined in the 1940s as the “purposive manipulation of genetic material.” BRIAN STABLEFORD, *SCIENCE FACT AND SCIENCE FICTION: AN ENCYCLOPEDIA 207* (Routledge 2006). At the time, the term was meant to describe the molecular surgical cutting and stitching of chromosomes to remove or rearrange sets of genes. Enríquez, *supra* at nn.53-54.

⁵⁸ Brad Plumer et al., *A Simple Guide to CRISPR, One of the Biggest Science Stories of the Decade*, VOX (Dec. 27, 2018), <https://www.vox.com/2018/7/23/17594864/crispr-cas9gene-editing>.

⁵⁹ John M. Conley, *Introduction: A Lawyer's Guide to CRISPR*, 97 *N.C. L. Rev.* 1041 (2019).

⁶⁰ Brad Plumer et al., *A Simple Guide to CRISPR, One of the Biggest Science Stories of the Decade*, VOX (Dec. 27, 2018), <https://www.vox.com/2018/7/23/17594864/crispr-cas9gene-editing>.

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.*

Since current CRISPR technology mimics that natural process, researchers chose a Cas enzyme called Cas9, which they supplied with a counterpart of the targeted gene they wanted to edit.⁶⁴ Once the problematic target DNA is found, the Cas9 enzymes cut it at the two ends of the DNA strand.⁶⁵ With the defective portion of the gene excised, the cell is then induced to make a new one.⁶⁶ Simply, the CRISPR-Cas9 mechanism finds and cuts out the defective gene and the cell replaces it with a normal one.⁶⁷ Although the Cas9 system is one of the most common, and a large part of the literature refers to the tool as CRISPR-Cas9, for purposes of this note, simply CRISPR terminology will be used without specific reference to Cas9 or other enzymes.

Gene editing technology existed prior to the discovery of CRISPR.⁶⁸ Zinc-Finger Nucleases (ZFN) was used in the 1990s by custom-engineering proteins to find, bind, and cut target DNA sequences.⁶⁹ Already an improvement on the previous technology's accuracy, ZFN's custom engineering for new targets made it slow, expensive, and inefficient.⁷⁰ Transcription Activator-Like Effector Nucleases (TALENs) appeared in 2009 and offered a simpler and more efficient experience than ZFN, but the slow progress in both technologies garnered little scientific attention.⁷¹ CRISPR represents a major advance over both ZFN and TALENs in terms of efficiency, accuracy, and cost.⁷² Nevertheless, CRISPR has a long way to go before it can be used for everyday patient care.⁷³ Although the technology has the potential

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ Nancy M. P. King, *Human Gene-Editing Research: Is the Future Here Yet?*, 97 N.C. L. REV. 1051 (2019).

⁷² ADDGENE, CRISPR 101: A DESKTOP RESOURCE 9 (2d ed. 2017), <https://bit.ly/2uRYyG0>.

⁷³ *Id.*

to prevent complex diseases and fix the causes of diseases, there are still major concerns about safety issues raised from off-target edits that result in undesirable or inadvertent DNA modification that could lead to unknown consequences.⁷⁴

2. Capabilities

Human applications of CRISPR can be classified into discovery, clinical therapeutic use, performance enhancement, and/or aesthetic use.

Discovery entails understanding the functions, role, and relationships between genes that result from manipulating DNA and turning genes on and off in various combinations using CRISPR.⁷⁵ Here, CRISPR's applications can be used to further understand DNA repair mechanisms, human development processes, understanding links between genes and diseases, including the progression of cancer and other diseases that are influenced by genetics.⁷⁶

Clinical applications, in contrast, use CRISPR to treat disease in its early development stages.⁷⁷ The goal of such therapeutic uses is to disable or correct the defective DNA mutations responsible for causing the disease.⁷⁸ For instance, sickle cell disease results in the production of deformed red blood cells; this is caused by a single DNA mutation that can theoretically be fixed by replacing the mutated DNA sequence with the correct sequence using CRISPR.⁷⁹ Due

⁷⁴ Mark Shwartz, *Target, Delete, Repair*, STAN. MED. (2018), <https://stanmed.stanford.edu/2018winter/CRISPR-for-gene-editing-is-revolutionary-but-itcomes-with-risks.html>.

⁷⁵ Nancy M. P. King, *Human Gene-Editing Research: Is the Future Here Yet?*, 97 N.C. L. REV. 1051 (2019).

⁷⁶ NAT'L ACADS. OF SCIS., ENG'G, & MED., HUMAN GENOME EDITING: SCIENCE, ETHICS, AND GOVERNANCE (2017).

⁷⁷ Nancy M. P. King, *Human Gene-Editing Research: Is the Future Here Yet?*, 97 N.C. L. REV. 1051 (2019).

⁷⁸ *Id.*

⁷⁹ Heidi Ledford, *CRISPR Deployed to Combat Sickle Cell Anaemia*, NATURE (Oct. 12, 2016), <https://www.nature.com/news/crispr-deployedto-combat-sickle-cell-anaemia-1.20782>.

to their relative simplicity, single-gene mutations are the most promising candidates for therapeutic applications and are at the front of the line for the first CRISPR clinical trials.⁸⁰

CRISPR has the ability to not only correct genetic deficiencies in living organisms, but it can also ensure that the desired change is passed down to successive generations.⁸¹ The vast range of CRISPR applications⁸² includes eradicating genes that increase risk of cancer or heart disease, correcting mutations for genetic diseases like cystic fibrosis, sickle-cell anemia, and Huntington Disease,⁸³ slowing the growth of cancerous cells,⁸⁴ and even removing HIV from living beings.⁸⁵

On the other side of discovery and therapeutic clinical applications of CRISPR lies performance enhancement gene modifications, which are not aimed at solving specific health concerns, but rather, intend to improve humans' cognitive or physical performance beyond normal functioning levels.⁸⁶ CRISPR could ostensibly be used, for instance, to modify human genes that stimulate and increase the supply of red blood cells.⁸⁷ While this could be a treatment for anemia, in a healthy human, this could also enhance aerobic performance.⁸⁸ Such

⁸⁰ *A CRISPR Go*, GENOMEWEB (Sept. 4, 2018), https://www.genomeweb.com/scan/crispr-go#.W5_swpNKg0o

⁸¹ Making genetic modifications in living organisms is known as somatic cell therapy. Making genetic modifications that will be manifested in newborn babies is known as germline modification. *Id.*

⁸² See generally Elizabeth Pennisi, *The CRISPR Craze*, 341 SCIENCE 833 (2013).

⁸³ Su Yang et al., *CRISPR/CAS9-Mediated Gene Editing Ameliorates Neurotoxicity in Mouse Model of Huntington's Disease*, 127 J. CLINICAL INVESTIGATION 2719 (2017).

⁸⁴ Zhang-Hui Chen et al., *Targeting Genomic Rearrangements in Tumor Cells Through Cas9-Mediated Insertion of a Suicide Gene*, 35 NATURE BIOTECHNOLOGY 543 (2017).

⁸⁵ Chaoran Yin et al., *In Vivo Excision of HIV-1 Provirus by saCas9 and Multiplex Single-Guide RNAs in Animal Models*, 25 MOLECULAR THERAPY 1781 (2017).

⁸⁶ Henry T. Greely, *Remarks on Human Biological Enhancement*, 56 U. KAN. L. REV. 1139 (2008); Maxwell J. Mehlman, *The Law of Above Averages: Leveling the New Genetic Enhancement Playing Field*, 85 IOWA L. REV. 517 (2000).

⁸⁷ Dev Mishra, *CRISPR and the Super Athlete*, SIDELINE SPORTS DOC (May 15, 2018), <http://www.sidelinesportsdoc.com/crispr-and-the-super-athlete/>.

⁸⁸ Dev Mishra, *CRISPR and the Super Athlete*, SIDELINE SPORTS DOC (May 15, 2018), <http://www.sidelinesportsdoc.com/crispr-and-the-super-athlete/>.

uses of CRISPR for enhancement over therapy raises its own social, ethical and regulatory issues.⁸⁹

Theoretically, CRISPR can also be used to make aesthetic changes, i.e. changing someone's height or modifying the color of someone's hair, eyes, or skin.⁹⁰ Although this has raised lots of concerns and ethical questions about "designer babies," this is not yet technically feasible.⁹¹ Aesthetic modifications require the modification of multiple genes—combinations that have not been comprehensively identified.⁹²

C. The CRISPR problem at hand

For what could be considered one of the most significant scientific breakthroughs of our generation, CRISPR arrived without much fanfare.⁹³ As a result, there has been limited discourse and even less agreement on the social, ethical, and moral applications of CRISPR. Even CRISPR's advocates believe that such a powerful tool that has the potential to alter the legacy of human diversity may have had such a meteoric rise that it has left behind in its dust society's ability to fully deliberate acceptable use and social implications.⁹⁴

⁸⁹ Maxwell J. Mehlman, *How Will We Regulate Genetic Enhancement?*, 34 WAKE FOREST L. REV. 671 (1999).

⁹⁰ Matthew R. Robinson, et al., *Explaining Additional Genetic Variation in Complex Traits*, 30 TRENDS GENETICS 124 (2014).

⁹¹ *Id.*

⁹² *Id.*

⁹³ John Travis, *Making the Cut: CRISPR Genome-Editing Technology Shows Its Power*, 350 SCIENCE 1456 (2015), awarding CRISPR the SCIENCE journal's 2015 Breakthrough of the Year Award.

⁹⁴ Sarah Ashley Barnett, *Regulating Human Germline Modification in Light of CRISPR*, 51 U. RICH. L. REV. 553 (2017).

In the pro-CRISPR camp, scientists and optimists eagerly anticipate the technology's potential to correct mutations for serious genetic diseases.⁹⁵ The technology's most ardent proponents go as far as preaching that bioethics should simply get out of the way and allow society to cure as many people as possible, as quickly as possible.⁹⁶ Moderate proponents of CRISPR believe that pausing to apply moral concepts to future hypotheticals does not kill research or its applications.⁹⁷ On the other side, CRISPR opponents are worried that history will repeat itself after the forced sterilization laws of the 1920s and Nazi eugenics experiments attempting to improve the human race via genetic germline modification.⁹⁸ Opponents of CRISPR also advise that it should be banned for the foreseeable future, believing that human beings should never be experimented on, compounded by a fear of designer babies and the resulting social inequality.⁹⁹

Currently, more than 14,000 scientific publications¹⁰⁰ edify and expound upon the theory, empirical observations, and applications of CRISPR.¹⁰¹ However, legal scholarship related to the public policy and enforcement of CRISPR use is barely in its nascent phase.¹⁰²

⁹⁵ Steven Pinker, *The Moral Imperative for Bioethics*, BOS. GLOBE (Aug. 1, 2015), <https://www.bostonglobe.com/opinion/2015/07/31/the-moral-imperative-forbioethics/JmEkoyzlTAu9oQV76JrK9N/story.html>.

⁹⁶ Sarah Ashley Barnett, *Regulating Human Germline Modification in Light of CRISPR*, 51 U. RICH. L. REV. 553 (2017).

⁹⁷ Edward Lanphier et al., *Don't Edit the Human Germ Line*, 519 NATURE 410 (2015).

⁹⁸ Lisa Ko, *Unwanted Sterilization and Eugenics Programs in the United States*, PBS (Jan. 29, 2016), <http://www.pbs.org/independentlens/blog/unwanted-sterilization-and-eugenics-programs-in-the-united-states/>.

⁹⁹ Robert Cook-Deegan & Jane Maienschein, *Listening for the Public Voice*, SLATE (Aug. 16, 2017), http://www.slate.com/articles/technology/future_tense/2017/08/the_public_needs_to_weigh_in_on_the_ethics_of_genetically_engineering_humans.html.

¹⁰⁰ A search on the PubMed scientific database for "CRISPR" filtered by title and abstract returned 14,428 hits as of October 4, 2019. PubMed.gov Search Results for CRISPR, PUBMED.GOV, [http://www.ncbi.nlm.nih.gov/pubmed/?term=CRISPR\[Title%2FAbstract\]](http://www.ncbi.nlm.nih.gov/pubmed/?term=CRISPR[Title%2FAbstract]) (last visited Oct. 4, 2019).

¹⁰¹ CRISPR earned the 2015 "Breakthrough of the Year" accolade awarded by the prominent Science journal. Marcia McNutt, Breakthrough to Genome Editing, 350 SCIENCE 1445, 1445 (2015). [Update?]

¹⁰² Paul Enríquez, *Genome Editing and the Jurisprudence of Scientific Empiricism*, 19 VAND. J. ENT. & TECH. L. 3 (2015).

This gap is especially noteworthy given the ongoing, high-stakes intellectual property battles over patent rights to CRISPR systems and its multi-billion-dollar ramifications.¹⁰³ Further, this lack of legal scholarship poses grave uncertainty to how the law will treat this emerging technology, while leaving those that do currently use it in a grey area.¹⁰⁴ Legal scholars generally either ignore or keep distance from such fields presumably due to challenges that complex scientific principles pose to non-scientists in the legal and legislative fields.¹⁰⁵ Nevertheless, in the very near future, policymakers and lawmakers will have to confront the wide range of legal, ethical, and social quandaries raised by genetic engineering.

International organizations, governmental bodies, and scientific societies around the world have released more than sixty sets of ethics statements on germline engineering in the past six years.¹⁰⁶ These statements range widely.¹⁰⁷ The most recent statements are from the United States National Academies of Sciences Engineering and Medicine (NASEM) in 2017, the Organisation for Economic Co-operation and Development in 2018, the Nuffield Council on Bioethics in 2018, the Organizing Committee of the Second International Summit on Human Genome Editing in 2018, and the Council of Europe in 2018.¹⁰⁸ While there is no sign

¹⁰³ Jon Cohen, *CRISPR patent fight revived*, 365 SCIENCE 15 (2019).

¹⁰⁴ Paul Enríquez, *Genome Editing and the Jurisprudence of Scientific Empiricism*, 19 VAND. J. ENT. & TECH. L. 3 (2015).

¹⁰⁵ Consider, for example, the questions and commentary by Justices of the Supreme Court during oral argument in a recent case involving complex concepts in genetics and molecular biology. *See generally* Transcript of Oral Argument, *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013) (No. 12-398), http://www.supremecourt.gov/oral_arguments/argument_transcripts/12-398-amc7.pdf.

¹⁰⁶ Carolyn Brokowski, *Do CRISPR germline ethics statements cut it?*, 1 CRISPR J. 115 (2018).

¹⁰⁷ 54% expressly find germline editing to be impermissible, 11% finding germline editing to be impermissible but open to its possibility under certain conditions, 5% open to further exploration, and 30% hold an ambiguous position. *Id.* at Figure 3.

¹⁰⁸ Andrea Boggio, et al., *The Human Right to Science and the Regulation of Human Germline Engineering*, 2 CRISPR J. 134 (2019).

of international consensus on how human germline engineering should be regulated, the situation is exacerbated when organizations within countries hold opposite views.¹⁰⁹

Using the United States as a point of reference, CRISPR remains largely unregulated because the current regulatory system for biotechnology is a bureaucratic maze.¹¹⁰ The complexity of the maze leads to administrative agencies performing tasks that overlap with other agencies, resulting in widespread confusion.¹¹¹ Currently, U.S. researchers and scientists are ineligible to receive federal funding if they plan on using CRISPR on human embryos.¹¹² While lack of federal funding may stifle CRISPR research, researchers can simply circumvent this law if they manage to secure private funding, thereby also potentially bypassing ethical boundaries in the realm of human germline engineering.¹¹³

1. Alarming Uses of CRISPR

- a) *Controversies in China*

Before Dr. He's story shocked the world in 2018¹¹⁴ there had already been a prior controversy. In 2015, Dr. Junjiu Huang of the Sun Yat-Sen University in Guangzhou, China used CRISPR to edit human embryos to be used in an invitro fertilization procedure to fix a gene error that causes a blood disease.¹¹⁵ Such a germline alteration that would affect

¹⁰⁹ *Id.*; Carolyn Brokowski, *Do CRISPR germline ethics statements cut it?*, 1 CRISPR J. 115 (2018).

¹¹⁰ Tracey Tomlinson, *A CRISPR Future for Gene-Editing Regulation: A Proposal for an Updated Biotechnology Regulatory System in an Era of Human Genomic Editing*, 87 FORDHAM L. REV. 437 (2018).

¹¹¹ *Id.*

¹¹² Sarah Webb, *A Patchwork Quilt of Funding*, NATURE (Nov. 1, 2007), <https://www.nature.com/stemcells/2007/0711/071101/full/stemcells.2007.110.html>.

¹¹³ *Id.*

¹¹⁴ *See infra* in Introduction for summary of story.

¹¹⁵ Antonio Regalado, *Years before CRISPR Babies this Man was the First to Edit Human Embryos*, MIT TECH. REV. (Dec. 11, 2018), <https://www.technologyreview.com/s/612554/years-before-crispr-babies-this-man-was-the-first-to-edit-human-embryos/>.

subsequent generations was met with a global, instant, and visceral reaction.¹¹⁶ Dr. Huang's experiment occurred three years before human trials for CRISPR were officially approved by any governing body.¹¹⁷ Although Dr. Huang's experiment was not successful and he had to destroy the embryos well before they were implanted, the scene had been set.¹¹⁸ Researchers could prematurely cross into controversial and unknown territory that could affect humanity's shared gene pool, and there were no regulatory or enforcement mechanisms in place to speak of.¹¹⁹

On November 25, 2018, before the Second International Summit on Genome Editing officially launched, Dr. Jiankui He, a research professor from the Southern University of Science and Technology in China, informally announced the results of his CRISPR-based genome editing experiment that led to the birth of twin girls whose DNA was modified to render them immune to HIV infection.¹²⁰ Dr. He used CRISPR to edit human DNA to modify the twins' genomes which was then used in an invitro fertilization procedure.¹²¹ Dr. He's initial audience, as well as summit participants, were shocked because his experiment violated both scientific and ethical—albeit informal—consensuses to not engage in human genomic manipulation by scientists around the world.¹²²

Before starting his experiment, Dr. He had hour-long-discussions with leading bioethicists at the University of California in Berkeley who warned him against proceeding to

¹¹⁶ *Id.*

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.*

¹²⁰ Antonio Regalado, *Exclusive: Chinese Scientists Are Creating CRISPR Babies*, MIT TECH. REV. (Nov. 25, 2018), <https://www.technologyreview.com/s/612458/exclusive-chinesescientists-are-creating-crispr-babies/>.

¹²¹ *Id.*

¹²² *Id.*

create CRISPR babies, however, Dr. He never revealed that these discussions were anything more than academic. Dr. He then confided in two U.S. scientists about his plan, but once again, ignored their arguments that he was about to make a disastrous mistake.¹²³ Dr. He did not breathe a word about his plans to his Chinese colleagues, even stalling for months before listing his experiment on an official Chinese registry of clinical trials. Dr. He even took a crash course in bioethics—only to flout the recommended ethical guidelines he had just studied. Instead, Dr. He strongly believed he would be hailed for this scientific first, believing he was doing for his homeland of China what Sputnik engineers did for the old Soviet Union. On the contrary, Dr. He’s lack of published scientific papers and reputation for “sloppy and unnecessary applications” of CRISPR meant he was on no one’s radar.¹²⁴ Dr. He tried to make up for this, but only received the harshest condemnations by fellow scientists.¹²⁵

To date, Dr. He has not disclosed solid evidence from his experiments. Dr. He presented a slide deck of data at the 2018 summit, but only left attendants even more puzzled after failing to adequately respond to questions. Based on subsequent reports and information, geneticists and CRISPR experts believe that Dr. He’s experiment was not based on sound scientific reasoning, and was in fact, completely unnecessary.¹²⁶ In subsequent interviews, Dr. He was also unable to express with any certainty the long-term effects of the genetic modifications he had effected in the twins, Lulu and Nana. Neurobiologists at UCLA allege

¹²³ Sharon Begley and Andrew Joseph, *The CRISPR shocker: How genome-editing scientist He Jiankui rose from obscurity to stun the world*, STAT (Dec. 17, 2018), <https://www.statnews.com/2018/12/17/crispr-shocker-genome-editing-scientist-he-jiankui/>.

¹²⁴ *Id.*

¹²⁵ Ed Yong, *The CRISPR Baby Scandal Gets Worse by the Day*, THE ATL., <https://www.theatlantic.com/science/archive/2018/12/15-worrying-things-about-crispr-babies-scandal/577234/>.

¹²⁶ *Id.*

that the gene that Dr. He modified to make the girls immune to HIV is also linked to enhancing cognition and memory, which means the genetic mutation will probably have an impact on cognitive function in the twins.¹²⁷ According to these neurobiologists, because the full extent of these modifications is impossible to predict, it is just another reason why this experiment should not have been done. Another study published in *Nature Medicine* in June 2019 suggested that the genomic modification that Dr. He effected in the twins could also be linked to an increased risk of dying earlier. A population geneticist at UC Berkeley has since retracted the findings from that study in October 2019.¹²⁸

While certainly not the last CRISPR bombshell, Dr. He's experiment has forcefully opened the eyes of scientists and regulators for an urgent need to develop standards for genomic editing in the human germline and strict, clear laws that can be passed, implemented, and enforced on an international level.¹²⁹

b) Russian Biologist's imminent CRISPR'd-baby plans

On the heels of Dr. He's HIV-related genomic modification using CRISPR and invitro fertilization, molecular biologist Denis Rebrikov informed *NATURE* magazine that he plans on implanting CRISPR-edited embryos into women before the end of 2019, pending Russian government approval. Dr. Rebrikov heads a genome-editing lab in Russia's largest fertility clinic in Moscow, and already has an agreement with an HIV center in the city to recruit HIV-

¹²⁷ John Ueland, *China's CRISPR twins might have had their brains inadvertently enhanced*, MIT TECH. REV. (Feb. 21, 2019), <https://www.technologyreview.com/s/612997/the-crispr-twins-had-their-brains-altered/>.

¹²⁸ Ewen Callaway, *Geneticists retract study suggesting first CRISPR babies might die early*, *NATURE* (Oct. 14, 2019), <https://www.nature.com/articles/d41586-019-03032-2>.

¹²⁹ Sharon Begley, *For rules on creating 'CRISPR babies' from edited embryos, scientists call a do-over*, *STAT* (Aug. 21, 2019), <https://www.statnews.com/2019/08/12/crispr-babies-rules-scientists-call-for-do-over>.

infected women who want to participate in his experiment. Targeting the same gene associated with HIV immunity, Dr. Rebrikov claims that his techniques will offer greater benefits while posing fewer risks, thus making it more ethically justifiable and acceptable to the public.¹³⁰

Scientists and bioethicists are troubled and unsettled by Dr. Rebrikov's plans. A co-inventor of CRISPR, as well as other scientists, are adamant in believing that CRISPR is not ready to be used on human trials yet. While Russia has general laws prohibiting genetic engineering, it is unclear how they may be enforced in relation to gene editing in an embryo. A 2017 analysis of Russian laws found that they do not expressly prohibit gene editing when associated with assisted reproduction circumstances. Dr. Rebrikov expects the Russian government to provide clarifications to the law, however, if they fail to do so within a timely manner, and if he can ensure the safety of the procedure, Dr. Rebrikov says, "I think I am crazy enough to do this."¹³¹

Reports of a secret meeting between top Russian geneticists to discuss regulations regarding genetic modification of humans emerged in late September 2019,¹³² with the Russian Health Ministry aligning itself with the World Health Organization's cautious approach issued in May 2019, stating that "it would be irresponsible at this time for anyone to proceed with clinical applications of human germline genome editing," and urging regulatory or ethics authorities to "refrain from issuing approvals for clinical applications for work that involves

¹³⁰ David Cyranoski, *Russian Biologist Plans More CRISPR-Edited Babies*, NATURE (June 10, 2019), <https://www.nature.com/articles/d41586-019-01770-x>.

¹³¹ *Id.*

¹³² Stepan Kravchenko, *Future of Genetically Modified Babies May Lie in Putin's Hands*, BLOOMBERG (Sept. 29, 2019), <https://www.bloomberg.com/news/articles/2019-09-29/future-of-genetically-modified-babies-may-lie-in-putin-s-hands>.

human germline genome editing”.¹³³ While Russia’s stance is indicative of preventing itself from gaining rogue status—as a country allowing things which everyone else would not allow—Dr. Rebrikov is “invoking Lenin to say, ‘yesterday was too early, tomorrow will be too late.’”¹³⁴

In addition to scientific, ethical, and regulatory challenges, Dr. Rebrikov’s experiment is also under scrutiny by the Russian Orthodox Church, which wields considerable influence. The Russian Orthodox Church has issued a statement objecting on religious grounds, stating, “the attempts of human beings to put themselves in the place of God by changing and ‘improving’ His creation at their will may bring to humanity new burdens and suffering.”¹³⁵ Dr. Rebrikov, in response, stated that anything short of outright condemnation from the Church would be considered a step in the right direction, claiming that “what we do is God-pleasing. ... We heal, just like Jesus did.”¹³⁶

2. Ethical concerns

Revolutionary scientific and technological advancements are notorious for pushing the boundaries of legal and ethical standards, thus creating schools of thought along a continuum of those that believe use of the technology is acceptable or not.¹³⁷ The scientific community still

¹³³ *Statement on governance and oversight of human genome editing*, WORLD HEALTH ORG., <https://www.who.int/news-room/detail/26-07-2019-statement-on-governance-and-oversight-of-human-genome-editing> (last visited Nov. 17, 2019).

¹³⁴ Andy Heil, *Ethical Red Flags Fly as Russian Biologist Pushes Boundaries of Gene Editing*, RADIO FREE EUROPE RADIO LIBERTY (Oct. 26, 2019), <https://www.rferl.org/amp/ethical-red-flags-raised-by-russia-s-crispr-king/30237646.html>.

¹³⁵ Andy Heil, *Russian Biologist Welcomes Backlash Over his Plan for Gene-Edited Babies*, RADIO FREE EUROPE RADIO LIBERTY (June 30, 2019), <https://www.rferl.org/a/russian-biologist-welcomes-backlash-over-his-plan-for-gene-edited-babies/30028692.html>.

¹³⁶ Stepan Kravchenko, *Future of Genetically Modified Babies May Lie in Putin's Hands*, BLOOMBERG (Sept. 29, 2019), <https://www.bloomberg.com/news/articles/2019-09-29/future-of-genetically-modified-babies-may-lie-in-putin-s-hands>.

¹³⁷ Sarah Ashley Barnett, *Regulating Human Germline Modification in Light of CRISPR*, 51 U. RICH. L. REV. 553 (2017).

has reservations on the use of CRISPR for human applications. While there is a myriad of controversial technical and medical issues related to the human use of CRISPR,¹³⁸ there remain just as many ethical concerns that deserve to be addressed. Scientists around the world have expressed concerns regarding the potential for exploiting CRISPR. Notable issues are aesthetic non-therapeutic modifications that inadvertently affect more than the intended genetic segment, unequal access to germline technology if it ever reaches a mainstream phase, the potential for eugenics, and whether the costs of using CRISPR generally outweigh the expected benefits.¹³⁹

The 1970s was the first time we were faced with the prospect of genetic engineering including the fears and hopes it also inherently begot.¹⁴⁰ At the Asilomar Conference in 1975, the U.S. scientific community voluntarily and temporarily agreed to pause recombinant DNA research¹⁴¹ until the risks of harm were addressed further and regulatory and enforcement mechanisms were created.¹⁴² This included a moratorium on germline genome modification in humans. Around the same time, the International Society for Stem Cell Research issued a similar statement.¹⁴³ A week later, another group of scientists published a stronger call for a

¹³⁸ Besides the ethical concerns, the scientific community rebukes Dr. He's experiment aimed at CRISPRing HIV out of babies because there are other successful and known non-genome editing techniques with high effectiveness that carry fewer risks. Further, the specific gene-modification techniques Dr. He used were not the safest and most acceptable practices of the available known CRISPR techniques, further coloring his experiment reckless. See generally Gina Kolata & Pam Belluck, *Why Are Scientists So Upset About the First Crispr Babies?*, N.Y. TIMES (Dec. 5, 2018), <https://www.nytimes.com/2018/12/05/health/crispr-gene-editing-embryos.html>.

¹³⁹ Niklaus H. Evitt et al., *Human Germline CRISPR-Cas Modification: Toward a Regulatory Framework*, 15 AM. J. BIOETHICS 25 (2015).

¹⁴⁰ Nancy M. P. King, *Human Gene-Editing Research: Is the Future Here Yet?*, 97 N.C. L. REV. 1051 (2019).

¹⁴¹ Scientific techniques that involve splicing DNA at specific sites and inserting new material from different sources, thus creating "recombinant DNA"

¹⁴² Paul Berg, *Asilomar 1975: DNA Modification Secured*, 455 NATURE 290 (2008).

¹⁴³ *The ISSCR Statement on Human Germline Genome Modification*, INT'L. SOC'Y. FOR STEM CELL RESEARCH (Mar. 19, 2015), <http://www.isscr.org/docs/defaultsource/guidelines/isscr-statement-on-human-germline-genome-modification.pdf?sfvrsn=2>.

moratorium, which demanded international dialog to “assess whether and under what circumstance—if any—future research involving genetic modification of human germ cells should take place.”¹⁴⁴

Although collaboration between the biosciences and bioethics scholars has historically progressed hand-in-hand, the rapid development in the scientific domain now has created information gaps and barriers. Not only does this result in lags in ethics and policymaking, the barrier often leads to mischaracterization or misunderstanding of the scientific development in question.¹⁴⁵ Waiting for a fledgling technology such as CRISPR to fully develop until its implications are addressed can, therefore, mean chasing after what is regarded as inevitable. Dr. He’s experiment is a prime example of the fiasco that ensues under limited guidance and enforcement failure.¹⁴⁶

There are at least four categories of ethical dilemmas regarding the use of germline CRISPR. First, the use of CRISPR in a germline modification could give rise to and even exacerbate stigmas and inequalities. Labeling certain medical conditions as disabilities that need to be fixed using CRISPR can unintentionally reinforce stigmas and social inequalities. This is especially worse when certain disabilities or diseases are associated with racial, ethnic, and other groups, only potentially leading to new forms of stigmatization.¹⁴⁷ Widespread use of CRISPR can further create a divide and stigmatize the disabled by promoting the idea that some lives are not worth living or are better off prevented in the first place. Such disparities

¹⁴⁴ Edward Lanphier et al., *Don’t Edit the Human Germ Line*, 519 NATURE 410 (2015).

¹⁴⁵ Nancy M. P. King, *Human Gene-Editing Research: Is the Future Here Yet?*, 97 N.C. L. REV. 1051 (2019).

¹⁴⁶ *Id.*; Antonio Regalado, *Rogue Chinese CRISPR Scientist Cited US Report as His Green Light*, MIT TECH. REV. (Nov. 27, 2018).

¹⁴⁷ STEVEN OLSON, INTERNATIONAL SUMMIT ON HUMAN GENE EDITING: A GLOBAL DISCUSSION (2015).

serve to further expand the gap between the haves and have nots in society.¹⁴⁸ For instance, the potential to treat sickle-cell anemia using CRISPR can be considered an ideal and compelling use, however, because sickle-cell anemia primarily affects African Americans, and nationally, only about one in four African Americans have medical insurance, the very class of people that would benefit from the technology would be unable to create a significant market demand.¹⁴⁹ If not monitored, such technologies possess the potential to pose major social risks by deepening the socioeconomic divide and creating new genetic divisions amongst populations.¹⁵⁰

Second, there is strong commercial impetus for private research and development companies to develop treatments for diseases as well as procedures to enhance human traits.¹⁵¹ This is partly due to the fact that specific CRISPR techniques and mechanisms could qualify as intellectual property and thus, a strong potential source of income.¹⁵² Parents are also a concern: while their intentions may be good, it cannot be reasonably expected that in a period where CRISPR treatments are widely accessible, future parents will be able to resist marketing campaigns promoting the use of germline CRISPR modifications for purposes other than medical necessity. The lack of ability to distinguish the line between appropriate medical intervention and unnecessary enhancement may further exacerbate such a situation.¹⁵³ There is

¹⁴⁸ Sarah Ashley Barnett, *Regulating Human Germline Modification in Light of CRISPR*, 51 U. RICH. L. REV. 553 (2017).

¹⁴⁹ *Who Is at Risk for Sickle Cell Disease?*, NAT'L HEART, LUNG & BLOOD INST., (Aug. 2, 2016), <https://www.nhlbi.nih.gov/health/health-topics/topics/sca/atrisk>; CTRS. FOR DISEASE CONTROL & PREVENTION, SUMMARY HEALTH STATISTICS: NATIONAL HEALTH INTERVIEW SURVEY (2014), http://ftp.cdc.gov/pub/Health_Statistics/NCHS/NHIS/SHS/2014_SHS_Table_P-11.pdf.

¹⁵⁰ PAUL KNOEPFLER, *GMO SAPIENS: THE LIFE-CHANGING SCIENCE OF DESIGNER BABIES* (2016); Sarah Ashley Barnett, *Regulating Human Germline Modification in Light of CRISPR*, 51 U. RICH. L. REV. 553 (2017).

¹⁵¹ Stephanie M. Lee, *Jennifer Doudna Has Won a CRISPR Gene-Editing Patent*, BUZZFEED (Feb. 16, 2016), https://www.buzzfeed.com/stephaniemlee/new-crispr-patent?utm_term=.faAJ9wAg2v#.jkMR4rBnay.

¹⁵² Stephanie M. Lee, *Jennifer Doudna Has Won a CRISPR Gene-Editing Patent*, BUZZFEED (Feb. 16, 2016), https://www.buzzfeed.com/stephaniemlee/new-crispr-patent?utm_term=.faAJ9wAg2v#.jkMR4rBnay.

¹⁵³ PAUL KNOEPFLER, *GMO SAPIENS: THE LIFE-CHANGING SCIENCE OF DESIGNER BABIES* (2016).

a widespread—albeit unfounded—fear that the financially elite will be able to create “designer babies” with unnecessary enhancements like eye color, height, metabolism, mental acuity, etc.. However, the genetic markers that could potentially allow for such modifications are complex and have yet not been isolated, and thus CRISPR, or any other currently available medical technology for that matter, cannot realize “designer babies” or other unnecessary genetic enhancements.¹⁵⁴

Third, the phenomenon of positive eugenics could arise in combination with the first two factors. If specific genetic traits are perceived to be of a lesser quality or desirability, that stigma combined with economic pressures from bankrolling third parties (biomedical providers, etc.) could lead to pressure leading to elective genetic enhancements even if no medical necessity is present.¹⁵⁵

Finally, to learn more about gene editing that leads to discoveries regarding early human development, it would be necessary to perform extensive research with human embryos. Perfecting methodology and optimizing gene-editing tools for widespread use, therefore, requires that embryonic research be fully permitted and not prohibited. However, this raises both moral and ethical considerations as to the definitions of “life” and “human beings,” which already have polarizing views on all sides of pro/anti-choice discourses.¹⁵⁶

¹⁵⁴ *Id.*

¹⁵⁵ *Id.*

¹⁵⁶ Sarah Ashley Barnett, *Regulating Human Germline Modification in Light of CRISPR*, 51 U. RICH. L. REV. 553 (2017); PRESIDENT’S COUNCIL ON BIOETHICS, REPRODUCTION AND RESPONSIBILITY: THE REGULATION OF NEW BIOTECHNOLOGIES (2004).

3. Legal challenges

Human genome editing and germline modification raise important legal limitations with respect to legal issues of heritability to offspring. As CRISPR technology advances, regulation of its application—especially in human contexts—is an important consideration. Although it may be tempting from a policymaking perspective, either for exigency or other factors, to lump CRISPR and other potential new gene editing technologies into the existing framework of GMO regulations, the CRISPR revolution provides regulators and policymakers a unique opportunity to redefine the regulation of such groundbreaking technology. Some of the same concerns as GMO regulations apply here: the safety and efficacy of both the organism being modified and the consumer of the technology must be considered.¹⁵⁷ Further, environmental concerns must also be taken into consideration to ensure no adverse effects will ensue as a result of genetic modifications.¹⁵⁸ Such a regulatory framework requires balancing the interest of the public, the affected organism, and the environment.¹⁵⁹

In a highly globalized era where scientific research transcends state boundaries, the importance of uniform regulations and enforcement mechanisms becomes even more apparent. In the context of CRISPR research and applications, loopholes or laxness in certain parts of the world may end up providing fertile ground for those trying to circumvent local or regional regulations.¹⁶⁰ Presently, there is no international consensus on how human genome editing

¹⁵⁷ Eric E. Williams, *CRISPR: Redefining GMOs—One Edit at a Time*, 39 U. ARK. LITTLE ROCK L. REV. 437 (2017).

¹⁵⁸ *Id.*

¹⁵⁹ *Id.*

¹⁶⁰ As seen with Dr. He and other situations where scientists use CRISPR without approval or regulation.

should be regulated nor is there any binding legal instrument that regulates the use of CRISPR in clinical trials.¹⁶¹

The issue of access to science as a human right as outlined in the Universal Declaration of Human Rights in Article 15 is beyond the scope of this note. Rather, this note seeks to focus on the national regulatory approaches as well as global governance and enforcement mechanisms with respect to CRISPR use.

One of the reasons the regulation of basic germline research is unsettled around the world is that the law struggles with defining the entity-status of an embryo. Different legal systems draw lines—with varying levels of clarity—at different stages of embryo development. For example, the UK, Germany, and Switzerland have clear definitions of what an embryo entails; however, countries like Israel, Italy, and China avoid this problem by not even defining what embryos are in their state legislation.¹⁶² Further, a lot of regulations fail to expressly prohibit or permit germline genome modifications. While they may regulate research with embryos, a lot are silent as to whether these embryos can actually be modified, leading to the general legal principle of corollaries, where everything not forbidden is allowed.¹⁶³

The varying regulations and enforcement mechanisms of the United State, United Kingdom, European Union, and China will be analyzed in the next section, including relevant regulatory frameworks of international organizations.

¹⁶¹ Carolyn Brokowski, *Do CRISPR germline ethics statements cut it?*, 1 CRISPR J. 115 (2018).

¹⁶² RM Isasi & BM Knoppers, *Mind the gap: policy approaches to embryonic stem cell and cloning research in 50 countries*. 13 EUR. J. HEALTH LAW 9 (2006).

¹⁶³ Andrea Boggio, et al., *The Human Right to Science and the Regulation of Human Germline Engineering*, 2 CRISPR J. 134 (2019).

4. CRISPR trials in the U.S.

Despite the immediate outcry following Dr. He's announcement of the birth of the first genetically edited twins in late 2018, clinical trials using CRISPR have launched in the United States. While some of these trials are still in their initial clinical phases which are designed to study the safety and efficacy of a potential treatment, some are at more advanced stages, as discussed below.¹⁶⁴ As of November 2019, there are eight active trials using CRISPR, investigating the potential to tackle melanoma, ovarian cancer, lymphoma, sickle cell disease, blindness, and neurofibromatosis.¹⁶⁵

While not alarming like the Chinese and Russian cases, the first U.S. clinical CRISPR trial began in September 2018 and was led by Professor Stadtmauer at the University of Pennsylvania. Two patients, one with sarcoma and another with multiple myeloma, are reported to already have started treatment, the trials of which are scheduled to conclude in 2033 when safety and efficacy will be evaluated. This experimental research involves using CRISPR to genetically alter and reprogram patients' T-cells to attack and destroy cancer.¹⁶⁶

Another trial started in July 2019 was the first CRISPR-based clinical trial for a condition with a heritable genetic basis: sickle cell disease. A 34-year old woman in Mississippi was the first publicly identified patient to receive CRISPR-edited stem cells as part of the

¹⁶⁴ Lila Thulin, *Four U.S. CRISPR Trials Editing Human DNA to Research New Treatments*, SMITHSONIAN, <https://www.smithsonianmag.com/science-nature/four-us-crispr-trials-editing-human-dna-for-new-medical-treatments-180973029/> (last visited Nov. 17, 2019).

¹⁶⁵ CLINICALTRIALS.GOV, <https://clinicaltrials.gov/ct2/results?term=CRISPR&recrs=adef&cntry=US&rank=2#rowId1> (last visited Nov. 17, 2019).

¹⁶⁶ Antonio Regalado, *CRISPR has been used to treat US cancer patients for the first time*, MIT TECH. REV. (Apr. 17, 2019), <https://www.technologyreview.com/f/613321/crispr-has-been-used-to-treat-us-cancer-patients-for-the-first-time>.

successful trial. Doctors took stem cells from her bloodstream and edited them using CRISPR to boost hemoglobin levels to prevent red blood cells from sickling.¹⁶⁷

Despite a federal ban for funding human genome editing experiments, the Penn study is funded by the Parker Institute for Cancer Immunotherapy, an organization started by Napster cofounder and early Facebook investor, Sean Parker, as well as by a startup firm, Tmunity.¹⁶⁸ Efforts to prevent human genome-related experiments in the U.S. are exercised by not allowing federal funding for such research, but a loophole exists, allowing human genome-related experiments if private funding is procured, as is the case here.

II. CURRENT STATE OF REGULATIONS

A. *Comparative study of the laws of different jurisdictions*

1. United States of America

Despite recent efforts to modernize it, the U.S.'s regulatory regime for biotechnology that was cobbled together decades ago remains outdated and ineffectual.¹⁶⁹ The White House Office of Science and Technology Policy (OSTP) was tasked with creating a regulatory framework in 1986 for the then-groundbreaking biotechnology trend, recombinant DNA. Instead of writing new laws, the OSTP decided to opt for a system known as the "Coordinated Framework," which gave regulatory authority to three federal agencies: the Food and Drug

¹⁶⁷ *Id.*

¹⁶⁸ *Id.*

¹⁶⁹ Brooke Borel, *The U.S. Regulations for Biotechnology Are Woefully Out of Date*, SLATE (Apr. 21, 2017), http://www.slate.com/articles/technology/future_tense/2017/04/u_s_biotechnology_regulations_are_woefully_out_of_date.html

Administration (FDA) under the Federal Food, Drug, and Cosmetic Act; the Environmental Protection Agency (EPA) under the Federal Insecticide, Fungicide, and Rodenticide Act, the Toxic Substances Control Act, and pollution-control statutes; and the U.S. Department of Agriculture (USDA) under the Federal Plant Pest Act.¹⁷⁰ In justifying the implementation of this framework, the OSTP reasoned that it would ensure the safety of biotechnology research and products since it would be comprehensively covered by all the relevant federal agencies while delineating responsibilities for each agency. Even though the OSTP intended that the framework evolve, it has remained largely the same since its publication in 1986. The Obama administration directed the OSTP to rework the Coordinated Framework to evolve with the rapid advancement of biotechnology; unfortunately, the updated framework that was published in January 2017 did not propose any substantive changes.¹⁷¹

The EPA, FDA, and USDA commissioned the United States National Academy of Sciences (NASEM) to study and assess the future landscape of biotechnology products in 2016. NASEM published an extensive report that reviewed scientific, ethical, moral, and legal concerns about the meteoric rise of gene editing technology. In the final report it published in February 2017, NASEM emphasized that new technologies, products, and applications emerging from genetic engineering research were likely to overwhelm the three agencies, and accordingly, outlined a strategic risk management and coordination approach amongst the agencies.¹⁷²

¹⁷⁰ Exercise of Federal Oversight Within Scope of Statutory Authority: Planned Introductions of Biotechnology Products into the Environment, 57 FED. REG. 6753, 6754 (Feb. 27, 1992).

¹⁷¹ Brooke Borel, *The U.S. Regulations for Biotechnology Are Woefully Out of Date*, SLATE (Apr. 21, 2017), http://www.slate.com/articles/technology/future_tense/2017/04/u_s_biotechnology_regulations_are_woefully_out_of_date.html

¹⁷² NAT'L ACADS. OF SCIS., ENG'G, & MED., PREPARING FOR FUTURE PRODUCTS OF BIOTECHNOLOGY (2017).

Surprising to many, the report's chief conclusion was that germline genome editing should be made impermissible now, but eventually, could be justified for certain medical conditions.¹⁷³ The NASEM committee, chaired by a molecular biologist and a bioethicist, and twenty-two international experts from the fields of biomedicine, law, and bioethics, however, did not sanction the use of CRISPR for any form of enhancement.¹⁷⁴

The Dickey-Wicker Amendment, passed in 1996, prevents the use of federal funding for research where human embryos would be destroyed.¹⁷⁵ This can be attributed to the fact that until recently, human germline editing has been merely speculative; but CRISPR has changed that. As of 2019, the official position of the FDA is that federal money can be used to research somatic cell gene therapy, but federal funds cannot be used to research germline cell gene therapy. Since somatic cell gene therapy research focuses on treating individuals by targeting the therapy to body cells, its effects cannot be passed to the patient's children. On the other hand, the FDA finds the idea of germline gene therapy controversial. Although it could spare future generations from particular genetic disorders, the FDA takes the position that germline cell therapy may affect the fetus's development in unexpected ways or have long-term side effects that are not yet known. Further, as a matter of law, because those who would be affected by germline gene therapy are not yet born, they are unable to choose whether to have the treatment. As a result of these ethical concerns, the FDA does not allow federal funds to be

¹⁷³ Press Release, NAT'L INSTS. OF HEALTH, *With Stringent Oversight, Heritable Germline Editing Clinical Trials Could One Day Be Permitted for Serious Conditions; Non-Heritable Clinical Trials Should Be Limited to Treating or Preventing Disease or Disability at This Time* (Feb. 14, 2017), <http://www8.nationalacademies.org/onpinews/newsitem.aspx?RecordID=24623>.

¹⁷⁴ Andrea Boggio, et al., *The Human Right to Science and the Regulation of Human Germline Engineering*, 2 CRISPR J. 134 (2019).

¹⁷⁵ The Balanced Budget Downpayment Act, Pub. L. No. 104-99, § 128, 110 Stat. 34 (1996).

used for research on germline gene therapy in people.¹⁷⁶ The FDA took this position nearly twenty years ago in response to the possibility of human reproductive cloning. The FDA declared that any genetically or otherwise substantially modified human embryo is a drug or biological product, and its use would require FDA approval. As with other pharmaceuticals, clinical use would require it to undergo New Drug Approval (NDA) if it were categorized as a drug, or Biological License Approval (BLA) if it were considered a biological product.¹⁷⁷

Although it is still currently unlawful in 2019 to use U.S. federal funds to create, destroy, or modify human embryos to include germline modifications for research purposes, the NASEM report's conclusion implied that once safety risks were better understood, clinical trials could conceivably be commenced using federal U.S. funds.¹⁷⁸ It can easily be argued that allowing private funding severely restricts the government's ability to regulate research that potentially has far-reaching impact on the country and the world. Lifting this federal ban could provide U.S. regulators "greater scientific and ethical oversight," permit "greater scrutiny of the value of this research through the peer review system," and potentially "create incentives to direct research toward health issues that have important implications for children."¹⁷⁹

The first U.S. state law regulating CRISPR was passed in July 2019. Senator Chang of California wrote a state bill preventing companies from selling CRISPR kits designed to modify DNA. This bill was written as a direct challenge to Mr. Zayner, a California resident who operated a company selling "Do-It-Yourself" genetic engineering supplies.¹⁸⁰

¹⁷⁶ *Help Me Understand Genetics*, GENETICS HOME REFERENCE (Nov. 12, 2019), <https://ghr.nlm.nih.gov/primer>.

¹⁷⁷ United States Food and Drug Administration, *Refuse to File: NDA and BLA Submissions to CDER, Guidance for Industry* (Dec. 2007).

¹⁷⁸ Andrea Boggio, et al., *The Human Right to Science and the Regulation of Human Germline Engineering*, 2 CRISPR J. 134 (2019).

¹⁷⁹ Comm. on Pediatric Research & Comm. on Bioethics, *Human Embryo Research*, 108 PEDIATRICS 813 (2001).

¹⁸⁰ 2019 Legis. Bill Hist. CA S.B. 180.

2. United Kingdom

In the UK, the Human Fertilisation and Embryology Authority (HFEA) is the governmental agency responsible for regulating the use of human embryos in research.¹⁸¹ The Human Fertilisation and Embryology Act of 1990 requires that researchers obtain licenses for every project as long as the research meets at least one of the purposes of the Act, embryos used in research are not implanted in a woman, and that embryos not be allowed to develop past fourteen days.¹⁸² This licensing procedure also involves obtaining approval from an HFEA-approved ethics committee. Once all these criteria are satisfied, the research team is granted a license valid for up to three years to conduct the planned research on human embryos.¹⁸³

In addition to the HFEA, the Nuffield Council, an independent non-profit bioethics advisory group, also has considerable influence in the matter. The Council issued reports in 2016 and 2018 concluding that potential uses of human germline editing could be ethically acceptable under certain circumstances. These eight circumstances and recommendations include more explicit discussion of social issues as well as highly specific regulatory recommendations.¹⁸⁴

In 2016, the HFEA approved an application for CRISPR use on research of human embryos. However, the Brexit vote in favor of Britain's exit from the EU has been perceived by

¹⁸¹ Ewen Callaway, *UK Scientists Gain Licence to Edit Genes in Human Embryos*, NATURE (Feb. 1, 2016), <https://www.nature.com/news/uk-scientists-gain-licence-to-editgenes-in-human-embryos-1.19270>.

¹⁸² HUMAN FERTILISATION & EMBRYOLOGY AUTH., CODE OF PRACTICE (8TH ED. 2017).

¹⁸³ Tracey Tomlinson, *A CRISPR Future for Gene-Editing Regulation: A Proposal for an Updated Biotechnology Regulatory System in an Era of Human Genomic Editing*, 87 FORDHAM L. REV. 437 (2018).

¹⁸⁴ Nuffield Council on Bioethics (Jul 17, 2018), <http://nuffieldbioethics.org/report/genome-editing-humanreproduction-social-ethical-issues/overview.>; Henry Greely, *CRISPR'd babies: human germline genome editing in the 'He Jiankui affair'*, 6 J. L. BIOSCIENCES 111 (2019).

some as creating an opportunity to ease restrictions on gene editing research and to further support British biotech innovations that they thought were otherwise stifled by EU regulations.¹⁸⁵ Conversely, Brexit may also threaten sources of funding made available for CRISPR-based research, adversely affecting British progress in gene editing research.¹⁸⁶

3. European Union

Passed in 1997, the Oviedo Convention, or Article 13 on the Convention on Human Rights and Biomedicine, has been ratified by twenty-nine European member states and bans any human germline modification. The Convention limits that genome-editing techniques be limited to medical uses (i.e. not elective procedures) and that any such modifications that result are not transmitted to offspring. This means that CRISPR can be used on somatic cells, but not for germline cell therapy. The Convention cites two major concerns; first, that germline modification may endanger not only the individual receiving the treatment, but also the species as a whole, and second, that it could be misused to intentionally modify the human genome to produce individuals or entire groups with particular characteristics or required qualities.¹⁸⁷

A complication that arises out of the structure of the E.U. is that countries can opt out of conventions, creating discordant regulatory frameworks within a system of governance that is designed to otherwise operate seamlessly. Most notably, here, the United Kingdom and

¹⁸⁵ David Warmflash & Jon Entine, *How Brexit will impact the future of farming, GMOs and gene editing in Britain and Europe*, GENETIC LITERACY PROJECT (June 29, 2016), <https://geneticliteracyproject.org/2016/06/29/brexit-will-impact-future-farming-gmos-gene-editing-britain-europe>.

¹⁸⁶ Erik Stokstad, *U.K. scientists increasingly anxious about Brexit confusion*, SCIENCE (Feb. 22, 2018), <https://www.sciencemag.org/news/2018/02/uk-scientists-increasingly-anxious-about-brexit-confusion>.

¹⁸⁷ Roberto Andorno, *Gene editing techniques in humans: The European legal framework*, UNIVERSITÄT ZÜRICH, http://nationalacademies.org/cs/groups/genesite/documents/webpage/gene_172441.pdf (last visited Nov. 3, 2019).

Belgium declined to sign the Convention because they found the terms too restrictive.¹⁸⁸ Belgium wanted the freedom to establish its own regulatory regime concerning embryo research and proceeded to do so in 2003 with the enactment of the Law on Research of Embryos In Vitro.¹⁸⁹ The enactment of this law allowed Belgium to create an independent federal commission charged with evaluating research projects that involved the use of human embryos and determining which projects met the law's stringent requirements.¹⁹⁰ The stricter portions of the law included the ban of reproductive cloning, eugenics, gender selection for nonmedical reasons, implantation of human embryos in animals, and the creation of chimeras or hybrids.¹⁹¹ Like the United Kingdom, research on embryos is only allowed for up to fourteen days, but scientific procedures must be based on most recent findings and conducted according to appropriate scientific methods.¹⁹² Further, Belgian law required that embryos subjected to research be destroyed unless the research had therapeutic goals for the embryo.¹⁹³

Human germline research is prohibited in Germany, Italy, and Switzerland because they have banned research with embryos without qualification.¹⁹⁴ The Netherlands, France, and Spain do not prohibit embryo research, but scientists can only use embryos that were expressly created for research purposes and that will not be used as in vitro fertilization as supernumerary embryos.¹⁹⁵

¹⁸⁸ Tracey Tomlinson, *A CRISPR Future for Gene-Editing Regulation: A Proposal for an Updated Biotechnology Regulatory System in an Era of Human Genomic Editing*, 87 *FORDHAM L. REV.* 437 (2018).

¹⁸⁹ Guido Pennings et al., *Human Embryo Research in Belgium: An Overview*, 108 *FERTILITY & STERILITY* 96 (2017).

¹⁹⁰ *Id.*

¹⁹¹ *Id.*

¹⁹² *Id.*

¹⁹³ *Id.*

¹⁹⁴ Andrea Boggio, et al., *The Human Right to Science and the Regulation of Human Germline Engineering*, 2 *CRISPR J.* 134 (2019).

¹⁹⁵ *Id.*

Several E.U. member states have expressed concerns about how to accommodate novel genome editing technologies like CRISPR into the existing regulatory framework for GMOs.¹⁹⁶ The E.U. has established a legal and regulatory framework that safeguards the development of GMOs while protecting humans, animals, and the environment.¹⁹⁷ This framework is used to determine whether an organism modified by CRISPR is considered “genetically modified,” and can be determined in multiple ways.¹⁹⁸ If the focus is on the process that produces the organism, the organism itself can be considered to be genetically modified.¹⁹⁹ However, if the focus is on whether the result of the process is nature-identical, asking whether the resulting organism could have occurred naturally, then the organism may not be considered genetically modified.²⁰⁰ Depending on how CRISPR is used and whether it involves altering the genome to create a new trait that does not occur in nature or whether it is used to revert a genetic deficiency can play a large part in the analysis of the technology’s permitted uses.²⁰¹ In an opinion released by the European Court of Justice in 2018, the Court stated that there were no plans to update the regulatory framework of GMOs.²⁰²

¹⁹⁶ *GMO Legislation*, EUROPEAN COMMISSION (2018), https://ec.europa.eu/food/plant/gmo/legislation_en (last visited Sept. 23, 2019).

¹⁹⁷ *Id.*

¹⁹⁸ *Id.*

¹⁹⁹ *Id.*

²⁰⁰ *Id.*

²⁰¹ Kathleen M. Vogel, *Crispr goes global: A snapshot of rules, policies, and attitudes*, BULLETIN OF THE ATOMIC SCIENTISTS (June 5, 2018), <https://thebulletin.org/2018/06/crispr-goes-global-a-snapshot-of-rules-policies-and-attitudes>.

²⁰² *Προτασεις Του Γενικου Εισαγγελεα Michal Bobek της 18ης Ιανουαρίου 2018*, COURT OF JUSTICE OF THE EUROPEAN UNION (Jan. 18, 2018), <http://curia.europa.eu/juris/document/document.jsf?text=&docid=198532>.

4. China

In China, embryo research is not prohibited, but like many E.U. member states, scientists are only permitted to use supernumerary embryos that will not be used for in vitro fertilization. China also follows the rule that embryos can only be studied during their first fourteen days of development and must be destroyed thereafter.²⁰³

However, clinical trials that involve germline modification seem to fall into a legislative vacuum in China, resulting in uncertainty as to what is prohibited.²⁰⁴ Research that includes human specimens is subject to the Guiding Principles for Human Gene Therapy Research and Quality Control of Preparation, which seeks to regulate somatic but not germline gene therapy.²⁰⁵ Therefore, it is unclear whether the Principles allow gene therapy on human embryos and whether germline modifications can be clinically tested on humans.²⁰⁶ In January 2019, Chinese regulatory and funding agencies condemned Dr. He for his experiment, asserting that the Principles prohibited the clinical research he was conducting in China.²⁰⁷

When it comes to research ethics, it does not seem that the Chinese government's stance on genome modification is very different from the rest of the developed world.²⁰⁸ Although China may not be as concerned about human embryo research, they do have similar

²⁰³ Kathleen M. Vogel, *Crispr goes global: A snapshot of rules, policies, and attitudes*, BULLETIN OF THE ATOMIC SCIENTISTS (June 5, 2018), <https://thebulletin.org/2018/06/crispr-goes-global-a-snapshot-of-rules-policies-and-attitudes>.

²⁰⁴ Andrea Boggio, et al., *The Human Right to Science and the Regulation of Human Germline Engineering*, 2 CRISPR J. 134 (2019).

²⁰⁵ *Id.*

²⁰⁶ *Id.*

²⁰⁷ *Id.*

²⁰⁸ Henry Greely, *CRISPR'd babies: human germline genome editing in the 'He Jiankui affair'*, 6 J. L. BIOSCIENCES 111 (2019).

measures in place for research of human subjects. China also has requirements for approval of human subjects by local committees, in addition to nation-wide laws.²⁰⁹

In January 2019, the president of China, Xi Jinping, also called for tighter regulation of gene editing by passing new legislation.²¹⁰ In February 2019, China announced new regulations that addressed high-risk technologies, such as gene editing, which would be governed by a new committee.²¹¹ In March 2019, China implemented these new regulations by setting up powerful, new national medical ethics committees that would be required to approve all clinical trials involving high-risk biomedical technologies, such as CRISPR. In May 2019, China announced that the latest revision of its Civil Code would grant human genes and embryos protected personality rights, and experiments on genes in humans or embryos that endangered either's health would accordingly be considered a violation of a person's fundamental rights.²¹²

III. ANALYSIS OF THE CRISPR PROBLEM

A. *Proposed solution*

In the face of fragmented regulations overdue and urgently in need of restructuring, as well as a lack of enforcement mechanisms, it is seemingly understandable why a global solution has not already been established and implemented. Ideally, such governance would be guided by a shared ethical standard based on the common good, but one that also takes into account

²⁰⁹ *Id.*

²¹⁰ Tom Hancock & Wang Xueqiao, *China set to tighten regulations on gene-editing research*, FIN. TIMES (Jan. 25, 2019), <https://www.ft.com/content/a464bd9c-f869-11e8-af46-2022a0b02a6c>.

²¹¹ Yanan Wang & Fu Ting, *China drafts rules on biotech after gene-editing scandal*, ASSOCIATED PRESS (Feb. 27, 2019), <https://www.apnews.com/47aa8ffa382c4ae19eb6ec202f93ddf8>.

²¹² David Cyranoski, *China Set To Introduce Gene-Editing Regulation Following CRISPR-Baby Furore*, NATURE (May 20, 2019), <https://www.nature.com/articles/d41586-019-01580-1>.

broader social contexts, values, and current concerns about the long term impact on humans instead of narrowly focusing on the imminent risks and side effects of CRISPR. Conversely, the wide spectrum of personal beliefs and opinions that account for social values that make up the pro/anti-choice debate makes it nearly impossible to reach a consensus on topics related to the use of human embryos for scientific testing.

Further, although the scientists and researchers that use CRISPR are key players and must be involved in the regulatory process, developing effective regulations should not be limited to them since the use of genome editing technology touches all of humanity. The structure of the United Nations seems to present itself as the most readily available platform to leverage in developing and enforcing an intergovernmental regulatory framework that could potentially garner a majority of the world's nations' buy in.²¹³ Unfortunately, issues related to non-criminal enforcement and state membership problems inherent to the UN structure would also adversely impact and limit the use of the UN platform.

The WHO, in its latest advisory opinion on human genome editing, suggested that a successful framework would incorporate five core principles.²¹⁴ First, that the framework be grounded in transparency that allows information to be freely shared.²¹⁵ Second, that a commitment to inclusivity be upheld, ensuring that diverse points of view, skill sets, and methods of program management and measurement are incorporated.²¹⁶ Third, that responsible stewardship of science be understood as a commitment to follow good practice in

²¹³ Roberto Andorno, *Gene editing techniques in humans: The European legal framework*, UNIVERSITÄT ZÜRICH, http://nationalacademies.org/cs/groups/genesite/documents/webpage/gene_172441.pdf (last visited Nov. 3, 2019).

²¹⁴ *Human Genome Editing*, WORLD HEALTH ORGANIZATION (July 26, 2019), <https://www.who.int/ethics/topics/human-genome-editing/ethics-explore-options-for-global-governance.pdf>.

²¹⁵ *Id.*

²¹⁶ *Id.*

scientific and clinical conduct to maximize potential benefits while minimizing harm.²¹⁷

Fourth, that principles of fairness underline all dealings between groups and provide equal access to opportunities and potential benefits.²¹⁸ Finally, fifth, that social justice be upheld by rejecting patterns of discrimination based on personal or group characteristics, including gender, race, ethnicity, sexuality, age, and disability.²¹⁹ The WHO emphasized that no individual scientist or individual country should seek to impose their own standards on the global community and that global governance could only be achieved through collaborative efforts on a global scale.²²⁰

With these five guiding principles, the legal- and science-based regulatory framework for genome editing would ideally be based on four categories of genome editing applications that could be encountered.²²¹ These four categories include therapeutic uses to treat disease, preventative uses which may or may not be therapeutic in nature, uses for cosmetic or enhancement purposes, and uses that may involve modification of traits that raise a concern of discrimination.²²² These four categories could serve as the foundation of a new regulatory blueprint and would potentially avoid the overlap between categories by a one-size-fits-all approach or the commonly seen unsuccessful approach of forcing old regulations being mapped onto novel technological problems.²²³

²¹⁷ *Id.*

²¹⁸ *Id.*

²¹⁹ *Id.*

²²⁰ *Id.*

²²¹ John M. Conley, *Introduction: A Lawyer's Guide to CRISPR*, 97 N.C. L. Rev. 1041 (2019).

²²² *Id.*

²²³ *Id.*

B. *Evaluation of Proposed Solution*

A common test of a proposed solution's effectiveness is to apply it to a pre-existing problem and analyze the outcome. Based on the baseline survey of genetic engineering-related regulations in the U.S., U.K., E.U., and China, there seems to be a trend disfavoring the use of CRISPR for human germline modification. However, since a lot of the regulations analyzed do not specifically address CRISPR and are often just remnants of previous regulations, they cannot be deemed to comprehensively or directly address the complex issues at hand. As a result, they generally allow some room for "special circumstances" that may allow for human germline experimentation.

This regulatory vacuum gave rise to several global organizations²²⁴ that attempt to directly address CRISPR use; however, since they cannot and do not mandate membership, this does not remedy "rogue scientists" like Dr. He who have their own research agendas and whose ethics and views may not precisely line up with those of the majority. According to Dr. He, he followed NASEM's 2017 guidelines: he checked all boxes of the NASEM panel, he met the criterion that only allowed editing genes that "convincingly demonstrated" to cause the disease,²²⁵ he conducted studies on animals first, and he had reliable oversight mechanisms in place.²²⁶ Unfortunately, since some of these "hurdles" are self-governed, there is doubt in the scientific community whether Dr. He honestly believed he followed *all* NASEM guidelines, or

²²⁴ The National Academies of Science, Engineering, and Medicine based in the United States (NASEM); the Nuffield Council on Bioethics based in the United Kingdom; and the International Summits on Human Genome Editing.

²²⁵ In this case, the CCR5 gene, which is responsible for HIV. See Henry Greely, *CRISPR'd babies: human germline genome editing in the 'He Jiankui affair'*, 6 J. L. BIOSCIENCES 111 (2019).

²²⁶ Sharon Begley, *For rules on creating 'CRISPR babies' from edited embryos, scientists call a do-over*, STAT (Aug. 21, 2019), <https://www.statnews.com/2019/08/12/crispr-babies-rules-scientists-call-for-do-over>.

just claimed to do so to spread the blame for a dangerous and unethical experiment.²²⁷ Thus, self-regulation by the experimenter is not an effective solution when the outcome is so wide-reaching to impact humanity itself. In this case, there has been much debate whether the genetic modification Dr. He implemented will, in fact, benefit the twins as intended and what the adverse side effects will be.²²⁸ Further, the question of the effects on the twins' offspring and their offspring, etc. will continue to be a looming question filled with unknowns.

Alternatively, the WHO's five principles of transparency, inclusivity, responsibility, fairness, and justice can be applied to this situation to evaluate their effectiveness. Here, the Dr. He situation fails to meet the first prong of transparency, since there was much doubt about the scientific robustness and extent of peer-review and approval for his experiment.²²⁹ If Dr. He had gone through a more comprehensive peer approval process and allowed for necessary adjustments, the scientific community could have received the news of his experiment differently. The spirit of the WHO's principles is based in global collaborative efforts, and once again involves a certain level of self-regulation on the experimenter's part. Self-regulation appears to be the fatal flaw in the solutions proposed.

IV. CONCLUSION

CRISPR has the potential to change the world—but its future is rife with uncertainty with respect to how the law will treat it. The laws and regulations of the jurisdictions and

²²⁷ *Id.*

²²⁸ Sara Reardon, *Gene edits to 'CRISPR babies' might have shortened their life expectancy*, NATURE (June 4, 2019), <https://www.nature.com/articles/d41586-019-01739-w#correction-0>.

²²⁹ David Cyranoski, *Baby gene edits could affect a range of traits*, NATURE (Dec. 12, 2019), <https://www.nature.com/articles/d41586-018-07713-2>.

organizations studied in this note seem to fail in sufficiently addressing the technology and its wide-ranging implications.

Although the scientific community has initiated dialog about gene editing and its wider implications, the legal community has yet to address the serious challenges gene editing will pose for law and policymaking. Collaboration between scientists, legislators, and lawyers will be of paramount importance as this technology continues to develop in an increasingly globalized and interconnected world. This note, along with similar scholarship, seeks to draw urgent attention to the issues at hand and initiate robust dialog amongst policymakers, scientists, lawyers, and the public during this nascent yet pivotal moment for biotechnology and humanity.

CASE COMMENT: KRAWIEC V. MANLY

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Draft Material: Not for Circulation

*“How can we expect another to keep our secret if we cannot keep it ourselves?”*¹

People have sought to safeguard commercially valuable information throughout history.² In Ancient China, for example, revealing the secret process of silk-making was punishable by death.³ Medieval guilds strived to protect the secrets of their craft through regulated apprenticeship systems that prohibited the poaching of skilled labor.⁴ Now modern laws offer more methodical approaches to protect commercially valuable information.⁵ Under trade secret jurisprudence in the United States today, trade secret owners can seek to enforce their ownership rights by suing in court for misappropriation.⁶

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¹ FRANÇOIS DE LA ROCHEFOUCAULD, *translated from French in MORAL REFLECTIONS, SENTENCES AND MAXIMS OF FRANCIS, DUC DE LA ROCHEFOUCAULD* 31 (William Gowans, 1851). French original: “Comment espérer qu'une autre personne gardera notre secret si nous ne le gardons pas nous-mêmes.” 1 FRANÇOIS DE LA ROCHEFOUCAULD, *REFLEXIONS OU SENTENCES ET MAXIMES MORALES* 48 (Paris, 1665).

² See *Trade Secrets: History*, DIGITAL BUSINESS LAW GROUP, <https://www.digitalbusinesslawgroup.com/internet-lawyer-trade-secrets-history.html> (last visited Nov. 20, 2020) (“[T]he protection of trade secrets dates back to earlier times. Some argue that trade secret protection started during Roman times where there were laws against corrupting the slaves of another. Presumably the corruption was intended to reveal secrets of the slave owner . . .”).

³ 1 HANDBOOK OF NATURAL FIBRES 49 (Ryszard M. Kozłowski ed., 2012).

⁴ See Robert P. Merges, *From Medieval Guilds to Open Source Software: Informal Norms, Appropriability Institutions, and Innovation* (Nov. 13, 2004), https://www.immagic.com/eLibrary/ARCHIVES/GENERAL/UCB_US/B041113M.pdf (“The craft guild also enabled individual members to capture a share of consumer surplus from their invention, by forbidding the poaching of skilled labor employed by the inventor . . .”). Labor poaching, also known as job poaching, “occurs when a company hires an employee from a competing company.” Alison Doyle, *What Is Job Poaching?*, THE BALANCE CAREERS, <https://www.thebalancecareers.com/what-is-employee-poaching-2061980> (last updated July 28, 2020). Labor poaching is common “in growing industries that require employees with high-demand skills,” such as software programming and developing and data analysis. *Id.*

⁵ See Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 HAMLINE L. REV. 493, 520–38 (2010) (explaining how “the [Uniform Trade Secrets Act] enhanced . . . trade secret law in at least six ways,” including transitioning from using inconsistent and unpredictable factors “to determine whether a given set of information was deserving of protection” to “three specific and mandatory requirements” information must meet to be “protected as a trade secret”).

⁶ See *Trade Secrets Tutorial*, DIGITAL BUSINESS LAW GROUP, <https://www.digitalbusinesslawgroup.com/internet-lawyer-trade-secrets.html> (last visited Nov. 20, 2020) (explaining that “[t]rade secrets are protected under state law”

Krawiec v. Manly was one such misappropriation case. There, in 2018, the Supreme Court of North Carolina considered, as a matter of first impression, the proper pleading standard required for a claim of trade secret misappropriation⁷ to survive a motion to dismiss⁸ for failure to state a claim on which relief can be granted.⁹ The court found that the complaint failed to identify the alleged trade secrets with sufficient particularity, and thus, the complaint failed to state a valid claim for misappropriation of trade secrets.¹⁰

This Case Comment contends that the *Krawiec* court applied the wrong pleading standard when it ruled on the sufficiency of a complaint for the purpose of overcoming a motion to dismiss.¹¹ First, the court unnecessarily heightened the pleading standard by requiring more precise disclosure of the trade secret allegedly misappropriated.¹² Second, the court misapplied

and “a majority of states have adopted the Uniform Trade Secrets Act”). *See generally* Sharon K. Sandeen & Christopher B. Seaman, *Toward a Federal Jurisprudence of Trade Secret Law*, 32 BERKLEY TECH. L.J. 829 (2017) (discussing the federally enacted Defend Trade Secrets Act of 2016 which “create[s] a federal civil cause of action for trade secret misappropriation for the first time”). “An owner of a trade secret that is misappropriated may bring a civil action . . . if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.” Defend Trade Secrets Act of 2016, 18 U.S.C. § 1836(b)(1) (2016). “Trade secret” includes all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—(A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

§ 1839(3)(A)–(B).

⁷ Under North Carolina state law, “misappropriation” is defined as the “acquisition, disclosure, or use of a trade secret of another without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret.” N.C. GEN. STAT. § 66-152(1) (2019).

⁸ “A motion to dismiss is a formal request for a court to dismiss a case.” *Motion to Dismiss*, LEGAL INFO. INST., https://www.law.cornell.edu/wex/motion_to_dismiss (last visited Nov. 20, 2020).

⁹ *Krawiec v. Manly*, 811 S.E.2d 542, 545–47 (N.C. 2018); *see* N.C. GEN. STAT. § 1A-1, Rule 12(b)(6) (2019) (defining North Carolina’s motion to dismiss for failure to state a claim upon which relief can be granted).

¹⁰ *Krawiec*, 811 S.E.2d at 549–52.

¹¹ *See id.* at 556 (Beasley, J., dissenting) (“[T]he majority has validated a heightened pleading standard for misappropriation of trade secrets claim with no discussion as to why it believes it is necessary to do so.”).

¹² *See supra* note 11 and accompanying text.

precedent by relying on cases with different procedural postures.¹³ Finally, the court ignored a core principle of trade secret protection by requiring precise descriptors of the plaintiffs' trade secrets and greater public disclosure of information with an inherently secretive nature.¹⁴

Michael and Jennifer Krawiec, a married couple, owned Happy Dance—a dance studio in Clemmons, North Carolina.¹⁵ In 2011, they hired Ranko Bogosavac and Darinka Divljak (“the Dancers”) to work as dance instructors and performers at Happy Dance.¹⁶ The Dancers entered into written employment contracts with Happy Dance in which they agreed, among other things, not to work for another company offering dance instruction for one year after termination of their contracts.¹⁷ The Dancers also agreed not to “disclose the dance studio’s confidential information to any person or entity for any purpose other than for the benefit of Happy Dance.”¹⁸ This confidential information included Happy Dance’s concepts for dance productions, marketing strategies, and client lists.¹⁹

The Krawiecs alleged that in early 2012, the Dancers, while still employed by Happy Dance and in violation of their contractual duties, began working as instructors for Metropolitan Ballroom (“Metropolitan,”) a dance studio in Charlotte, North Carolina owned by Jim and Monette Manly, and “shared with Metropolitan confidential and trade secret information

¹³ *Krawiec*, 811 S.E.2d at 553 (Beasley, J., dissenting). *See* *VisionAIR, Inc. v. James*, 606 S.E.2d 359, 364 (N.C. Ct. App. 2004) (evaluating a case for the purpose of granting a preliminary injunction); *see also* *Combs & Assoc., Inc. v. Kennedy*, 565 S.E.2d 634, 638–39 (N.C. Ct. App. 2001) (evaluating a complaint for the purpose of granting a summary judgment).

¹⁴ *See Krawiec*, 811 S.E.2d at 553 (Beasley, J., dissenting) (recognizing that “public disclosure of confidential information is a real concern for plaintiffs” who bring misappropriation claims and the majority’s heightened pleading requirement undermines that concern).

¹⁵ Plaintiff-Appellants’ Brief at 9, *Krawiec*, 811 S.E.2d 542 (No. 252A16), 2016 WL 7838933.

¹⁶ *Krawiec*, 811 S.E.2d at 545.

¹⁷ *Krawiec v. Manly*, No. 15 CVS 1927, 2016 WL 374734, at *1–2 (N.C. Super. Ct. Jan. 22, 2016).

¹⁸ *Id.* at *2.

¹⁹ *Id.*

[belonging to] Happy Dance.”²⁰ The Krawiecs further alleged that “Metropolitan produced and marketed the [Krawiecs’] shows as its own original productions.”²¹

In 2015, the Krawiecs sued the Dancers, the Manlys, and Metropolitan in the North Carolina Superior Court of Mecklenburg County for misappropriation of trade secrets.²² In response, the Dancers, the Manlys, and Metropolitan all filed motions to dismiss the claim for failure to state a claim upon which relief may be granted under section 12(b)(6) of the North Carolina Rules of Civil Procedure.²³

The trial court granted the motions, finding that the Krawiecs failed to identify their alleged trade secrets with sufficient particularity and failed to allege the specific acts of misappropriation in which the defendants supposedly engaged.²⁴ The Krawiecs appealed to the Supreme Court of North Carolina pursuant to North Carolina General Statute § 7A-27(a)(3)(a)²⁵ and argued that the trial court improperly granted the defendants’ motions to dismiss because the

²⁰ *Id.* This confidential information included concepts for dance productions, marketing strategies, and client lists.
Id.

²¹ *Id.* The record is silent as to the number of Krawiecs’ shows allegedly copied by Metropolitan.

²² Amended Complaint at 1, 14–16, *Krawiec v. Manly*, No. 15 CVS 1927 (N.C. Super. Ct. Aug. 24, 2015), 2015 WL 13752634. The Krawiecs also sued for several other causes of action such as breach of contract, tortious interference with business relations, fraudulent misrepresentation, and unfair and deceptive trade practices. *Id.* at 8–16. These additional claims are outside the scope of this Case Comment.

²³ *Krawiec*, 2016 WL 374734, at *1. *See* N.C. GEN. STAT. § 1A-1, Rule 12(b)(6) (2019) (permitting a motion to dismiss for failure to state a claim upon which relief can be granted). The Dancers filed a motion to dismiss pursuant to § 1A-1, Rule 12(b)(6) based on the argument that the Krawiecs “fail[ed] to state a claim upon which relief can be granted, and because the relevant statute of limitations for each claim [had] expired.” *Krawiecs*, 2016 WL 374734, at *4. The Manlys and Metropolitan jointly filed a motion to dismiss pursuant to § 1A-1, Rule 12(b)(6) and argued the misappropriation claim should be dismissed because “the only trade secrets alleged to have been misappropriated are ‘original ideals for dance productions’ which does not identify with sufficient particularity the trade secrets allegedly misappropriated.” Motion to Dismiss Amended Complaint at *3–4, *Krawiecs v. Manly*, 2015 NCBC Motions LEXIS 124 (No. 15 CVS 1927) (N.C. Super. Ct. Sept. 18, 2015).

²⁴ *Krawiec*, 2016 WL 374734, at *8–10, *16 (reasoning that the Krawiecs’ identification of their trade secrets as “ideas and concepts,” “marketing strategies and tactics,” and “student, client and customer lists and their contact information” was “so non-specific and generalized as to be meaningless” when stating a valid claim and their “bare, unsupported allegation that the [defendants] ‘unlawfully disclosed’ [the Krawiecs’] alleged trade secrets does not satisfy [the] mandatory pleading requirement”).

²⁵ N.C. GEN. STAT. § 7A-27(a)(3)(a) (2019) (“Appeal lies of right directly to the Supreme Court . . . [f]rom any interlocutory order of a Business Court Judge that . . . [a]ffects a substantial right.”).

complaint had, in fact, sufficiently stated a claim for misappropriation of trade secrets upon which relief may be granted.²⁶

Trade secret law began to develop in the United States in 1837 with *Vickery v. Welch*²⁷ and the deliciously precious “secret manner of making chocolate.”²⁸ Jonas Welch, the defendant, had sold to John Vickery, the plaintiff, his chocolate-making business as well as his secret manner of manufacturing chocolate, but thereafter refused to keep his chocolate-making method secret, claiming that being forced to do so would amount to an unlawful restraint of trade.²⁹ Vickery then sued Welch for breach of contract.³⁰ The *Vickery* court, in a decision based on principles of law and equity first developed in England,³¹ held in favor of Vickery.³² The court found that Welch breached the terms and defeated the purpose of the contract when he refused to keep the method secret.³³ The court explained that prohibiting Welch from divulging the method to others was not a restraint of trade because it was “of no consequence to the public whether the secret art be used by the plaintiff or by the defendant.”³⁴

²⁶ Plaintiff-Appellants’ Brief at 36–41, *Krawiec v. Manly*, 811 S.E.2d 542 (N.C. 2018) (No. 252A16), 2016 WL 7838933.

²⁷ 36 Mass. (1 Pick.) 523 (1837).

²⁸ Matthew Poppe & Johanna Jacob, *Founding Fathers (or cases) of Trade Secret Law: A Look Back in Celebration of Independence Day*, LEXOLOGY: TRADE SECRETS WATCH BLOG (July 5, 2016), <https://www.lexology.com/library/detail.aspx?g=2a37febf-8b81-4605-80ae-df1646a0b6ba> (internal quotations omitted).

²⁹ *Vickery*, 36 Mass. (1 Pick.) at 523–24, 527. Welch refused to keep “his secret manner of making chocolate” a secret because agreeing to give Vickery the “instruction and information . . . [in private]” and not “communicate the secret to all other people,” would be prejudicing the public, thus amounting to a “restraint of trade.” *Id.* at 524, 527.

³⁰ *See id.* at 527 (finding that “there was a breach of the [contract] when the defendant refused . . . to assure the right to the plaintiff and his associates”); *see also* Poppe & Jacob, *supra* note 28 (summarizing *Vickery* and explaining that Vickery sued Welch “for breach of contract, claiming [Vickery] ‘should have the exclusive benefit of making chocolate in the mode used by [Welch]’”).

³¹ *See Sandeen, supra* note 5, at 498 (“Two essential questions confronted early courts in trade secret cases. First was whether the actions of the defendant were sufficiently wrongful to justify relief If the first question was answered affirmatively, the nature of the appropriate relief had to be determined.”)

³² *Vickery*, 36 Mass. (1 Pick.) at 527.

³³ *See id.* at 526–27 (“The defendant was to sell, the plaintiff was to buy. Now we cannot perceive the least reason which, after such sale, would enable the defendant lawfully to retain any right in the property or rights sold, nor any right to convey to strangers, any part of what was to be transferred to the plaintiff.”).

³⁴ *Id.* at 527.

Similarly, in the 1868 case of *Peabody v. Norfolk*, an engineer at a burlap making factory signed a contract saying he would consider the factory’s original machinery “sacred” and prevent outsiders from obtaining any information that would enable them to use it.³⁵ Subsequently, the engineer quit, taking models and drawings of the sacred machines with him.³⁶ When the plaintiff, who personally invented and built the machinery, sought an injunction³⁷ to prevent the engineer from revealing the machines’ secrets, the court granted it, stating that “courts of equity will restrain a party from making a disclosure of secrets communicated to him in the course of a confidential employment.”³⁸

Importantly, these early trade secret cases often turned on the “existence of an express or implied agreement of confidentiality or breach of good faith.”³⁹ Soon thereafter, however, courts began to question the nature of trade secret information.⁴⁰ In 1908, in *Hamilton Manufacturing Co. v. Tubbs Manufacturing Co.*, the U.S. Circuit Court for the Western District of Michigan scrupulously differentiated between trade secret information and information already known to the public.⁴¹ The court noted that “[t]here can be no property in a process, and no right of protection, if knowledge of it is common to the world.”⁴²

³⁵ 98 Mass. (1 Allen) 452, 453 (1868). The case explains that the plaintiff “manufacture[d] gunny cloth from jute botts,” which is known today as burlap. *Id.*; Poppe & Jacob, *supra* note 28.

³⁶ *Peabody*, 98 Mass. (1 Allen) at 454.

³⁷ “A court order commanding or preventing an action.” *Injunction*, BLACK’S LAW DICTIONARY (11th ed. 2019). “To get an injunction, the complainant must show that there is no plain, adequate, and complete remedy at law and that an irreparable injury will result unless the relief is granted.” *Id.*

³⁸ *Peabody*, 98 Mass. (1 Allen) at 459–61 (quoting 2 Story Eq. § 952) (internal quotations omitted).

³⁹ Sandeen, *supra* note 5, at 499; *see Vickery v. Welch*, 36 Mass. (1 Pick.) 523, 524 (1837) (“If on these facts . . . a breach of the [contract] was proved, for which the defendant was liable, he was to be defaulted, and such a hearing to be had as to damages, as the Court should order.”); *see also Peabody*, 98 Mass. (1 Allen) at 452 (“One who invents . . . and keeps secret . . . whether proper for a patent or not, has a property therein which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use or disclose it to third persons.”).

⁴⁰ *See Sandeen*, *supra* note 5, at 499 (explaining that it was difficult for some courts to determine “if secret information actually existed”).

⁴¹ 216 F. 401 (C.C.W.D. Mich. 1908).

⁴² *Id.* at 407 (quoting *Cincinnati Bell Foundry Co. v. Dodds*, 10 Ohio Dec. Reprint 154, 155 (Super. Ct. 1887)). “In every case where the plaintiff seeks protection for a trade secret, it must appear that it really is a secret. If a so-called

By 1939, trade secret law had developed enough at common law to be compiled by the American Law Institute⁴³ and published in Volume IV of the Restatement (First) of Torts.⁴⁴ Sections 757 through 759 of that Restatement laid the foundation for modern trade secret law, by synthesizing and organizing the common law approach to trade secrets.⁴⁵

Still, throughout the development of trade secret law, there was confusion as to how the common law notion of trade secret law fit in amongst the more established forms of intellectual property protection,⁴⁶ because it was unclear whether federal patent law preempted state trade secret protection.⁴⁷ In 1974, the U.S. Supreme Court resolved this issue in *Kewanee Oil Co. v. Bicron Corp.*, holding that federal patent law does not preempt state trade secret protection laws.⁴⁸ This decision established the basis for states to freely develop their own trade secret protections.⁴⁹

secret process is lawfully known to others in the trade, no one will be enjoined from disclosing or using it.” *Id.* (citations omitted) (internal quotations omitted).

⁴³ The American Law Institute is an “independent organization in the United States that produces scholarly work to clarify, modernize, and otherwise improve the law.” *About ALI*, A.L.I., <https://www.ali.org/about-ali/> (last visited Nov. 24, 2020).

⁴⁴ Sandeen, *supra* note 5, at 496, 500–01.

⁴⁵ *Id.* at 500–01. Section 757 set forth how “a person could be liable” under a trade secrets claim. *Id.* at 501 (citing RESTATEMENT (FIRST) OF TORTS § 757 (1934)). Section 758 provided that “innocent discovery of trade secrets is not actionable” and “created an exception [for] cases where the defendant received notice of the misappropriation before a material change in his or her position.” *Id.* (citing RESTATEMENT (FIRST) OF TORTS § 758). Lastly, “[s]ection 759 addressed the situation where business information not qualifying as a trade secret is acquired using ‘improper means.’” *Id.* (citing RESTATEMENT (FIRST) OF TORTS § 758).

⁴⁶ In 1974, there were federally enacted laws protecting copyrights and patents, whereas trade secrets were protected by state laws only. *See Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 479 (1974) (discussing the federally enacted laws protecting copyrights and patents and comparing those to Ohio’s trade secrets law).

⁴⁷ *See* Sandeen, *supra* note 5, at 507 (explaining that in 1964, “[t]he need for a federal law to govern unfair competition became more urgent” after a series of cases established that “the unfair competition laws of Illinois which prohibited product simulation, were preempted by federal patent law”). However, it was unclear whether the holdings of those cases were “limited to cases of product simulation or . . . extended to the whole field of unfair competition,” including state trade secret laws. *Id.* at 508 (citation omitted) (internal quotations omitted). In fact, “[p]roposals were . . . made for the adoption of federal legislation to make it clear that patent law was not intended to preempt state trade secret law.” *Id.* at 508–09 (citation omitted).

⁴⁸ 416 U.S. at 474.

⁴⁹ *See id.* at 492–93 (“Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection. Until Congress takes affirmative action to the contrary, States should be free to grant protection to trade secrets.”).

Common law trade secret jurisprudence continued to develop and, in 1979, the Uniform Law Commission⁵⁰ published the Uniform Trade Secrets Act (UTSA),⁵¹ which aimed to unify the state laws governing trade secrets.⁵² The Act has since been adopted by forty-eight of the fifty states; one of the two outliers is North Carolina.⁵³ As a result of the North Carolina legislature's refusal to adopt the UTSA, the state's courts have created inconsistent jurisprudence and infringed on the duties of the legislative branch by changing the law governing trade secret claims.⁵⁴

The effects of North Carolina's inconsistent jurisprudence directly affected the owners of Happy Dance. On appeal before the Supreme Court of North Carolina, the Krawiecs offered several arguments to support the sufficiency of their complaint.⁵⁵ First, they argued that the complaint's characterization "of their trade secrets as 'original ideas and concepts for dance productions, marketing strategies and tactics, as well as student, client and customer lists and their contact information'" was legally sufficient to plead the existence of trade secret information.⁵⁶

Second, they maintained that, as a matter of law, "customer lists and contact information are protectable trade secrets."⁵⁷ Further, the Krawiecs asserted that the complaint adequately

⁵⁰ The Uniform Law Commission "provides states with non-partisan, well-conceived, and well-drafted legislation that brings clarity and stability to critical areas of state statutory law." *About Us*, UNIF. L. COMM'N, <https://www.uniformlaws.org/aboutulc/overview> (last visited Nov. 26, 2020).

⁵¹ The Uniform Trade Secrets Act, adopted in 1979 and amended in 1985, "codifies the basic principles of common law trade secret protection, preserving its essential distinctions from patent law." UNIFORM TRADE SECRETS ACT prefatory note (1979) (UNIF. L. COMM'N amended 1985).

⁵² Sandeen, *supra* note 5, at 514 (explaining why a uniform law on trade secrets was necessary).

⁵³ 1 ROGER M. MILGRIM & ERIC E. BENSON, MILGRIM ON TRADE SECRETS § 1.01(2)(c)(i) (2020). New York is the other state that did not adopt the UTSA. *Id.*

⁵⁴ See Christopher A. Moore, Comment, *Redefining Trade Secrets in North Carolina*, 40 CAMPBELL L. REV. 643, 644-45 (2018) (explaining that North Carolina courts have inconsistently interpreted the statutory definition of trade secret).

⁵⁵ *Krawiec v. Manly*, 811 S.E.2d 542, 547 (N.C. 2018).

⁵⁶ *Id.*; Plaintiff-Appellants' Brief, *supra* note 15, at 38.

⁵⁷ *Krawiec*, 811 S.E.2d at 547.

described the act by which the misappropriation was accomplished:⁵⁸ (1) it alleged that the Krawiecs had “shared their original ideas for dance productions and other trade secrets with the [D]ancers in confidence [and] while the [D]ancers were employed by [Happy Dance],” and (2) it alleged that the Dancers disclosed the information to the Manlys and Metropolitan without the Krawiecs’ consent.⁵⁹ Finally, the Krawiecs argued that the Manlys and Metropolitan received the trade secret information directly from the Dancers, and then went on to use that trade secret information to produce and market the Krawiecs’ shows as their own original works.⁶⁰

The defendants requested that the trial court’s ruling be affirmed, arguing that the Krawiecs had failed to identify the alleged trade secrets in their complaint with sufficient particularity.⁶¹

The *Krawiec* court affirmed the trial court’s ruling and granted the defendants’ motion to dismiss.⁶² The court found that not only had that the Krawiecs’ provided a legally insufficient description of their trade secrets, but that they had also failed to properly allege the existence of a trade secret because they did not include in their complaint allegations of secrecy other than that the information had been shared with the Dancers “in confidence.”⁶³

⁵⁸ See *Washburn v. Yadkin Valley Bank & Tr. Co.*, 660 S.E.2d 577, 585–86 (N.C. Ct. App. 2008) (explaining that a complaint must specifically identify the trade secrets allegedly misappropriated and sufficiently identify “the acts by which the alleged misappropriations were accomplished,” neither of which can be “sweeping and conclusory statements”).

⁵⁹ Plaintiff-Appellants’ Brief, *supra* note 15, at 40.

⁶⁰ *Id.*

⁶¹ Defendants-Appelles’ Brief at 26, *Krawiec*, 811 S.E.2d 542 (2018) (No. 252A16), 2017 WL 384819.

⁶² *Krawiec*, 811 S.E.2d at 552. The court dismissed the plaintiffs’ claims for “tortious interference with contract, unfair and deceptive practices, and unjust enrichment against the Metropolitan defendants.” *Id.* at 552. The court remanded the case for further proceedings on the civil conspiracy claim. *Id.*

⁶³ *Id.* at 549. In addition, the Krawiecs alleged that the Dancers entered into non-compete agreements with Happy Dance; however, this is not addressed in the opinion. See *Krawiec v. Manly*, No. 15 CVS 1927, 2016 WL 374734, at *6 (N.C. Super. Ct. Jan. 22, 2016) (explaining that dismissing “Plaintiffs’ claim for breach of the non-competition agreement on [the basis that the Dancers both signed a non-compete agreement] is not proper at this stage of the litigation”).

The *Krawiec* court applied the wrong standard when it ruled on the sufficiency of the complaint for the purpose of overcoming a motion to dismiss, and, in doing so, created a heightened pleading standard for North Carolina plaintiffs seeking trade secret protection under state law.⁶⁴ North Carolina’s liberal statutory pleading standard requires a plaintiff to submit “[a] short and plain statement of the claim sufficiently particular to give the court and the [defendant] notice of the . . . occurrences . . . that [would entitle the plaintiff to relief].”⁶⁵ When pleading misappropriation of trade secrets, the plaintiff must also allege that the defendant “(1) [k]nows or should have known of the trade secret; and (2) [h]as had a specific opportunity to acquire it for disclosure . . . without the express or implied consent or authority of the owner.”⁶⁶

At the outset of a trade secret misappropriation claim, a plaintiff must properly plead the existence of trade secret information.⁶⁷ North Carolina courts have found that short and plain descriptions of the nature of the secret information, sufficiently particular to give the court and the defendant notice of the occurrences that would entitle the plaintiff to relief, are legally sufficient to show the existence of trade secret information; in contrast, general descriptions, as

⁶⁴ See *Krawiec*, 811 S.E.2d at 553 (Beasley, J., dissenting) (“[T]he majority validates a heightened pleading standard for a [misappropriation of trade secrets] claim There [should be] no statutory heightened pleading standard for misappropriation of trade secrets . . . and additional guidance from the Court of Appeals on pleading this particular claims rests on cases evaluating the issue from an entirely different procedural posture than a motion to dismiss.”).

⁶⁵ N.C. GEN. STAT. § 1A-1, Rule 8(a)(1) (2019). The *Krawiec* court relied on the 2017 version of the North Carolina General Statutes, which were subsequently amended in 2019; however, the amendment did not affect the provisions of the Statutes cited in this Case Comment, therefore this Case Comment cites to the most recent version of the Statutes.

⁶⁶ N.C. GEN. STAT. § 66-155 (2019).

⁶⁷ See *Krawiec*, 811 S.E.2d at 547–48 (majority opinion) (quoting *Washburn v. Yadkin Valley Bank & Tr. Co.*, 660 S.E.2d 577, 585–86 (N.C. Ct. App. 2008)). A trade secret consists of

business or technical information, including but not limited to a formula, pattern, program, device, compilation of information, method, technique, or process that . . . [d]erives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reverse engineering by persons who can obtain economic value from its disclosure or use; and . . . [i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

N.C. GEN. STAT. § 66-152(3)(a)–(b) (2019).

well as sweeping and conclusory statements, are not.⁶⁸ However, the *Krawiec* court required the plaintiffs to identify their trade secret with more particularity than statutorily necessary to put the defendants on notice of the trade secret they are accused of misappropriating and to allow the court to determine whether misappropriation has occurred.⁶⁹ The *Krawiec* court's standard thus requires overly detailed disclosure of the trade secret allegedly misappropriated.⁷⁰

In the 2009 case *Medical Staffing Network, Inc. v. Ridgway*, the plaintiff brought a claim of misappropriation of trade secrets against a former employee after he joined a competing staffing company and allegedly shared with it information about Medical Staffing Network's business strategies and marketing plans.⁷¹ The Court of Appeals of North Carolina found that the plaintiff had sufficiently pleaded a claim for misappropriation of trade secrets because it had shown that the competing company had access to the information through the plaintiff's former employee and described the trade secrets as price and costing information, and its list of staff nurses.⁷²

In 2015, in *Southern Fastening Systems, Inc. v. Grabber Construction Products, Inc.*, the plaintiff's former employee allegedly breached his non-disclosure agreement⁷³ by sharing the

⁶⁸ Compare *Med. Staffing Network, Inc. v. Ridgway*, 670 S.E.2d 321, 328–29 (N.C. Ct. App. 2009) (finding “nurses’ phone numbers, pay rates, specializations, and preferences regarding shifts and facilities” as well as “marking information and client order documents” sufficiently descriptive), and *S. Fastening Syss. v. Grabber Constr. Prods.*, No. 14 CVS 04260, 2015 WL 2031007, at *4 (N.C. Super. Ct. Apr. 28, 2015) (finding plaintiff's description of the trade secrets as “confidential customer information such as customer contact information and customer buying preferences and history” as well as “confidential freight information, sales reports, prices and terms books, sales memos, sales training manuals, commission reports, and information concerning [the company's] relationship with its vendors” was sufficient to show the existence of trade secret information), with *Washburn*, 660 S.E.2d at 585–86 (finding the identification of trade secrets as “confidential client information and confidential business information” too broad and vague).

⁶⁹ *Krawiec*, 811 S.E.2d at 547–48 (quoting *Washburn*, 660 S.E.2d at 558).

⁷⁰ See *id.* at 554 (Beasley, J., dissenting) (emphasis in original) (“[T]he majority now requires *evidence* at the pleading stage showing the plaintiff took steps to keeps [sic] its trade secrets confidential.”).

⁷¹ 670 S.E.2d at 328–29.

⁷² *Id.*

⁷³ A non-disclosure agreement (NDA), which is also known as a confidentiality agreement, is “[a] contract or contractual provision containing a person’s promise not to disclose any information shared by or discovered from a holder of confidential information, including all information about trade secrets, procedures, or other internal or proprietary matters.” *Nondisclosure Agreement*, BLACK’S LAW DICTIONARY (11th ed. 2019).

names of the plaintiff's customers with a competing company and contacting these customers to solicit sales of competing products.⁷⁴ Southern Fastening Systems brought a claim of trade secret misappropriation against the former employee in the North Carolina Superior Court of Buncombe County, claiming that the customer lists were entitled to trade secret protection.⁷⁵ The court found that the plaintiff's description of its trade secrets as "confidential customer information such as customer contact information and customer buying preferences and history," as well as "confidential freight information, sales reports, prices and terms books, sales memos, sales training manuals, commission reports, and information concerning [the company's] relationship with its vendors," were made with sufficient particularity to give the court and the defendant notice of the occurrences which may entitle the plaintiff to relief.⁷⁶

In contrast, in *Washburn v. Yadkin Valley Bank & Trust Co.*, the Court of Appeals of North Carolina held in 2008 that a complaint making "general allegations in sweeping and conclusory statements, without specifically identifying the trade secrets allegedly misappropriated, is insufficient to state a claim for misappropriation."⁷⁷ In *Washburn*, two former bank employees allegedly shared trade secret information after moving to a competing financial group.⁷⁸ The *Washburn* court found that the complaint did not include allegations of the acts giving rise to the alleged misappropriation and that the identification of the trade secrets as only "confidential client information and confidential business information" was overly broad and vague and thus, could not support the claim of misappropriation.⁷⁹

⁷⁴ No. 14 CVS 04260, 2015 WL 2031007, at *1–3 (N.C. Super. Ct. Apr. 28, 2015).

⁷⁵ *Id.* at *6. In addition, Southern Fastening Systems also brought a claim against the former employee for breach of the non-disclosure agreement. *Id.* at *3.

⁷⁶ *Id.* at *4–5 (citation omitted).

⁷⁷ 660 S.E.2d 577, 585–86 (N.C. Ct. App. 2008) (citing *VisionAIR, Inc. v. James*, 606 S.E.2d 359, 364 (N.C. Ct. App. 2004)) (internal quotations omitted).

⁷⁸ *Id.* at 581, 586.

⁷⁹ *Id.* at 586.

In their complaint, the Krawiecs described their trade secrets as “original ideas and concepts for dance productions, marketing strategies and tactics, as well as student, client and customer lists and their contact information,” and further showed that the Manlys learned of this information directly from the Dancers.⁸⁰ The Krawiecs, like the plaintiff in *Medical Staffing Network*, sufficiently pleaded a claim for trade secret misappropriation because they included a short and plain statement with sufficiently specific details about the nature of the allegedly misappropriated information and because they showed that the defendants had access to secret information directly from the former employee.⁸¹

Similarly, the plaintiff in *Southern Fastening* was able to overcome a motion to dismiss by sufficiently detailing the type, nature, and purpose of the alleged trade secrets, so as to give the court and the defendant notice of the occurrences which might entitle the plaintiff to relief.⁸² The Krawiecs’ description of their trade secrets was likewise sufficient to overcome a motion to dismiss because it included specific details about those trade secrets, such as “ideas and concepts for dance productions,” “marketing strategies,” and “client and customer lists,”⁸³ which sufficiently identified the trade secrets at issue to give the defendant and the court notice of the occurrences that might entitle the Krawiecs to relief.⁸⁴

⁸⁰ *Krawiec v. Manly*, 811 S.E.2d 542, 547 (N.C. 2018) (internal quotations omitted).

⁸¹ *See id.* at 555 (Beasley, J., dissenting) (explaining that the North Carolina Court of Appeals has constituted “customer lists and their contact information” and “marketing strategies” as trade secrets and “it is unreasonable to conclude that a plaintiff cannot rely on these holdings to plead its claim”).

⁸² *See S. Fastening Sys., Inc. v. Grabber Constr. Prods.*, No. 14 CVS 04260, 2015 WL 2031007, at *4–5 (N.C. Super. Ct. Apr. 28, 2015) (explaining that “North Carolina courts have regularly found trade secrets described as “confidential customer information such as customer contact information and customer buying preferences and history [. . .] confidential freight information, sales reports, prices and terms books, sales memos, sales training manuals, commission reports, and information concerning [the plaintiff’s] relationship with its vendors” as “protectable trade secrets . . . for Rule 12(b)(6) purposes”) (internal quotations omitted).

⁸³ *Krawiec*, 811 S.E.2d at 547.

⁸⁴ *Id.* at 556 (Beasley, J., dissenting) (“[T]he allegations here provided more specific details regarding both client and business information to more particularly describe the trade secrets as ‘original ideas and concepts for dance productions, marketing strategies and tactics, as well as student, client and customer lists and their contact information.’ Because this description is sufficient to put defendants on notice of the transactions and occurrences at issue, I cannot join the majority.”).

The Krawiecs' description of their trade secret information is more akin to the descriptions in both *Medical Staffing Network* and *Southern Fastening* than to the description in *Washburn* because the Krawiecs alleged and described the particular type and purpose of the information misappropriated.⁸⁵ In *Washburn*, the description merely characterized the information as “confidential” and did not point either the defendants or the court to the nature of the information allegedly misappropriated.⁸⁶ In contrast, the *Medical Staffing Network* and *Southern Fastening* descriptions specifically categorized the information as ‘lists of staff nurses’⁸⁷ and “customer contact information,”⁸⁸ respectively. Likewise, the Krawiecs' complaint specifically categorized the information at issue as “concepts for dance productions” and client “contact information.”⁸⁹ Thus, the Krawiecs—just like the plaintiffs in *Medical Staffing Network* and *Southern Fastening*—identified their trade secrets with sufficient particularity because they provided specific details about the type and nature of the allegedly misappropriated information.⁹⁰

⁸⁵ Compare *id.* at 549 (majority opinion) (describing the trade secrets as “original ideas and concepts for dance productions, marketing strategies and tactics, as well as student, client and customer lists and their contact information” from plaintiff’s database) (internal quotations omitted), *Med. Staffing Network, Inc. v. Ridgway*, 670 S.E.2d 321, 328 (N.C. Ct. App. 2004) (identifying the “two categories of trade secrets [as] information about *per diem* nurses and business strategies and marketing plans”) (emphasis in original), and *S. Fastening Syss.*, 2015 WL 2031007, at *4 (including “confidential customer information such as customer contact information and customer buying preferences and history [. . .] confidential freight information, sales reports, prices and terms books, sales memos, sales training manuals, commission reports, and information concerning [the plaintiff’s] relationship with its vendors” as plaintiff’s trade secret information) (internal quotations omitted), *with Washburn v. Yadkin Valley Bank & Tr. Co.*, 660 S.E.2d 577, 586 (N.C. Ct. App. 2008) (alleging the trade secrets were “knowledge of . . . business methods; clients, their specific requirements and needs; and other confidential information pertaining to [the] business”).

⁸⁶ *Washburn*, 660 S.E.2d at 586.

⁸⁷ *Med. Staffing Network*, 670 S.E.2d at 328.

⁸⁸ *S. Fastening Syss.*, 2015 WL 2031007, at *4.

⁸⁹ *Krawiec*, 811 S.E.2d at 547.

⁹⁰ See *id.* at 556 (Beasley, J., dissenting) (explaining that the Krawiecs “provided more specific details regarding both client and business information to more particularly describe the trade secrets”).

Second, the *Krawiec* court misapplied precedent by relying on cases with procedural postures different from the case at hand.⁹¹ The court determined the sufficiency of the Krawiecs' complaint for the purpose of surviving a motion to dismiss by relying on cases⁹² that examined the sufficiency of complaints for the purposes of other motions, namely motions for summary judgment⁹³ and preliminary injunction.⁹⁴ But the pleading standard for surviving a motion to dismiss differs significantly from the standards used for motions for summary judgment or preliminary injunction.⁹⁵ To succeed on a motion for summary judgment or for preliminary injunction, the moving party must show a likelihood of success on the merits of its claim;⁹⁶ further, in deciding a motion for summary judgment, a court will take all of the plaintiff's factual allegations as true.⁹⁷ In contrast, to survive a defendant's motion to dismiss, a plaintiff need only offer a "short and plain statement of the claim sufficiently particular to give the court and the

⁹¹ See *id.* at 553 ("The majority's reasoning and reliance on various authority conflate the North Carolina standards for Rule 12(b)(6) motions to dismiss, motions for preliminary injunction, and motions for summary judgment...").

⁹² *Id.* at 547–48 (majority opinion); see *VisionAIR, Inc. v. James*, 606 S.E.2d 359, 360, 364 (N.C. Ct. App. 2004) (evaluating the merits of a misappropriation of trade secrets claim for the purpose of issuing a preliminary injunction); see also *Analog Devices, Inc. v. Michalski*, 579 S.E.2d 449, 451–52 (N.C. Ct. App. 2003) (evaluating the merits of a misappropriation of trade secrets claim for the purpose of issuing a preliminary injunction); see also *Combs & Assocs., Inc. v. Kennedy*, 555 S.E.2d 639–40 (N.C. Ct. App. 2001) (evaluating the merits of a misappropriation of trade secrets claim for the purpose of succeeding on a motion for summary judgment).

⁹³ A motion for summary judgment is "[a] request that the court enter judgment without a trial because there is no genuine issue of material fact to be decided by a fact-finder—that is, because the evidence is legally insufficient to support a verdict in the nonmovant's favor." *Motion for Summary Judgment*, BLACK'S LAW DICTIONARY (11th ed. 2019).

⁹⁴ A preliminary injunction is "[a] temporary injunction issued before or during trial to prevent an irreparable injury from occurring before the court has a chance to decide the case." *Injunction*, BLACK'S LAW DICTIONARY (11th ed. 2019).

⁹⁵ See *Krawiec*, 811 S.E.2d at 554 (Beasley, J., dissenting) (distinguishing the standards for a preliminary injunction, motion for summary judgment, and 12(b)(6) motion).

⁹⁶ See N.C. GEN. STAT. § 1A-1, Rule 56(c) (2019) (providing that a summary judgment will be issued if the moving party "show[s] that there is no genuine issue as to any material fact and that any party is entitled to a judgment as a matter of law," thus proving the likelihood of success on the merits of the claim); see also *id.* § 1A-1, Rule 65(b) (providing that a temporary restraining order will be issued if "it clearly appears from specific facts shown . . . by verified complaint that immediate and irreparable injury will result to the applicant before the adverse party . . . can be heard in opposition . . .").

⁹⁷ See *Combs & Assocs., Inc. v. Kennedy*, 555 S.E.2d 634, 639 (N.C. Ct. App. 2001) ("Because summary judgment supplants trial of the factual issues, all the evidence is viewed in the light most favorable to the nonmoving party.").

parties notice⁹⁸ of the . . . transactions or occurrences . . . intended to be proved showing that the pleader is entitled to relief.”⁹⁹ The standards used in evaluating motions for summary judgment or preliminary injunction are thus significantly higher than the standard required to survive a motion to dismiss.¹⁰⁰

For its analysis of the sufficiency of the Krawiecs’ complaint for the purposes of surviving a motion to dismiss, the *Krawiec* court relied on the 2001 decision in *Combs & Associates, Inc. v. Kennedy*, where a company providing “sales representation for manufacturers of water and wastewater equipment” sued both a former employee and a former client for misappropriation of trade secrets after the employee had formed a competing company for that client.¹⁰¹ When the trial court granted summary judgment in favor of the defendants, the plaintiff appealed, “arguing that there were genuine issues of material fact regarding its claims.”¹⁰² The appellate court, however, found that the defendants had shown a likelihood of success on the

⁹⁸ A notice pleading is “[a] procedural system requiring that the pleader give only a short and plain statement of the claim showing that the pleader is entitled to relief, and not a complete detailing of all the facts.” *Pleading*, BLACK’S LAW DICTIONARY (11th ed. 2019). North Carolina generally employs a liberal notice pleading standard. *See Krawiec*, 811 S.E.2d at 553 (Beasley, J., dissenting) (stating that North Carolina’s pleading standards “is not a difficult standard for plaintiffs to meet . . .”). N.C. GEN. STAT. § 1A-1, Rule 8(a)(1) (2017) (requiring a short and plain statement of the claim sufficient to put the parties on notice of the claims against them).

⁹⁹ N.C. GEN. STAT. § 1A-1, Rule 8(a)(1).

¹⁰⁰ *Compare id.* (requiring a claim for relief include merely a short and plain statement sufficient to put the parties on notice), *with id.* § 1A-1, Rule 56 (providing that summary judgment will be issued if the moving party “show[s] that there is no genuine issue as to any material fact and that any party is entitled to a judgment as a matter of law,” thus proving likelihood of success on the merits of the claim), *and id.* § 1A-1, Rule 65(b) (providing that a temporary restraining order will be issued if “it clearly appears from specific facts shown . . . by verified complaint that immediate and irreparable injury will result to the applicant before the adverse party . . . can be heard in opposition . . .”).

¹⁰¹ *See Krawiec v. Manly*, 811 S.E.2d 542, 548 (N.C. 2018) (quoting *Combs & Assocs.*, 555 S.E.2d at 640) (explaining there are circumstances where customer database information is not considered a trade secret). In *Combs & Assocs.*, one of the defendants, while still working for the plaintiff’s company, approached one of the plaintiff’s clients with the idea of “forming a new manufacturers’ sale representative company” together. *Combs & Assocs.*, 555 S.E.2d at 637. The client eventually agreed to form a new company with the plaintiff’s employee, while the employee was still working for plaintiff. *Id.*

¹⁰² *Id.* at 639. The plaintiff argued genuine issues of material fact existed “regarding its claim for misappropriation of trade secrets,” contending its customer lists and regional sales activities that one co-defendant used during his employment with plaintiff constituted trade secrets and he shared such secrets with the other co-defendant. *Id.* at 639–40.

merits of their claim and thus the plaintiff’s claim necessarily failed—even if taking the plaintiff’s facts as true—because the former client already possessed the allegedly misappropriated information when forming the business relationship with the former employee.¹⁰³

The *Krawiec* court also relied on the 2004 trade secrets misappropriation case of *VisionAIR, Inc. v. James*.¹⁰⁴ There, a company developing software for public safety agencies sued a former employee who left to work for a competitor.¹⁰⁵ After the trial court denied the company’s motion for a preliminary injunction, the company argued on appeal that it had sufficiently shown the likelihood of success on the merits because it had shown that the defendant had violated their non-disclosure agreement.¹⁰⁶ The *VisionAIR* court explained that it could issue a preliminary injunction only upon a showing of “a likelihood of success on [the] merits of the case” and upon a showing that “the movant [would] likely suffer irreparable loss unless the injunction [was] issued.”¹⁰⁷ Using this framework, the court held that the company could not show a likelihood of success on the merits and that the trial court properly denied the preliminary injunction because the company failed to allege any specific trade secret that the defendant had compromised.¹⁰⁸

¹⁰³ See *id.* (quoting N.C. GEN. STAT. § 66-155 (2019)) (“The burden of proof initially rests with the owner [of the trade secrets] who must establish a prima facie case of misappropriation Once the owner establishes a prima facie case, the burden of proof shifts to the defendant who may rebut the allegation by introducing substantial evidence that the trade secret was acquired through ‘independent development, reverse engineering, or [. . .] was obtained from another person with a right to disclose the trade secret.’”). The appellate court found the defendants “rebut[ted] the allegation” since both co-defendants possessed, or “could have easily compiled” the alleged trade secret information, and therefore, such information did not constitute “trade secrets.” *Id.* at 640. Thus, the appellate court affirmed “the trial court properly granted defendants’ motion for summary judgment,” since there was no valid misappropriation claim. *Id.*

¹⁰⁴ *Krawiec*, 811 S.E.2d at 548 (relying on language from *VisionAIR, Inc. v. James*, 606 S.E.2d 359, 364 (N.C. Ct. App. 2004)).

¹⁰⁵ *VisionAIR*, 606 S.E.2d at 361.

¹⁰⁶ *Id.* at 360.

¹⁰⁷ *Id.* at 362 (citations omitted) (internal quotations omitted).

¹⁰⁸ *Id.* at 364.

In 2003, in *Analog Devices, Inc. v. Michalski*—another case considered by the *Krawiec* court—the plaintiff similarly failed to show a likelihood of success on the merits for the purposes of its motion for a preliminary injunction.¹⁰⁹ The plaintiff sought this injunction against a former employee for alleged misappropriation of trade secrets concerning specific electronic devices, combinations, and processes for plaintiffs’ integrated circuits.¹¹⁰ The plaintiff alleged that the former employee had printed seventy-seven pages of confidential schematics and taken them with him when he went to work for a competitor.¹¹¹ The *Analog* court found that the plaintiff failed to establish misappropriation of its trade secrets and thus failed to demonstrate a likelihood of success on the merits because the evidence presented at trial showed substantial differences in the integrated circuits produced by the parties.¹¹²

The *Krawiec* court based its decision on cases evaluating the sufficiency of a complaint for purposes entirely different than for a motion to dismiss.¹¹³ In *VisionAIR*, the company failed to identify a specific trade secret that was compromised by the defendant and consequently, the company could not show a likelihood of success on the merits warranting a preliminary injunction.¹¹⁴ The court noted that “[b]ecause a preliminary injunction is an extraordinary measure,” it can only be issued when “the movant[] show[s] that . . . there is a likelihood of success on the merits of [the] case” and that “the movant will likely suffer irreparable loss unless the injunction is issued.”¹¹⁵ In contrast, the *Krawiecs* sufficiently identified their trade secret for

¹⁰⁹ *Analog Devices, Inc. v. Michalski*, 579 S.E.2d 449, 452 (N.C. Ct. App. 2003); *see also Krawiec*, 811 S.E.2d at 548 (relying on language from *Analog*).

¹¹⁰ *Analog*, 579 S.E.2d at 452–53.

¹¹¹ *Id.* at 451.

¹¹² *Id.* at 452.

¹¹³ *See Krawiec v. Manly*, 811 S.E.2d 542, 547–48 (N.C. 2018) (providing several cases that were evaluating the pleadings of a complaint for the purposes of determining whether to grant a summary judgment or preliminary injunction, rather than a motion to dismiss).

¹¹⁴ *VisionAIR, Inc. v. James*, 606 S.E.2d 359, 364 (N.C. Ct. App. 2004).

¹¹⁵ *Id.* at 362 (emphasis omitted) (citations omitted) (internal quotations omitted).

the purposes of fulfilling North Carolina’s liberal pleading standard and faced no requirement to show a likelihood of success on the merits in order to survive a motion to dismiss.¹¹⁶ The question for the court to consider on a motion to dismiss under North Carolina’s Rule 12(b)(6) is “whether as a matter of law, the allegations of the complaint, treated as true, are sufficient to state a claim upon which relief may be granted”¹¹⁷ Stated another way, when deciding a motion to dismiss, “the court should not dismiss the complaint unless it appears beyond a doubt that the plaintiff could not prove any set of facts to support [its] claim [that] would entitle [it] to relief,” which was not the case in *Krawiec*.¹¹⁸

Like the company in *VisionAIR*, the plaintiff in *Analog* failed to demonstrate a likelihood of success on the merits to succeed on a motion for preliminary injunction because it neglected to establish misappropriation of its trade secrets.¹¹⁹ Again, the standard used in *Analog* is inapplicable to *Krawiec* because overcoming a 12(b)(6) motion to dismiss requires no showing of a likelihood of success.¹²⁰

Finally, the plaintiff’s claim in *Combs & Associates* was necessarily defeated by a summary judgment motion, meaning that the plaintiffs’ success on the merits of its claim was impossible, because the defendant client had possessed the allegedly misappropriated

¹¹⁶ See *Krawiec*, 811 S.E.2d at 554–55 (Beasley, J., dissenting) (analyzing the Krawiecs’ complaint against North Carolina’s pleading standard and expressing that “the allegations here provided more specific details regarding both client and business information . . . to put defendants on notice of the transactions and occurrences at issue”); see also N.C. GEN. STAT. § 1A-1, Rule 8(a)(1) (2019) (merely requiring that a claim for relief include “[a] short and plain statement . . . sufficiently particular to give the court and the parties notice”).

¹¹⁷ *S. Fastening Syss., Inc. v. Grabber Constr. Prods.*, No. 14 CVS 04260, 2015 WL 2031007, at *3 (N.C. Super. Ct. Apr. 28, 2015) (quoting *Harris v. NCNB Nat’l Bank of N.C.*, 355 S.E.2d 838, 840 (N.C. Ct. App. 1987)) (internal quotations omitted).

¹¹⁸ *Id.* (quoting *Block v. Cnty. of Person*, 540 S.E.2d 415, 419 (N.C. Ct. App. 2000)); see *Krawiec*, 811 S.E.2d at 549 (dismissing the complaint because the plaintiffs did not plead facts with sufficient particularity).

¹¹⁹ *Analog Devices, Inc. v. Michalski*, 579 S.E.2d 449, 452 (N.C. Ct. App. 2003).

¹²⁰ Compare N.C. GEN. STAT. § 1A-1, Rule 8(a)(1) (merely requiring that a claim for relief include “[a] short and plain statement . . . sufficiently particular to give the court and the parties notice”), with *id.* § 1A-1, Rule 65(b) (providing that a temporary restraining order will be issued if “it clearly appears from specific facts shown . . . by verified complaint that immediate and irreparable injury will result to the applicant before the adverse party . . . can be heard in opposition . . .”).

information prior to their relationship with the plaintiff’s former employee.¹²¹ This standard of success on the merits is similarly inapplicable to the Krawiecs’ attempt to overcome a motion to dismiss because North Carolina’s liberal pleading standards require the plaintiff to merely put the defendant on notice of the occurrences intended to be proved.¹²²

The *Krawiec* court’s misapplication of legal precedent has led to inconsistent interpretations of pleading standards in trade secret misappropriation claims.¹²³ The sufficiency of a trade secret misappropriation claim was a matter of first impression for the Supreme Court of North Carolina¹²⁴ and the *Krawiec* court’s choice to disregard relevant lower court decisions increased the confusion surrounding trade secret protections in the state.¹²⁵

“*Krawiec* demonstrates that . . . alleging violations of the North Carolina trade secret statutes can [become] a technical and complex endeavor,” potentially requiring public disclosure of precise and explicit details regarding information of an inherently secretive nature.¹²⁶ The standard adopted by the North Carolina Supreme Court in *Krawiec* not only offends the state’s liberal pleading standards and ignores a core principle of trade secret protection by requiring

¹²¹ *Combs & Assocs., Inc. v. Kennedy*, 555 S.E.2d 634, 640 (N.C. Ct. App. 2001). Summary judgment is appropriate “if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that any party is entitled to a judgment as a matter of law.” N.C. GEN. STAT. § 1A-1, Rule 56(c).

¹²² N.C. GEN. STAT. § 1A-1, Rule 8(a)(1).

¹²³ See *Krawiec*, 811 S.E.2d at 552–56 (Beasley, J., dissenting) (describing how the majority opinion conflated standards for preliminary judgment, summary judgment, and motion to dismiss, thus creating “muddled” and “heightened” pleading standards for future plaintiffs to navigate when attempting to properly plead misappropriation claims).

¹²⁴ *Id.* at 553.

¹²⁵ See *id.* at 556 (“[T]his court had the opportunity to correct the faulty logic that for over a decade has resulted in the substitution of a preliminary injunction standard for our general pleading standard governing this particular claim. Instead, the majority has validated a heightened pleading standard for a misappropriation of trade secrets claim . . .”).

¹²⁶ Mike Dowling & David W. Sar, *NC Supreme Court Reinforces Need For Precision In Trade Secret Misappropriation Claims*, BROOKS PIERCE (May 21, 2018), <https://brookspierce.com/news-insights/nc-supreme-court-reinforces-need-precision-trade-secret-misappropriation-claims>. See *Krawiec*, 811 S.E.2d at 553, 556 (Beasley, J., dissenting) (citations omitted) (explaining that “the majority validates a heightened pleading standard for a claim in which public disclosure of confidential information is a real concern” and defining trade secret is already “one of the most elusive and difficult concepts in the law”).

disclosure of confidential details, but will also bar otherwise legally sufficient trade secret misappropriation claims by raising the pleading standard for overcoming a motion to dismiss.¹²⁷

While the consequences of the *Krawiec* court's decision are not as severe as those of revealing the secret process of silk-making in Ancient China, the court has unnecessarily created heightened and muddled standards for North Carolina plaintiffs seeking to properly plead a claim for misappropriation of trade secrets.¹²⁸

¹²⁷ See *supra* note 126 and accompanying text.

¹²⁸ *Krawiec*, 811 S.E.2d at 552 (Beasley, J., dissenting).

**CASE COMMENT: VIP PRODUCTS LLC v. JACK DANIEL'S
PROPERTIES INC.**

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Draft Material: Not for Circulation

*VIP Products LLC v. Jack Daniel's Properties Inc.*¹

“Intellectual property has the shelf life of a banana.” -Bill Gates²

Though perhaps not at the forefront of our minds, the associations we make with commercial branding hugely drives our economic decision-making.³ We are drawn to the sleek and minimalistic design of Apple products; we are hesitant to buy off-brand Rice Krispies; and when we need car insurance, we know innately that we could save 15% or more by choosing Geico.⁴

The desire by creatives to incorporate these culturally relevant brands into societal discourse has necessitated a judicial consideration of how to equitably balance free expression with the potential for intellectual exploitation.⁵ As such, this area of law has become an active and critical sphere of jurisprudence.⁶ The general rule is as follows: where a genuinely creative work utilizes a registered trademark in its expression, it is offered greater First Amendment⁷ protection than a purely commercial work that utilizes a registered mark to further commercialization.⁸

In the case *VIP Products LLC v. Jack Daniel's Properties Inc.*, VIP, a successful pet toy manufacturer produced a dog toy that virtually replicated a bottle of Jack Daniel's whisky in a plush, dog-themed form.⁹ The Ninth Circuit Court of Appeals regarded this dog themed spin-off

¹ *VIP Prods. LLC v. Jack Daniel's Proprs.*, 953 F.3d 1170 (9th Cir. 2020).

² *See* Intellectual Property Unveil, <https://intellectualpropertyunveil.wordpress.com/2017/07/19/intellectual-property-has-the-shelf-life-of-a-banana/> (last visited Nov. 5 2020).

³ *See generally* Alexander J. Kasparie, Comment, Freedom of Trademark: Trademark Fair Use and the First Amendment, 18 U. Pa. J. Const. L. 1547 (2016) (discussing in part, the big-picture impacts of trademarks on decision-making).

⁴ *See id.*

⁵ *See id.*

⁶ David M. Kelly, Lynn M. Jordan, *Twenty Years of Rogers v. Grimaldi: Balancing the Lanham Act with the First Amendment Rights of Creators of Artistic Works*, 99 Trademark Rep. 1360 (2009) (discussing the careful balance between the protection of expressive freedoms and trademark infringement).

⁷ U.S. CONST. amend. I. Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

⁸ 4C M.J. CONSTITUTIONAL LAW § 78. FREEDOM OF SPEECH AND PRESS (2020).

⁹ *VIP Prods. LLC*, 953 F.3d at 1172.

of a Jack Daniel’s whisky bottle as “humorous,” and thus sufficiently expressive to shield VIP from the trademark infringement claims asserted by Jack Daniel’s.¹⁰ In so holding, the VIP court has substantially lowered the bar for what constitutes an expressive work, and by extension, the ease with which one can exploit well-established trademarks for financial gain.¹¹

This Case Comment contends that the court in *VIP Products LLC v. Jack Daniel’s* erred in two respects when it designated the Bad Spaniels toy as an “expressive” work.¹² First, the court improperly extended the *Rogers* test to a work that did not meet the requirements of an expressive work.¹³ Second, because the toy featured both expressive and commercial elements, the court failed to follow Supreme Court precedent from *Bolger* to determine if the dog toy was expressive or commercial.¹⁴

VIP Products LLC is one of the largest manufacturers of dog toys in the United States.¹⁵ It is perhaps most famous for its line of dog toys called “silly squeakers.”¹⁶ These plush, squeaky toys physically resemble the packaging of commercially well-known beverages but employ puns and creative language to add a dog-themed twist to the design.¹⁷ There is a silly squeaker labeled “Mountain Drool,” portraying a dog with its tongue hanging out, superimposed on a plush neon green bottle.¹⁸ There is also a whole line of silly squeaker toys modeled after well-known alcohol

¹⁰ *See id.* at 1175; *See Gordon v. Drape Creative, Inc.*, 909 F.3d 257, 271 (9th Cir. 2018).

¹¹ *See VIP Prods. LLC*, 953 F.3d at 1175.

¹² *See id.*

¹³ *See id.* at 1174.

¹⁴ *See Jordan v. Jewel Food Stores, Inc.*, 743 F.3d 509, 517 (7th Cir. 2014).

¹⁵ *See Appellees Answering Brief* at 1, *VIP Prods. LLC v. Jack Daniel’s Prods.*, 953 F.3d 1170 (9th Cir. 2020) (No. 18-16012), 2019 WL 571425.

¹⁶ *See id.*

¹⁷ *See VIP Prods. LLC*, 953 F.3d at 1172.

¹⁸ *See id.* This is a play on the widely known beverage, Mountain Dew. *Id.* at 1172.

brands.¹⁹ VIP has explained that the purpose of these toys is to “reflect the humanization of dogs in our lives.”²⁰

In 2013, VIP released its newest silly squeaker: the “Bad Spaniels” dog toy.²¹ The toy was in the shape of a long rectangular bottle with an oblong neck, and had white text on a black background.²² The bottle design and text on the dog toy strongly resembled the bottle design and text on a bottle of Jack Daniel’s Number 7 Tennessee Whisky.²³

Jack Daniel’s is the oldest registered distillery in the United States.²⁴ Between 1997 and 2015, Jack Daniel’s sold upwards of seventy-five million cases of their whisky nationwide.²⁵ The signature rectangular bottle, characteristic neck, distinct white typeface and white-on-black label of its Number 7 Tennessee Whisky is widely recognizable.²⁶ Where Jack Daniel’s label reads: “Old No. 7 Brand Tennessee Sour Mash Whisky,” the Bad Spaniels toy reads: “Old No. 2, on your Tennessee Carpet.”²⁷ A tag on the toy notes its non-affiliation with Jack Daniel’s Distillery.²⁸

¹⁹ *See id.* These toys come in many varieties: Heinesniff’n (Heineken), Pissness (Guinness), Smella-R-Crotch (Stella Artois) and more. *See Appellees Answering Brief at 1, VIP Prods. LLC, 953 F.3d at 1170 (No. 18-16012).*

²⁰ *See VIP Prods. LLC, 953 F.3d at 1172.*

²¹ *See id.*

²² *See id.*

²³ *See id.*

²⁴ *See Appellees Answering Brief at 1, VIP Prods. LLC, 953 F.3d at 1172 (No. 18-16012).*

²⁵ *Id.*

²⁶ *Id.*

²⁷ *See VIP Prods. LLC, 953 F.3d at 1172.*

²⁸ *Id.*

In 2014, Jack Daniel’s filed suit against VIP, claiming that the Bad Spaniels toy infringed on Jack Daniel’s trademark²⁹ and trade dress,³⁰ and tarnished its reputation.³¹ Accordingly, Jack Daniel’s demanded that VIP cease the sale of Bad Spaniels dog toys.³² The United States District Court for the District of Arizona held that Jack Daniel’s had established its trademark and trade dress infringement claims, and that there was tarnishment of its reputation.³³ Further, the district court rejected VIP’s proffered First Amendment defense, and granted a permanent injunction³⁴ in favor of Jack Daniel’s, prohibiting the manufacture, advertisement, and sale of the Bad Spaniels toy.³⁵ On February 20, 2020, VIP appealed to the United States Court of Appeals for the Ninth Circuit.³⁶

The Federal Lanham Act³⁷ (“Act”) sets the framework for enforcement and regulation of proper trademark use.³⁸ The Act’s underlying purposes are: (1) to allow trademark owners to benefit from exclusive use of their mark and the reputation it has created; and (2) to make sure that consumers are not buying a product they incorrectly believe is made by the trademark

²⁹ A trademark is a word, phrase, logo, or other sensory symbol used by a manufacturer or seller to distinguish its products or services from those of others. The main purpose of a trademark is to designate the source of goods or services. In effect, the trademark is the commercial substitute for one’s signature. *Trademark*, BLACK’S LAW DICTIONARY (11TH ED. 2019).

³⁰ Trade dress is the overall appearance and image in the marketplace of a product or a commercial enterprise. For a product, trade dress typically comprises packaging and labeling. If a trade dress is distinctive and nonfunctional, it may be protected under trademark law. — Also termed *get-up*; *look and feel*. *Trade dress*, BLACK’S LAW DICTIONARY (11TH ED. 2019).

³¹ See *VIP Prods. LLC*, 953 F.3d at 1172; *Deere & Company v. MTD Products, Inc.*, 41 F.3d 39, 43 (2d Cir. 1994). “‘Tarnishment’ generally arises when the plaintiff’s trademark is linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context likely to evoke unflattering thoughts about the owner’s product. In such situations, the trademark’s reputation and commercial value might be diminished. . .”

³² See *VIP Prods. LLC*, 953 F.3d at 1171-72

³³ See *id.* at 1173.

³⁴ A permanent injunction is a court order commanding or preventing an action after a final hearing on the merits. Despite its name, a permanent injunction does not necessarily last forever. *Permanent Injunction*, BLACK’S LAW DICTIONARY (11TH ED. 2019).

³⁵ See *VIP Prods. LLC*, 953 F.3d at 1172.

³⁶ *Id.* at 1170.

³⁷ 15 U.S.C. § 1051 *et seq.* (2002).

³⁸ See *Fortune Dynamic, Inc. v. Victoria’s Secret Stores Brand Mgmt., Inc.*, 618 F.3d 1025, 1030 (9th Cir. 2010).

owner.³⁹ In short, trademarks are source identifiers, and the Act helps to ensure that consumers know that all products bearing a given trademark come from the same source."⁴⁰

When a registered trademark owner believes his or her mark has been infringed upon, they may bring a claim under the Lanham Act.⁴¹ Where the alleged infringement is commercial in nature, courts assess the claim by applying the “likelihood-of-confusion” test.⁴² Under this test, the plaintiff must prove that: (1) he or she had a protected trademark; and (2) that the defendant’s use of that mark was likely to confuse customers as to the origin of the allegedly infringing product.⁴³

Where the alleged infringement is expressive in nature, courts have generally conceded that the likelihood-of-confusion test does not adequately safeguard individual artistic liberties.⁴⁴ In the 1989 Second Circuit case, *Rogers v. Grimaldi*, a filmmaker was sued for the unauthorized use of a celebrity’s name and persona in his film.⁴⁵ The court reasoned that although the film was certainly commercial by nature and could lead to associative confusion among consumers, those interests had to yield to the expressive freedom of the filmmaker, who utilized the celebrity as a storytelling aid.⁴⁶

³⁹ MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, FIFTH EDITION § 2:2 (J. THOMAS MCCARTHY 2020).

⁴⁰ See *New Kids on the Block v. News America Pub.*, 971 F.2d 302, 305 (9th Cir. 2020).

⁴¹ See *Fortune*, 618 F.3d at 1030.

⁴² 112 AM. JUR. PROOF OF FACTS 3D 1: LIKELIHOOD OF CONFUSION PURSUANT TO THE FEDERAL LANHAM ACT, 15 U.S.C.A. §§ 1051 ET SEQ. (POLLACK 2010). Most civil suits pursuant to the Federal Lanham Act, 15 U.S.C.A. §§ 1051 et seq., are premised on the defendant's use of some indicium of origin tied to the plaintiff in a situation where the use of that indicium of origin is likely to cause confusion, or likely to cause mistake, or likely to deceive the public.

⁴³ See *Gordon v. Drape Creative, Inc.*, 909 F.3d 257, 264 (9th Cir. 2018).

⁴⁴ See generally David M. Kelly, Lynn M. Jordan, *Twenty Years of Rogers v. Grimaldi: Balancing the Lanham Act with the First Amendment Rights of Creators of Artistic Works*, 99 Trademark Rep. 1360 (2009) (discussing various circuit courts’ rejection of the likelihood-of-confusion test where expressive interests are implicated).

⁴⁵ See *Rogers v. Grimaldi*, 875 F.2d 994, 996-97 (2d Cir. 1989).

⁴⁶ See *id* at 1000-02.

The *Rogers* test is now the seminal test for balancing the interests of trademark protection and First Amendment freedoms.⁴⁷ Under this test, the First Amendment shields an alleged infringer from liability if he or she can prove that the alleged infringement (1) has “artistic relevance” to the underlying work; and (2) does not “explicitly mislead” consumers as to the source of the work.⁴⁸ Where these criteria are not met, some courts will do a separate likelihood-of-confusion analysis, while others believe the confusion analysis has already been done in the second *Rogers* prong, and will simply deny First Amendment protections.⁴⁹

Since the introduction of the *Rogers* test, the circuit courts have consistently limited the application of *Rogers* to “indisputable works of artistic expression:” photographs portraying Barbie dolls;⁵⁰ paintings featuring a University’s logo;⁵¹ a play that incorporated elements from a Dr. Seuss book;⁵² a video game that used the likeness of a famous NFL player.⁵³

Determining if a work is commercial as opposed to expressive is not always simple in practice, and companies employ highly imaginative methods to hide commercial products behind expressive facades.⁵⁴ As such, where both expressive and commercial elements are present, it is critical that courts defer to the test set forth by the Supreme Court case, *Bolger v. Youngs Drug Products, Corporation*, which provides a framework to help courts make this distinction.⁵⁵

⁴⁷ THE FIRST AMENDMENT AND THE LANHAM ACT: THE ROGERS TEST, § 69:47 (STALHKOPF 2020).

⁴⁸ *Id.*

⁴⁹ See generally David M. Kelly, Lynn M. Jordan, *Twenty Years of Rogers v. Grimaldi: Balancing the Lanham Act with the First Amendment Rights of Creators of Artistic Works*, 99 Trademark Rep. 1360 (2009) (discussing differing methods employed by various circuits in balancing First Amendment rights with intellectual property rights).

⁵⁰ *Mattel, Inc. v. Walking Mountain Prods.*, 353 F.3d 792 (9th Cir. 2003).

⁵¹ *Univ. of Alabama Bd. of Trustees v. New Life Art, Inc.* 683 F.3d 1266, 1278-79 (11th Cir. 2012).

⁵² *Accord Lombardo v. Dr. Seuss Enters., L.P.*, 729 Fed.Appx. 131, 133 (2d Cir. 2018).

⁵³ *Brown v. Elec. Arts, Inc.*, 724 F.3d 1235, 1248 (9th Cir. 2014); Amicus Brief for Petitioners, 5, *VIP Prods. LLC v. Jack Daniel’s Prods.*, 953 F.3d 1170 (9th Cir. 2020) (No. 18-16012), 2019 WL 571425.

⁵⁴ See *Metromedia, Inc. v. City of San Diego*, 453 U.S. 490, 540 (1981).

⁵⁵ See *Jordan v. Jewel Food Stores, Inc.*, 743 F.3d 509, 517 (7th Cir. 2014).

In *Bolger*, the Supreme Court found that the following factors, *together*, strongly implicate the commercial nature of a work: (1) the work is an advertisement; and (2) the speech refers to a specific product; and (3) the speaker has an economic motivation for the work.⁵⁶ The *Bolger* test has consistently been applied by courts in order to ensure First Amendment protections are not granted without cause.⁵⁷

The United States Court of Appeals for the Ninth Circuit reviewed the *VIP* case *de novo*.⁵⁸ The issues on appeal were whether the Bad Spaniels toy infringed or diluted the Jack Daniel's trademark, or whether the dog toy was expressive and therefore immune from both infringement and dilution liability under the First Amendment.⁵⁹

On the infringement issue, Jack Daniel's argued that because the Bad Spaniels toy failed to introduce new ideas or commentary, it was not sufficiently expressive to warrant First Amendment protection.⁶⁰ *VIP* argued that the *Rogers* test was warranted because the dog toy proffered a parodic, and therefore expressive message.⁶¹ In response, the *VIP* court stated that a work need not be a "Mona Lisa" to qualify as expressive,⁶² citing the holding from *Gordon v. Drape Creative, Inc* as support for this assertion.⁶³ In *Gordon*, greeting cards that used "humorous" wordplay were sufficiently expressive to warrant an application of the *Rogers* test.⁶⁴

⁵⁶ See *Bolger v. Youngs Drug Corp.*, 463 U.S. 60, 67 (1983).

⁵⁷ See *Jordan*, 743 F.3d at 517.

⁵⁸ See *VIP Prods. LLC v. Jack Daniel's Prods.*, 953 F.3d 1170 (9th Cir. 2020). Appeal *de novo* is an appeal in which the appellate court uses the trial court's record but reviews the evidence and law without deference to the trial court's rulings. *Appeal de novo*, BLACK'S LAW DICTIONARY (11TH ED. 2019).

⁵⁹ See *VIP Prods. LLC*, 953 F.3d at 1173.

⁶⁰ See Appellees Answering Brief at 44, *VIP Prods. LLC v. Jack Daniel's Prods.*, 953 F.3d 1170 (9th Cir. 2020) (No. 18-16012), 2019 WL 571425.

⁶¹ See Appellant's Brief at 16, *VIP Prods. LLC v. Jack Daniel's Prods.*, 953 F.3d 1170 (9th Cir. 2020) (No. 18-16012), 2019 WL 2029761.

⁶² See *VIP Prods. LLC*, 953 F.3d at 1175.

⁶³ *VIP Prods. LLC*, 953 F.3d at 1173 (citing *Gordon v. Drape Creative, Inc.*, 909 F.3d 257, 268-69 (9th Cir. 2018)).

⁶³ See *VIP Prods. LLC*, 953 F.3d at 1174.

⁶⁴ See *Gordon*, 909 F.3d at 271.

On that basis, the *VIP* court concluded that because the Bad Spaniels toy also conveyed a “humorous” message, it necessitated the *Rogers* test.⁶⁵

On the trademark dilution issue, Jack Daniel’s argued that the Bad Spaniel toy, which said, “Old Number 2 on your Tennessee carpet” diluted the Jack Daniel’s trademark by associating its whisky with dog feces, and thus harming the Jack Daniel’s reputation.⁶⁶ *VIP* argued that trademark owners do not have the liberty to dictate public discourse by claiming an otherwise creative work is negative or offensive.⁶⁷

The *VIP* court reasoned that where a product exists for any reason other than to be bought and sold, it can conclusively be classified as “expressive.”⁶⁸ To justify this limited analysis, the court applied *Nissan Motor Company v. Nissan Computer Corporation*.⁶⁹ In *Nissan*, a website featured both original commentary about Nissan cars as well as links to purchase Nissan cars.⁷⁰ Because the website included commentary, it exceeded a mere proposal for a commercial transaction, and no dilution analysis was undertaken by the court.⁷¹

Relying on *Nissan*’s reasoning and holding, the *VIP* court held that because the dog toy was “humorous,” it too exceeded mere commerciality and fell within the realm of expressivity.⁷² Noting that the First Amendment immunizes all expressive works from dilution liability, the *VIP* court circumvented a dilution analysis, concluding as a matter of law that *VIP* did not dilute the Jack Daniel’s trademark.⁷³ Said differently, despite the presence of both commercial and

⁶⁵ See *VIP Prods. LLC*, 953 F.3d at 1175.

⁶⁶ See Appellees Answering Brief at 30, *VIP Prods. LLC v. Jack Daniel’s Prods.*, 953 F.3d 1170 (9th Cir. 2020) (No. 18-16012), 2019 WL 571425.

⁶⁷ See Appellant’s Brief at 32-33, *VIP Prods. LLC v. Jack Daniel’s Prods.*, 953 F.3d 1170 (9th Cir. 2020) (No. 18-16012), 2019 WL 2029761.

⁶⁸ See *VIP Prods. LLC*, 953 F.3d at 1176.

⁶⁹ See *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002 (9th Cir. 2004).

⁷⁰ See *id.* at 1007.

⁷¹ See *id.* at 1017.

⁷² See *VIP Prods. LLC*, 953 F.3d at 1176.

⁷³ See *id.*

expressive features in the dog toy, *VIP* employed the singular standard utilized by *Nissan* in order to classify the dog toy as expressive and immune from dilution liability.⁷⁴

The *VIP* court erred first, by improperly extending the *Rogers* test, which is solely used where expressive works are at issue.⁷⁵ Specifically, the *Rogers* test is strictly reserved for works that utilize a registered trademark in order to set forth novel ideas, commentary or points of view.⁷⁶ Works that do not must be analyzed under the likelihood-of-confusion test.⁷⁷

In *Mattel Incorporated v. MCA Records*, Mattel, the creator of the Barbie doll and well-known “Barbie Girl” song, sued a band for trademark infringement after the band produced its own version of the “Barbie Girl” song.⁷⁸ Mattel’s Barbie Girl song introduces a blonde girl named Barbie who is “living in a Barbie world,” where “life in plastic,” “is fantastic.”⁷⁹ She has a boyfriend Ken, and in the song, Barbie tells Ken, “you can brush my hair, undress me anywhere.”⁸⁰ The band’s Barbie Girl song introduces a “blonde bimbo girl, in a fantasy world.”⁸¹ The band’s song continues, “kiss me here, touch me there. . .” “I can beg, on my knees. . .” “you can do whatever you please,” and ends with “hit the town, fool around, let’s go party.”⁸² The *Mattel* court applied the *Rogers* test and found that the band’s song was expressive speech entitled to First Amendment Protection based on its proffered commentary on the underlying work⁸³

⁷⁴ *Id.*

⁷⁵ *See id.* at 1174; *See also* *Mattel, Inc. v. MCA Records*, 296 F.3d 894, 907-08 (9th Cir. 2000); *See also* *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1401 (9th Cir. 1997).

⁷⁶ *See VIP Prods. LLC*, 953 F.3d at 1174.

⁷⁷ *See Seuss*, 109 F.3d at 1401.

⁷⁸ *See Mattel*, 296 F.3d at 899.

⁷⁹ *See id.* at 901.

⁸⁰ *See id.*

⁸¹ *See id.* at 909.

⁸² *See id.*

⁸³ *See id.* at 907-08.

In contrast, Seuss is a California limited partnership that owns most of the copyright and trademark rights to works by children’s book author, Dr. Seuss.⁸⁴ Seuss sued publisher Penguin Books in the 1997 case, *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, after Penguin produced the book, “The Cat NOT in the Hat!,” by “Dr. Juice.”⁸⁵ This book attempted a satiric telling of the O.J. Simpson case: “One Knife? / Two Knife? / Red Knife? / Dead Wife.”⁸⁶

The court noted that although the book mimicked Dr. Seuss’s distinctive style, and riffed off his famous title and name, there was no effort to transform the work’s meaning or message.⁸⁷ Additionally, the court noted that “The Cat NOT in the Hat,” used Seuss’s style as a way to get attention and to avoid having to come up with its own ideas.⁸⁸ This further evidenced Penguin’s use of the Seuss brand not for its content, but for its name, and on these bases, the court found there was no expressive interest implicated.⁸⁹ Thus, the court applied the likelihood-of-confusion test in order to make a determination regarding trademark infringement.⁹⁰

There is no doubt that *VIP*, like the band in *Mattel*, and the publisher in *Seuss*, used a well-recognized brand to draw consumers.⁹¹ However, unlike the band’s Barbie Girl song in *Mattel*, the Bad Spaniels toy did not have any “artistic relevance” to the underlying work, nor did it explicitly mislead consumers as to the source of the work.⁹²

The band’s replacement of a “Barbie girl living in her own world,” with, a “bimbo girl living in a fantasy world,” was a deliberate critique of Mattel’s portrayal of women as sexually

⁸⁴ See *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1396 (9th Cir. 1997).

⁸⁵ See *id.* at 1397.

⁸⁶ See *id.* at 1401.

⁸⁷ See *id.*

⁸⁸ See *id.*

⁸⁹ See *id.*

⁹⁰ See *id.*

⁹¹ See *VIP Prods. LLC v. Jack Daniel's Prods.*, 953 F.3d 1170, 1172 (9th Cir. 2020).

⁹² See *id.*

subservient and intellectually vacuous.⁹³ The same cannot reasonably be said about VIP's replacement of "40% Alcohol by Volume" with "43% POO BY VOL."⁹⁴ Further, it can hardly be argued that the Bad Spaniels toy would lead consumers to believe that Jack Daniel's whisky is made with feces.⁹⁵ Thus, where the *Rogers* test was clearly warranted in *Mattel*, it was not warranted in *VIP*.⁹⁶

In contrast, like the book in *Seuss*, the Bad Spaniels toy had no artistic relevance to the underlying Jack Daniel's product, but utilized Jack Daniel's as a vehicle to call attention to itself for commercial gain.⁹⁷ Just as the Bad Spaniel's toy nearly replicated the Jack Daniel's bottle, save for the addition of the dog related text and imagery needed to make it a dog toy,⁹⁸ "The Cat NOT in the Hat" retained all the hallmark Seuss imagery, changing only what was necessary to tell the O.J. story.⁹⁹ Neither creator had the intention to comment on the underlying products.¹⁰⁰ It follows that as in *Seuss*, only the likelihood-of-confusion test is warranted.¹⁰¹

In summation, *VIP*'s decision to apply the *Rogers* test to the Bad Spaniels toy lacks sufficient legal justification.¹⁰² Because the Bad Spaniels toy was clearly not expressive in nature, the court should have applied the likelihood-of-confusion test.¹⁰³ Had it done so, the court may or may not have found that the Bad Spaniel's toy had the potential to cause source confusion among consumers.¹⁰⁴ Nevertheless, the argument proffered rests only on the

⁹³ See *Mattel, Inc. v. MCA Records*, 296 F.3d 894, 901 (9th Cir. 2000).

⁹⁴ See *VIP Prods. LLC*, 953 F.3d at 1172.

⁹⁵ See *id.*

⁹⁶ See *Mattel*, 296 F.3d at 907-08; See also *VIP Prods. LLC*, 953 F.3d at 1176.

⁹⁷ See *id.*; See also *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1401(9th Cir. 1997).

⁹⁸ See *VIP Prods. LLC*, 953 F.3d at 1172.

⁹⁹ See *Seuss*, 109 F.3d at 1401.

¹⁰⁰ See *id.*

¹⁰¹ See *id.*

¹⁰² See generally *VIP Prods. LLC*, 953 F.3d at 1170 (holding that a "humorous" comment on a registered trademark warrants First Amendment protection).

¹⁰³ See *id.*

¹⁰⁴ See *id.*

conclusion that the likelihood-of-confusion test was warranted, not on the outcome of its application.¹⁰⁵

Second, the *VIP* court erred when it failed to consider the *Bolger* test, which is frequently applied where both expressive and commercial elements may be present.¹⁰⁶ The legal implications of characterizing a work as expressive versus commercial loom large.¹⁰⁷ Accordingly, the *Bolger* test stands for the idea that a perfunctory legal analysis of the commercial and expressive elements is insufficient to safeguard what is at stake for the parties involved.¹⁰⁸ As such, the *Bolger* tests inquiries about the nature of a work by asking if the work is an advertisement, refers to a specific product, and is economically motivated.¹⁰⁹

In the Ninth Circuit Court of Appeals case, *Dex Media West, Inc. v. City of Seattle*, a Seattle Ordinance banned phonebook distribution where publishers failed to satisfy certain criteria.¹¹⁰ Dex Media, a phonebook publisher, challenged the constitutionality of the Ordinance, claiming the because the books were noncommercial, conditional restrictions on their distribution was in violation of the First Amendment.¹¹¹ The phonebooks featured commercial elements, such as paid advertisements, as well as non-commercial elements, such as community

¹⁰⁵ See *id.*

¹⁰⁶ See *Dex Media West, Inc. v. City of Seattle*, 696 F.3d 952, 957-58 (9th Cir. 2012); See also *Jordan v. Jewel Food Stores, Inc.*, 743 F.3d 509, 517 (7th Cir. 2014).

¹⁰⁷ See generally David M. Kelly, Lynn M. Jordan, *Twenty Years of Rogers v. Grimaldi: Balancing the Lanham Act with the First Amendment Rights of Creators of Artistic Works*, 99 Trademark Rep. 1360 (2009) (discussing the careful balance between the protection of expressive freedoms and trademark infringement).

¹⁰⁸ See generally *Bolger v. Youngs Drug Prods. Corp.*, 463 U.S. 60 (1983) (holding that courts must sufficiently assess the commercial components of work before declaring it commercial).

¹⁰⁹ See *Dex*, 696 F.3d at 957-58; See also *Jordan*, 743 F.3d at 517.

¹¹⁰ See *Dex*, 696 F.3d at 954. The Ordinance mandated that phonebook publishers obtain proper licensure, pay a nominal fee for each phonebook delivered, and prominently display, on the front page of the book, instructions for how to opt-out of receiving phonebooks. *Id.* at 955.

¹¹¹ See *id.* at 953.

information and phone listings.¹¹² In its analysis, the court noted that the presence of both noncommercial and commercial elements merited a *Bolger* analysis.¹¹³

The *Dex* court found that only one of three *Bolger* factors was satisfied.¹¹⁴ The phonebooks made no reference to a specific product and could not be classified as an advertisement.¹¹⁵ The only *Bolger* factor satisfied was the economic motivation behind the phonebook distribution.¹¹⁶ Nevertheless, this factor alone cannot conclusively establish a work as commercial.¹¹⁷ The *Dex* court held that the phonebooks were noncommercial and thus entitled to full First Amendment protection.¹¹⁸

Courts have extended the *Bolger* test to intellectual property cases as well.¹¹⁹ In the Seventh Circuit Court of Appeals case, *Jordan v. Jewel Food Stores, Inc.*, former NBA star, and Chicago native, Michael Jordan brought an action against Chicago grocer, Jewel-Osco, alleging violations of state and federal trademark laws.¹²⁰ To celebrate Jordan's induction into the Hall of Fame, Jewel' printed an advertisement featuring the following text: “. . . Jewel-Osco salutes #23 on his many accomplishments as we honor a fellow Chicagoan who was ‘just around the corner’.

. . .”¹²¹

Jordan claimed the grocer used his persona for commercial purposes without consent, and the grocer claimed that the expressive advertisement was protected by the First Amendment.¹²²

¹¹² *See id.* at 954.

¹¹³ *See id.* at 957-58.

¹¹⁴ *See id.* at 959.

¹¹⁵ *See id.*

¹¹⁶ *See id.* at 960.

¹¹⁷ *See id.*

¹¹⁸ *See id.* at 965.

¹¹⁹ *See generally* *Bolger v. Youngs Drug Prods. Corp.*, 463 U.S. 60 (1983) (holding that courts must sufficiently assess the commercial components of work before declaring it commercial).

¹²⁰ *See* *Jordan v. Jewel Food Stores, Inc.*, 743 F.3d 509, 513 (7th Cir. 2014).

¹²¹ *See id.* at 512.

¹²² *See id.* at 511.

By touting its business, the advertisement was certainly commercial in nature, but the advertisement also featured noncommercial elements, like original writing, graphics and mixed-media composition.¹²³ As such, the court was tasked with determining if the advertisement constituted commercial or expressive speech, ultimately deferring to the Supreme Court's *Bolger* test to instruct in that designation.¹²⁴

The *Jordan* court found that all three *Bolger* factors were satisfied.¹²⁵ Although the advertisement did not promote a specific product, it generally promoted Jewel and functioned as an advertisement.¹²⁶ There is no doubt that the primary motivation for this advertisement was economic: it sought to increase brand visibility by positively associating itself with a cultural icon.¹²⁷ As a result, *Jordan* held that the Jewel's advertisement was commercial speech not entitled to First Amendment protection.¹²⁸

The Bad Spaniels toy was an unequivocal reference to a specific product, Jack Daniel's Number 7 Tennessee Whisky.¹²⁹ This is unlike the phonebooks in *Dex*, which featured a broad array of advertisements.¹³⁰ Further, while the phonebooks were certainly a business endeavor, they were mainly intended to serve as an informational community resource.¹³¹ This is qualitatively different from the dog toy, which was solely intended to be bought and sold.¹³² The *Bolger* factors were not sufficiently satisfied in *Dex*, but if the *Bolger* test been applied in *VIP*, it

¹²³ *See id.* at 518.

¹²⁴ *See id.* at 517.

¹²⁵ *See id.* at 519-520.

¹²⁶ *See id.* at 518.

¹²⁷ *See id.* at 520.

¹²⁸ *See id.*

¹²⁹ *See* *VIP Prods. LLC v. Jack Daniel's Props.*, 953 F.3d 1170, 1172 (9th Cir. 2020).

¹³⁰ *See* *Dex Media West, Inc. v. City of Seattle*, 696 F.3d 952, 954 (9th Cir. 2012).

¹³¹ *See id.*

¹³² *See id.* at 959; *See also* *VIP Prods. LLC*, 953 F.3d at 1172.

would have found that the Bad Spaniels met more of the *Bolger* factors for commerciality than the phone books.¹³³

The Jewel advertisement referenced specific commercial products in the grocery store by implication, whereas VIP referenced Jack Daniels directly.¹³⁴ Further, Michael Jordan is a household name, whose image and brand is recognized globally, and whose achievements make him highly desirable as a brand endorser.¹³⁵ It can hardly be disputed that an advertisement lauding Jordan's accomplishments beside Jewel's logo was a promotional tactic.¹³⁶ Similarly, there is little doubt that VIP's near replication of the Jack Daniel's whisky bottle sought to exploit public affection for a globally recognized brand.¹³⁷ As such, if the *VIP* court had properly applied the *Bolger* test, it would have found that the Bad Spaniels toy possessed similar and perhaps more commercial elements than the *Jordan* advertisement and was therefore not entitled to First Amendment protection.¹³⁸

The *VIP* court failed to apply Supreme Court precedent from *Bolger* despite finding that the dog toy possessed both commercial and noncommercial elements.¹³⁹ Instead, it declared as a matter of law that a "humorous" dog toy was expressive.¹⁴⁰ As such, the court erred by presumptively deciding on an issue where other courts have routinely sought additional guidance.¹⁴¹

¹³³ See generally *VIP Prods. LLC*, 953 F.3d at 1170 (holding that a "humorous" comment on a registered trademark warrants First Amendment protection).

¹³⁴ See *Jordan v. Jewel Food Stores, Inc.*, 743 F.3d 509, 519 (7th Cir. 2014).

¹³⁵ See *id.* at 513.

¹³⁶ See *id.* at 519.

¹³⁷ See *VIP Prods. LLC*, 953 F.3d at 1172.

¹³⁸ See *Jordan*, 743 F.3d at 512; See also *VIP Prods. LLC*, 953 F.3d at 1172.

¹³⁹ See *VIP Prods. LLC*, 953 F.3d at 1177.

¹⁴⁰ See *id.*

¹⁴¹ See *Jordan*, 743 F.3d at 511, 517 (7th Cir. 2014); See also *Dex Media West, Inc. v. City of Seattle*, 696 F.3d 952, 957-58 (9th Cir. 2012).

In closing, the court in *VIP Products LLC v. Jack Daniel's* erred in two respects related to its designation of the Bad Spaniels dog toy as expressive.¹⁴² First, the *VIP* court mandated the *Rogers* test where the toy failed to proffer a novel message.¹⁴³ This was in error as the *Rogers* test has consistently been applied to traditionally expressive works.¹⁴⁴ Second, after the court recognized the presence of both commercial and expressive features in the dog toy, the court failed to consider Supreme Court precedent from.¹⁴⁵ This was in error as the *Bolger* test has historically been applied to help properly classify works that employ some modicum of originality in an attempt to stimulate commercial transactions.¹⁴⁶

Courts have deliberately sought to strike an equitable balance between the protection of expressive and commercial works.¹⁴⁷ By expanding the definition of “expressive” to include cheap humor, the *VIP* court has dangerously upset this balance.¹⁴⁸ *VIP*'s definition is substantially in conflict with the well-established precedent from which it claims to derive its rule, and was issued without a sufficient utilization of the legal tests available.¹⁴⁹ *VIP* has offered no legally cognizable justification for these diversions.¹⁵⁰

Concerns surrounding the First Amendment typically relate to the abridgment of individual expressive freedoms, and there is no doubt that the protection of these freedoms is at

¹⁴² See generally *VIP Prods. LLC*, 953 F.3d at 1170 (holding that a “humorous” comment on a registered trademark warrants First Amendment protection).

¹⁴³ See *VIP Prods. LLC*, 953 F.3d at 1175-76.

¹⁴⁴ THE FIRST AMENDMENT AND THE LANHAM ACT: THE ROGERS TEST, § 69:47 (STALHKOPF 2020).

¹⁴⁵ See *Jordan*, 743 F.3d at 517.

¹⁴⁶ See *id.* at 511; See also *Dex*, 696 F.3d at 954.

¹⁴⁷ David M. Kelly, Lynn M. Jordan, *Twenty Years of Rogers v. Grimaldi: Balancing the Lanham Act with the First Amendment Rights of Creators of Artistic Works*, 99 Trademark Rep. 1360 (2009) (discussing the careful balance between the protection of expressive freedoms and trademark infringement).

¹⁴⁸ *Id.*

¹⁴⁹ See generally *VIP Prods. LLC v. Jack Daniel's Props.*, 953 F.3d 1170 (9th Cir. 2020) (holding that a “humorous” comment on a registered trademark warrants First Amendment protection).

¹⁵⁰ See *id.*

the core of the American ideal.¹⁵¹ That said, this case serves as a reminder that a deeply ingrained fear of stifling free expression does not warrant affording protections beyond the scope of what the Constitution permits.¹⁵² The holding in *VIP Products LLC v. Jack Daniel's* calls for an honest examination of when too much freedom can be harmful.¹⁵³

VIP Products LLC v. Jack Daniel's has concerning, far-reaching implications.¹⁵⁴ It has, in essence, created a backdoor for sellers to legally profit from the intellectual labor of others with minimal intellectual labor of their own.¹⁵⁵ The result is that trademarks are no longer truly safe from the very exploitation that trademark law was designed to shield.¹⁵⁶ The *VIP* decision has undermined the protections afforded to intellectual property, and will without a doubt stunt and deter the innovations to society on which we so depend.¹⁵⁷

¹⁵¹ See generally U.S. CONST. amend. I. Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

¹⁵² See generally 4C M.J. CONSTITUTIONAL LAW § 78. FREEDOM OF SPEECH AND PRESS (2020).

¹⁵³ See generally *VIP Prods. LLC*, 953 F.3d at 1170.

¹⁵⁴ See *Id.*

¹⁵⁵ David M. Kelly, Lynn M. Jordan, *Twenty Years of Rogers v. Grimaldi: Balancing the Lanham Act with the First Amendment Rights of Creators of Artistic Works*, 99 Trademark Rep. 1360, 1369 (2009) (discussing the careful balance between the protection of expressive freedoms and trademark infringement).

¹⁵⁶ *Id.*

¹⁵⁷ See *VIP Prods. LLC v. Jack Daniel's Prods.*, 953 F.3d 1170 (9th Cir. 2020).



Not Just Aereo 2.0: Locast, Free TV, and Section 111's Exemption for Nonprofit Retransmission Services

BY: RACHEL HORN

There are many possible ways to describe Locast, a streaming app that has digitally retransmitted over-the-air television broadcasts to its users for free since early 2018. The *New York Times* has called it “perhaps the most audacious media experiment in years.”¹ The major U.S. broadcast networks argue it is a service that has been committing “massive” copyright infringement in a nefarious attempt to “devalue the entire market for the rights to retransmit . . . copyrighted content.”² And Locast itself claims it’s just trying to help Americans exercise their own rights to “free [their] TV.”³ But which of these depictions most accurately captures Locast’s place in today’s ever-evolving and increasingly fractured media landscape?

Of course, the question isn’t so simple. Locast was launched in the aftermath of the Supreme Court’s 2014 decision in *American Broadcasting Cos. v. Aereo, Inc.*, which held that a service that streamed local television broadcasting over the Internet “publicly performed” copyrighted works, despite its attempts to avoid paying licensing fees by designing around a perceived loophole in the courts’ interpretation of the public performance right.⁴ Like Aereo, Locast offers Internet users the ability to stream over-the-air broadcasts, which it captures, digitizes, and retransmits without the copyright holders’ authorization. But Locast was designed to take advantage of a different provision of U.S. copyright law: a statutory carve-out that exempts from infringement liability nonprofit organizations that retransmit broadcasts for noncommercial purposes.⁵ The entity that operates Locast,⁶ a registered New York charity and IRS-approved tax-exempt organization,⁷ claims that its nonprofit status and noncommercial objective thus relieve it of any obligation to negotiate licensing fees with broadcasters. Locast now faces a copyright lawsuit by the four major American broadcast networks—ABC, NBC, Fox, and CBS—who

contend that it is “simply Aereo 2.0, a business built on illegally using broadcaster content.”⁸ But Locast argues that, unlike Aereo, the service it provides is entirely compliant with the law.

This paper evaluates, from legal and policy perspectives, Locast’s attempt to do what Aereo could not. Part I introduces both the relevant case law, including *Aereo* and selected federal appellate decisions related to other Internet retransmitters, and the statutory exemption upon which Locast relies. Next, Part II describes the Locast service and the major broadcasters’ lawsuit, considering how the district court might rule in light of relevant precedent. Finally, Part III discusses broader policy concerns surrounding Locast and the nonprofit exemption, proposing that while some of the public policies animating the *Aereo* decision may also hold true in the case of Locast, this newest legal battle raises issues that go well beyond its predecessor case.

I. LEGAL BACKGROUND

A. CASE LAW

Before turning to the details of the Locast litigation, it’s useful to review a few cases that form the backdrop for the current proceedings. I begin by summarizing the *Aereo* decision, in which the Supreme Court seemed to reject the possibility that a digital retransmission service could avoid paying licensing fees for copyrighted television broadcasts. I then discuss two federal appellate cases that considered whether Internet retransmitters can be “cable systems” for the purposes of copyright law—a key predicate issue for Locast’s theory of its own case.

1. Does an Internet Retransmission Service Publicly Perform?

At issue in *Aereo* was a service that, like Locast, allowed users to stream over-the-air broadcast programs on their Internet-connected devices. Aereo, which first appeared in the New York City

metropolitan area in 2012, maintained a system consisting of “servers, transcoders, and thousands of dime-sized antennas housed in a central warehouse.”⁹ A paying Aereo subscriber could select a program from a listing of the shows then being broadcast live over the air in her local market. Once the user made her selection, one of the tiny antennas—designated for that user only—would be tuned to the appropriate broadcast signal, which would be transcoded into a format that could be sent to Internet-connected devices and saved into a user-specific folder on Aereo’s servers. After a few seconds, Aereo would start streaming the saved, user-specific copy of the program to that user’s device, allowing for nearly real-time viewing.¹⁰

Aereo was swiftly sued for copyright infringement by many of the same parties who are now challenging Locast. The District Court for the Southern District of New York (affirmed by the Court of Appeals for the Second Circuit) denied the plaintiffs a preliminary injunction in what might have seemed a fairly straightforward application of then-recent Second Circuit precedent.¹¹ The case in question had indicated that transmitting a performance of a work to a single individual does not infringe the copyright owner’s exclusive right to *publicly perform* the work.¹²

The Supreme Court reversed, first holding that “[a]n entity that engages in activities like Aereo’s *performs*” within the meaning of the Copyright Act.¹³ The Court relied on the legislative history of the Transmit Clause, which Congress had added to the definition of “publicly” in 1976.¹⁴ In the Court’s view, Congress enacted that language to clarify that community antenna television (CATV) systems—the equivalent of today’s cable systems—did, in fact, “perform” when they amplified and retransmitted local television broadcasting to their subscribers’ home TV sets. Because “an entity that acts like a CATV system itself performs, even if when doing so, it simply enhances viewers’ ability to receive broadcast television signals,” the Court reasoned that Aereo, whose service outwardly resembled the activities of cable systems, must also “perform.”¹⁵

Next, the Court determined that not only did Aereo perform, it performs *publicly*. Aereo

argued that, since the only transmissions it made to any individual user were of that user’s “personal copy” of programming, any Aereo transmission was a *private*, not a public, performance. The Court disagreed, holding that even though several Aereo users might receive a live program through several distinct transmissions of several different copies, if Aereo was communicating the same “contemporaneously perceptible images and sounds” to each of them, it was “transmit[ing] a performance” to all of them.¹⁶ And, since these subscribers were presumably “unrelated and unknown” to one another, they constituted “the public.”¹⁷ The individual dime-sized antennas and other technical minutiae did not “distinguish Aereo’s system from cable systems,” the Court concluded, nor did they “render Aereo’s commercial objective any different from that of cable companies.”¹⁸ The thrust of the Court’s decision, overall, seemed to be that Aereo operated enough like a cable system that it would have to play by the same rules as cable systems when it came to licensing copyrighted broadcasts.¹⁹

Given that holding, it can’t have been a surprise when, on remand to the district court, Aereo tried to argue that it actually should be considered a cable system.²⁰ If successful, that argument might have entitled Aereo to avoid liability for copyright infringement by simply paying for a compulsory license under §111 of the Copyright Act.²¹ But Judge Alison Nathan rejected the §111 defense out of hand, observing that “not all entities that perform publicly are necessarily cable systems, and nothing in the Supreme Court’s opinion indicates otherwise.”²² Moreover, Judge Nathan could point to a Second Circuit precedent that spoke directly to whether an Internet retransmitter could be considered a “cable system”—a case to which I now turn.

2. Is an Internet Service a Cable System?

One Aereo precursor, known as *ivi*, launched in September 2010 and was promptly hit with a copyright infringement lawsuit by several broadcasters.²³ In response, *ivi*, which retransmitted over-the-air broadcasts via the Internet to its subscribers for a monthly fee, argued that it was “a cable system entitled to a § 111 license under the Copyright Act.”²⁴ If *ivi* was

indeed a cable system, it could go on retransmitting the plaintiffs' broadcasts, provided it paid the compulsory license fees; if it was not, it had no defense to the plaintiffs' infringement claims.²⁵

On appeal from the district court's grant of a preliminary injunction, the Second Circuit applied the *Chevron* test to determine whether to defer to the Copyright Office's interpretation of the statutory term "cable system." First, the court determined that the definition of "cable system" in §111(f)(3) was ambiguous; it was not clear whether it encompassed "a service that retransmits television programming live and over the Internet."²⁶ However, the legislative history of § 111 revealed that it was enacted "to address the issue of poor television reception, or more specifically, to mitigate the difficulties that certain communities and households faced in receiving over-the-air broadcast signals by enabling the expansion of cable systems."²⁷ Because Internet retransmitters like *ivi* were not intended specifically to mitigate local access problems, the court reasoned, Congress could not have meant to extend the §111 compulsory license to them. Then, even though the court thought Congress's intent was clear, it proceeded to the second step of *Chevron* and found confirmation in the interpretation of the Copyright Office, which "has consistently concluded that . . . § 111's compulsory license for cable systems is intended for *localized* retransmission services."²⁸ If *ivi* was not a cable system, the defendants were unlikely to succeed on the merits, and so the court ultimately affirmed the preliminary injunction. This decision would later enable Judge Nathan to deny that *Aereo* was a cable system entitled to the §111 license.²⁹

The Second Circuit is not the only circuit to have found that an Internet retransmission service cannot qualify for the § 111 compulsory license for cable systems. After *Aereo*, a similar service called *FilmOn* did obtain a partial summary judgment ruling that it was a "cable system" for the purposes of the compulsory license.³⁰ On appeal, however, the Ninth Circuit reversed.³¹

Like the Second Circuit in *ivi*, the Ninth Circuit thought that the text itself was unclear and expressed concern that extending the compulsory license to Internet-based services would defy Congressional intent. But whereas the Second Circuit primarily relied on legislative history to conclude that the definition of "cable system" was not ambiguous, the Ninth Circuit conceded that "the array of competing interests at stake does not unambiguously counsel for or against a broad reading of § 111" and afforded more weight to the Copyright Office's views.³² The court found that it was appropriate to acquiesce to "the Office's decision to reject Internet-based retransmission services because they do not use a localized retransmission medium," since such a view was both "persuasive" and "reasonable."³³ While the Second and Ninth Circuits differed somewhat in their analysis, both courts were concerned with how an Internet retransmitter fit into the delicately-balanced regime Congress had imagined in §111,³⁴ and both found that the salient distinction was between a localized service (cable systems) and a national one (Internet streaming).³⁵ These themes will undoubtedly re-emerge in the *Locast* litigation.

B. SECTION 111 AND THE NONPROFIT EXEMPTION

In order to understand how *Locast* intends to distinguish itself from judicially-doomed services like *ivi*, *Aereo*, and *FilmOn*, one must consider a rather arcane provision of the Copyright Act: the exemption of certain secondary broadcast transmissions by government and nonprofit organizations from the statutory scheme governing the cable television industry. The provision, codified at 17 U.S.C. §111(a)(5), is buried within a Frankenstein of a section that represents a hodgepodge of industry compromises; one commentator has called § 111 "the copyright statute's . . . least comprehensible piece of prose."³⁶ As *Aereo* recognized, the basic premise of §111 is that the retransmission of a copyrighted broadcast constitutes a performance—and, unless that performance is authorized by the copyright holder or statutorily exempt, it is an infringement of the copyright holder's exclusive rights.³⁷ Most significantly, §111 outlines a compulsory licensing regime for

secondary transmissions by cable television systems.³⁸ In enacting the compulsory licensing regime, Congress recognized that cable operators served a valuable public interest that had to be balanced against the rights of copyright proprietors.³⁹

Embedded in all this is §111(a)(5), the carve-out for governmental bodies and nonprofit organizations (here in after the “nonprofit exemption” or “§111(a)(5)”). The statute provides that:

The secondary transmission of a performance or display of a work embodied in a primary transmission is not an infringement of copyright if . . . the secondary transmission *is not made by a cable system but is made by a governmental body, or other nonprofit organization, without any purpose of direct or indirect commercial advantage*, and without charge to the recipients of the secondary transmission other than assessments necessary to defray the actual and reasonable costs of maintaining and operating the secondary transmission service.⁴⁰

While plenty of judicial ink has been spilled over §111 as a whole, court decisions and other legal sources interpreting this specific provision are scarce, which suggests that it has not been significantly contested since its adoption. But the brief legislative history of the nonprofit exemption indicates that a few key pieces were disputed leading up to enactment, adverting to the compromises that animate the provision.

First adopted by the House Judiciary Committee in the process of amending the 1965 revisions of the copyright law,⁴¹ the nonprofit exemption was crafted to apply to “nonprofit ‘translators’ or ‘boosters,’ which do nothing more than amplify broadcast signals and retransmit them to everyone in an area for free reception.”⁴² Originally, the Committee had planned to limit the exemption to services that did not charge retransmission recipients any fees whatsoever, but it was eventually persuaded that cooperatives or other nonprofit services supported by “general community assessments or tax funds” should benefit from the provision as well, “as long as they are completely nonprofit and noncommercial.”⁴³ The final text of the statute

thus allows a nonprofit organization to charge a fee “to defray the actual and reasonable costs” of running its retransmission service,⁴⁴ a detail which may prove crucial for Locast.

Another key compromise embodied in the nonprofit exemption is even more central to the Locast litigation. An early draft of the bill did not include the phrase “not made by a cable system”; by its terms, that version allowed certain “cable systems” to benefit from the carve-out, as long as they were owned by nonprofits or government bodies. This concerned some copyright owners, who considered such an exemption over-broad.⁴⁵ In a statement submitted to a subcommittee of the Senate Judiciary Committee, the president of the Motion Picture Association of America (MPAA) expressed a fear that “increasing governmental or non-profit ownership of cablesystems may deprive [copyrightowners] of license fees for the use of their product,” adding that “[a] legal requirement that copyrighted film programs be available to nonprofit and governmental users for free is no less repugnant to the purpose of the copyright system because the user does not intend to make a profit.”⁴⁶ Apparently in response to arguments like this, Congress specified in the final version of the statute that the nonprofit exemption did not apply to cable television systems.⁴⁷ Thus, when the provision was enacted, the types of services it covered were effectively limited to non-cable services used to retransmit television programming to underserved rural areas.⁴⁸

II. AEREO 2.0?: LOCAS T & THE BROADCASTERS’ LAWSUIT

A. LOCAS T 101: THE BASICS OF THE SERVICE

Given the nonprofit exemption’s seemingly limited application, only a true media policy wonk would be in a position to make it the basis of a promising new startup. Enter David Goodfriend, a lawyer, professor, and former media executive who has also worked at the Federal Communications Commission (FCC).⁴⁹ Goodfriend thought up Locast as part of a classroom discussion about how the *Aereo* decision might affect the public interest.⁵⁰ If, after *Aereo*’s demise, there were no convenient way for many Americans to access the over-the-air broadcasts they were supposed to get for free,

that would be a significant public loss. But if Aereo and similar entities were not legally considered cable systems, then maybe a service that does what Aereo did, but on a nonprofit basis, could shelter under §111(a)(5). Willing to gamble on that possibility, Goodfriend launched Locast in 2018. “We really did our homework,” he told the *New York Times*. “We are operating under parameters that are designed to be compliant within the law.”⁵¹

From the user’s perspective, Locast works similarly to Aereo and other challenged digital retransmitting services.⁵² Locast receives over-the-air broadcast signals via antennas it has installed in thirteen U.S. media markets.⁵³ It transcodes each broadcast signal into digital formats that can then be streamed to Internet-connected devices within the local market where the signal originated.⁵⁴ To use the service, an individual located within one of the thirteen markets can download the Locast app or visit the Locast website, register for an account with her Facebook profile or email address, and choose the live programming she wishes to watch.⁵⁵

Two important features of Locast’s service are worth highlighting. First, a user is—at least in theory—only permitted to view programming that is being broadcast locally. Would-be users who live outside the markets where Locast presently has antennas are not supposed to be able to use the service.⁵⁶ Second, Locast differs from Aereo and the rest in that it does not charge users any sign-up or monthly subscription fees. Instead, it solicits donations to cover the “considerable costs for equipment, bandwidth, and operational support that helps run Locast.”⁵⁷ Donations are optional, but a user who does not make a contribution of at least \$5 per month will have her stream interrupted by a request for donations every fifteen minutes, after which she must manually restart the stream in order to keep watching.⁵⁸

B. THE BIG FOUR STRIKE BACK

If Goodfriend had intended to attract the major broadcast networks’ attention, he got his wish in July 2019, when ABC, CBS, Fox, and NBC filed a lawsuit against him and Sports Fans Coalition NY, Inc., in federal court in the Southern District of

New York. The plaintiffs’ objection is not merely that Locast, by retransmitting their networks’ copyrighted content without a license, is depriving them of licensing fees they might be able to extract from Locast itself. Rather, the broadcasters detect an even greater threat: that if Locast partners with cable companies and satellite-TV providers to provide free local programming to their subscribers, that could undercut the broadcasters’ negotiating positions vis-a-vis *those* companies.⁵⁹ The plaintiffs thus have a strong interest in arguing that Locast cannot possibly qualify for the nonprofit exemption.

To make their case, the plaintiffs point primarily to the language in §111(a)(5) that requires an exempt service to operate “without any purpose of direct or indirect commercial advantage.” Specifically, they argue that “Locast’s founding, funding, and operations reveal its decidedly commercial purpose.”⁶⁰ “Founding” is, of course, a reference to Goodfriend, whose former position as an executive at DISH Network and continuing lobbying activities for the pay-TV industry the plaintiffs are quick to highlight. The broadcasters allege that Locast is able to operate only because of substantial loans and contributions from Goodfriend’s colleagues in the pay-TV sector, such as DISH and AT&T, and contend that Locast—far from being a “noncommercial, community public service,” is a thinly veiled way for these companies to “gain leverage in negotiations with broadcast stations over retransmission consent rights.”⁶¹ Since Locast is merely a tool of self-interested industry players seeking commercial benefits, the plaintiffs argue, it cannot fulfill a key requirement for the protections of § 111(a)(5)—and without that exemption, Locast has no way to escape liability for infringing their exclusiverights.

Locast fired back in September 2019, not only denying that it derives a commercial benefit from the service but also bringing several novel counterclaims against the broadcasters. In response to the plaintiffs’ charge that it cannot qualify for the nonprofit exemption, Locast argues that it meets all the statutory prerequisites, including the requirement of no commercial advantage. It denies that Goodfriend’s lobbying work is expressly for the

benefit of DISH or other pay-TV companies, and points out that the broadcasters' claims that Locast is a tool of the pay-TV industry are somewhat illogical, since the service "will likely encourage cord-cutting and harm pay-TV distributors like DISH and AT&T."⁶² Moreover, it reaffirms that any donations Locast receives are "solely to defray the costs of operating the Locast service,"⁶³ and that the purpose of the service is to "extend the reach of, and ease of access to, local over-the-air broadcast signals . . . including to places where tall buildings or other obstructions might interfere with over-the-air reception."⁶⁴

Locast's response goes on to assert a number of counterclaims. For one, it argues that the major networks have colluded to harm Locast's business, including by threatening to retaliate against potential Locast business partners.⁶⁵ Even more strikingly, Locast claims that the plaintiffs aren't just harming Locast's enterprise, but are misusing their copyrights in breach of their obligations to the public. According to Locast, the major broadcast networks are actively "failing to transmit over-the-air signals strong enough to cover local television markets (as required to fulfill their obligation to operate in the public interest)."⁶⁶ Consumers who can't access good-quality over-the-air broadcasts are then forced to pay for cable or satellite programming, online pay TV, or streaming services offered by the broadcasters themselves—and the broadcasters, aware of this reality, can drive up the price of access to their copyrighted content. In effect, Locast alleges:

[T]he broadcasters' intent is to restrain competition in providing over-the-air signals to the public to protect their broadcast franchise and the billions of dollars it allows them to reap from licensing retransmission rights—costs that are then passed on to the consumer. . . . [This] conduct threatens further harm to competition, programming output, and to the pocketbooks of all Americans who are entitled to receive the subject content over-the-air for free.⁶⁷

C. POSSIBLE OUTCOMES OF THE LOCAST LITIGATION

Assuming that this litigation proceeds to trial,⁶⁸ the questions around Locast's funding sources

and whether it actually has a commercial purpose mean that any decision on the central issue—whether Locast is exempt under § 111(a)(5) from paying for a license—is likely to be heavily fact-dependent. The broadcasters' public statements confirm that defeating Locast on the facts is their main strategy; as an attorney for the plaintiffs told the *Times*, "We trust the courts to see right through this facade and recognize Locast for what it is . . . a creature of certain pay-TV interests with an entirely commercial agenda."⁶⁹ If Locast's ties to the pay-TV industry are all that dooms it, though, David Goodfriend's legal arguments would still stand, and not much would stop a nonprofit organization unburdened by Locast's baggage from stepping in to fill the void.⁷⁰

If, on the other hand, the facts bear out that Locast does not have any "purpose of direct or indirect commercial advantage,"⁷¹ the plaintiffs' case may be on legally shaky ground. On a textualist reading of § 111(a)(5), Locast should qualify for the exemption. It is a "nonprofit organization," approved by the IRS as a tax-exempt entity and registered as a charity with the New York State Attorney General's office. The only "charge" it makes to users is optional (or, at least, arguably so) and is in any event apparently limited to contributions that are "necessary to defray the actual and reasonable costs of maintaining and operating" the service. And, ironically, since the broadcaster plaintiffs in *ivi*, *Aereo IV*, and *AereoKiller* ensured that an Internet retransmitting service would not be considered a "cable system" for the purposes of § 111, the exclusion of "cable systems" in § 111(a)(5) does not bar Locast from relying on the exemption.

Even if the court deemed the text of § 111(a)(5) ambiguous and turned to legislative intent or administrative interpretations, it is not at all clear that the concerns embodied in cases like *ivi* and *AereoKiller* would apply in the same way to Locast. First, it bears remembering that those cases were about the application of the § 111 compulsory license and the reach of the term "cable system"—they did not reach the exemption for nonprofit retransmitters in § 111(a)(5), which explicitly excludes cable systems. Moreover, in deciding that Internet retransmission services were not intended to be

covered by the compulsory license, the courts in both *Aereo* and *ivi* dwelled on the distinction between a local service and an arguably global one.⁷² If Locast can make the argument that it is reasonably well-localized, such that users outside a demarcated geographic area cannot view local programming, it should be able to convince a court that it is more like the local “translators” and “boosters” that Congress seems to have contemplated in enacting the nonprofit exemption. Finally, even if a court would be inclined to defer to the Copyright Office’s interpretation of the contested language, as in *ivi* and *Aereo*, the Copyright Office does not appear to have stated any official views on the nonprofit exemption in particular.⁷³ All in all, if Congress does not intend for Internet retransmitters like Locast to be covered by the nonprofit exemption, it is up to that body to amend §111(a)(5) to be more specific.

III. “STUFF FOR THE PUBLIC”: THE POLICY INTERESTS AT STAKE

Whether the plaintiffs win or lose, more is at stake in the Locast case than the survival of a single media startup. Even if Locast (or another nonprofit organization that might take up its mantle, *sans* pay-TV industry baggage) technically meets the requirements to qualify for the §111(a)(5) nonprofit exemption, an important question remains: *Should* a nonprofit organization with no commercial objective be permitted to retransmit over-the-air television broadcasts for free via the Internet? Or, considering the purposes of the Copyright Act, is the potential for harming the interests of copyright owners and disrupting the broadcast industry just as significant as in a case like *Aereo*, even when the retransmissions have no commercial purpose? Simply put, is this case really nothing more than *Aereo* 2.0?

On the one hand, there is an argument that U.S. public policy strongly disfavors non-productive technological “innovations” intentionally crafted to circumvent copyright law, and that something like Locast falls in that category. Locast was plainly and openly designed to fit within a narrow loophole in the Copyright Act⁷⁴—an exemption that could not have been intended to apply to a type of technology that Congress would not have known about at the time it was enacted.

In the face of court decisions that put similar services out of business, Locast deliberately created a model that would eliminate the need to negotiate licenses with copyright owners, while still disseminating their copyrighted content to the public with impunity. In a broader sense, this type of evasive designing around the law is exactly what the Supreme Court condemned in *Aereo* when it held that the service in question could not escape infringement liability by filling its warehouse with thousands of dime-sized antennas.⁷⁵ This suggests there is some distinction between being “compliant” with the law, as David Goodfriend claims his service is,⁷⁶ and avoiding it altogether—and we might view Locast as falling on the wrong side of that line.

Under this view, it would be largely irrelevant that an Internet retransmitter like Locast is owned and operated by a nonprofit organization for a noncommercial purpose. Whether or not Locast derives any commercial advantage, its practice of making copyrighted programming available for free does, to some extent, encroach upon the copyright owners’ exclusive rights and may result in harm to the value their copyrights. In other words, if viewers are accessing the programming via Locast, that is a missed opportunity for a copyright owner to benefit commercially, even if Locast does not. This concern harkens back to MPAA president Jack Valenti’s statement as Congress was reforming the Copyright Act to include §111: “A free ride for [governmental and nonprofit] entities cannot be squared with the achievement of the public purpose which underlies the copyright system.”⁷⁷ Essentially, if the purpose of copyright law is to provide an incentive for authors to create works for the public good, there is reason to believe unrestricted noncommercial use might undermine that reward no less than infringement committed for a commercial purpose.⁷⁸ Such concerns are not to be taken lightly.

Even so, there is a strong case to be made that the Locast case should *not* be viewed as *Aereo* 2.0—reasons why, from a policy perspective, noncommercial services should be free to retransmit over-the-air broadcasts to the American public even though a service like *Aereo* was not. First, notwithstanding the legitimate

fears of copyright proprietors like the MPAA, U.S. copyright law does recognize a distinction between commercial and noncommercial uses, even outside of §111(a)(5). Examples of this distinction abound; for instance, §107's codification of the fair use doctrine directs courts to consider "whether such use is of a commercial nature or is for nonprofit educational purposes,"⁷⁹ and the Supreme Court has at least suggested that noncommercial, nonprofit use of copyrighted material is presumptively fair.⁸⁰ Additionally, §110, which exempts certain public performances and displays from infringement liability, contains a number of exemptions that depend on the not-for-profit character of the use.⁸¹ Such allowances for noncommercial use underscore the fact that, while protecting authors' interests is key to the copyright system, the ultimate goal of copyright law is to benefit the public at large. Noncommercial use of copyrighted material can help recalibrate that balance in situations where the public's access to valuable information or First Amendment-protected expression may be restricted, without the risk that anyone will be unjustly enriched at the copyright owner's expense.

With that commercial-noncommercial distinction in the background, the Locast litigation should force courts to reckon directly with an important question: whether U.S. broadcasters are still living up to their public interest mandate in the digital age. One can read the Supreme Court's decision in *Aereo* as an attempt to shield an entrenched industry model from upstart competitors in a rapidly changing business environment.⁸² But, if the federal judiciary is to continue along this incumbent-protective path, it must take stock of whether the modern broadcast-TV industry is still holding up its end of the delicate compromises struck in §111 and the rest of the regulatory framework governing the industry. There is good reason to think this is not the case. In order to obtain an FCC license to broadcast over the public air waves, a radio or television broadcaster must agree to operate in the "public interest, convenience, and necessity."⁸³ In particular, broadcasters are expected to focus on serving the unique needs of their local communities.⁸⁴ This is why Locast is able to argue that "broadcasters are required to

make free, over-the-air local broadcasting available to the entire American public."⁸⁵ The problem, as Goodfriend sees it, is that "society got way over-commercialized in the '40s and '50s, when media policy was being hammered out," and as a result, "we don't have stuff for the public anymore."⁸⁶

Even though an essential premise of U.S. media policy is that Americans are entitled to free local programming, many cannot easily take advantage of that guarantee. The reason, in part, is that our media-consumption habits have changed dramatically since the legal framework governing the broadcast industry was put in place. As streaming services proliferate, more Americans are "cutting the cord": In the first quarter of 2019 alone, U.S. satellite, cable, and telecommunications companies lost 1.4 million television customers,⁸⁷ and meanwhile, only 14 percent of U.S. households use an antenna to watch television.⁸⁸ And although technology allows us to be more globally connected than ever, communities increasingly lack reliable sources of local news.⁸⁹ A service like Locast, or another nonprofit Internet retransmitter that complies with the requirements of §111(a)(5), can help to fill in the gaps created by this changing media landscape. It could be a boon to the many Americans who do not have a convenient way to access the free, over-the-air local programming they are promised—whether that is because they live in remote rural areas or because they've simply become accustomed to consuming media solely on their tablets or smartphones. In short, if the essential bargain between broadcasters and the American public has been compromised in the digital age, §111's nonprofit exemption could offer a way to reset the system and ensure there's still "stuff for the public."

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¹ Edmund Lee, *Locast, a Free App Streaming Network TV, Would Love to Get Sued*, N.Y. TIMES (Jan. 31, 2019), <https://www.nytimes.com/2019/01/31/business/locast-streaming-free-network-tv.html>.

² Complaint for Damages and Injunctive Relief at 7–8, *Am. Broadcasting Cos., Inc. v. Goodfriend*, No. 19-cv-7136, (S.D.N.Y. July 31, 2019) [hereinafter *Complaint*].

³ *Donate*, LOCAS.T, <https://www.locast.org/donate> (last visited Dec. 10, 2019).

⁴ Am. Broadcasting Cos., Inc. v. Aereo, Inc., 573 U.S. 431 (2014); *see also infra* notes 9–19 and accompanying text.

⁵ *See* 17 U.S.C. § 111(a)(5) (2019).

⁶ Locast is operated by the nonprofit organization Sports Fans Coalition NY, Inc., which, along with founder David R. Goodfriend, is one of the named defendants in the July 2019 lawsuit. For simplicity’s sake, I use “Locast” in this paper to refer to both the service and the entity that operates it, unless otherwise specified.

⁷ Answer and Counterclaims at 43–44, Am. Broadcasting Cos., Inc. v. Goodfriend, No. 19-cv-7136 (S.D.N.Y. Sept. 26, 2019) [hereinafter Answer] (stating that Locast “was incorporated in New York . . . as a ‘charitable corporation’ under New York Not-for-Profit Corporation Law” and has been classified by the IRS as a “public charity” exempt from federal income tax under § 501(c)(3) of the Internal Revenue Code).

⁸ Eriq Gardner, *ABC, CBS, Fox and NBC Sue Locast, a Free Streaming App*, HOLLYWOODREP.: THR ESQ. (July 31, 2019), <https://www.hollywoodreporter.com/thr-esq/abc-cbs-fox-nbc-sue-locast-a-free-streaming-app-1228244> (quoting Gerson Zweifach, attorney for the plaintiffs).

⁹ *Aereo*, 573 U.S. at 436.

¹⁰ *Id.* at 436–37.

¹¹ Am. Broadcasting Cos., Inc. v. Aereo, Inc., 874 F. Supp. 2d 373 (S.D.N.Y. 2012).

¹² Cartoon Network LP, LLLP v. CSC Holdings, Inc. (*Cablevision*), 536 F.3d 121 (2d Cir. 2008).

¹³ *Aereo*, 573 U.S. at 439 (emphasis added).

¹⁴ *See* 17 U.S.C. § 101 (2019) (“To perform or display a work ‘publicly’ means . . . to transmit or otherwise communicate a performance or display of the work . . . to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.”).

¹⁵ *Aereo*, 573 U.S. at 442.

¹⁶ *Id.* at 447–48.

¹⁷ *Id.* at 448.

¹⁸ *Id.* at 446.

¹⁹ This characterization of the *Aereo* decision echoes Justice Scalia’s dissent, in which he condemned the majority for creating a “guilt-by-resemblance regime.” *Id.* at 460 (Scalia, J., dissenting).

²⁰ Am. Broadcasting Cos., Inc. v. Aereo, Inc. (*Aereo IV*), Nos. 12-cv-1540, 12-cv-1543, 2014 WL 5393867, at *2 (S.D.N.Y. Oct. 23, 2014).

²¹ *See infra* notes 38–39 and accompanying text.

²² *Aereo IV*, 2014 WL 5393867 at *4.

²³ WPIX, Inc. v. ivi, Inc., 691 F.3d 275, 277 (2d Cir. 2012). The plaintiffs included the broadcasters now involved in the Locast litigation.

²⁴ *Id.* at 279.

²⁵ *Id.*

²⁶ *Id.* at 280.

²⁷ *Id.* at 282.

²⁸ *Id.* at 283–84 (emphasis added).

²⁹ *See supratext* accompanying notes 20–22.

³⁰ Fox Television Stations, Inc. v. Aereokiller, 115 F. Supp. 3d 1152 (C.D. Cal. 2015).

³¹ Fox Television Stations, Inc. v. Aereokiller, 851 F.3d 1002 (9th Cir. 2017).

³² *Id.* at 1011.

³³ *Id.* at 1013, 1015.

³⁴ *See* WPIX, Inc. v. ivi, Inc., 691 F.3d 275, 281 (2d Cir. 2012) (“Balancing two societal benefits, Congress enacted §111 to enable cable systems to continue providing greater geographical access to television programming while offering some protections to broadcasters to incentivize the continued creation of broadcast television programming.”); *Aereokiller*, 851 F.3d at 1010 (“Fundamentally . . . §111 was Congress’s attempt to balance the socially useful role cable systems had come to play, on the one hand, against the property interests and creative incentives of copyright holders, on the other.”).

³⁵ *See* *ivi*, 691 F.3d at 284 (“[T]he Copyright Office has maintained that § 111’s compulsory license for cable systems is intended for localized retransmission services . . . Under this interpretation, Internet retransmission services cannot constitute cable systems under § 111 because they provide nationwide—and arguably global—services.”); *Aereokiller*, 851 F.3d at 1011 (“[C]able systems serve limited geographic communities, but an Internet-based service has no geographic boundary. . .”).

³⁶ Jessica D. Litman, *Copyright Legislation and Technological Change*, 68 OR. L. REV. 275, 332 (1989).

³⁷ *See* 4 WILLIAM PATRY, PATRY ON COPYRIGHT § 14:60 (Thomson Reuters) [hereinafter PATRY ON COPYRIGHT].

³⁸ *See* 17 U.S.C. § 111(c)–(f); PATRY ON COPYRIGHT, *supra* note 37, § 14:50.

³⁹ *See supra* note 34.

⁴⁰ 17 U.S.C. § 111(a)(5) (2019) (emphasis added).

⁴¹ PATRY ON COPYRIGHT, *supra* note 37, § 14:71, n.1 (citing H.R. 4347 § 111(a)(2), 89th Cong. 2d Sess.).

⁴² H.R. REP. No. 94-1476 at 92 (1976), *reprinted in* 1976 U.S.C.A.N. 5659, 5706, 1976 WL 14045. FCC regulations define a “television broadcast translator station” as “a station in the broadcast service operated for the purpose of retransmitting the programs and signals of a television broadcast station, without significantly altering any characteristic of the original signal other than its frequency and amplitude, for the purpose of providing television reception to the general public.” 47 C.F.R. § 74.701(a) (2019). A “television broadcast booster station” is similar, except that

it must be operated by “the licensee or permittee” of the broadcast station whose signals it retransmits and “may only be located such that its entire service area is located within the protected contour” of that station.⁴⁷ C.F.R. § 74.701(i)(2019).

⁴³ H.R. REP. No. 89-2237 at 82–83 (1966), quoted in PATRY ON COPYRIGHT, *supra* note 37, § 14:71 n.1.

⁴⁴ 17 U.S.C. § 111(a)(5) (2019).

⁴⁵ *Copyright Law Revision: Hearing on S. 1361 Before the Subcomm. on Patents, Trademarks, & Copyrights of the R. Comm. On the Judiciary*, 93d Cong. 283 (1973) [hereinafter *Copyright Law Revision*] (statement of Jack Valenti, President, Motion Picture Association of America, Inc.).

⁴⁶ *Id.* at 304.

⁴⁷ See H.R. REP. No. 94-1476 at 92 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5706, 1976 WL 14045.

⁴⁸ See PATRY ON COPYRIGHT, *supra* note 37, § 14:71.

⁴⁹ Lee, *supra* note 1.

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² Under the hood, Locast is technically quite different from Aereo, in that it does not maintain “thousands of dime-sized antennas” that it tunes individually in response to a user’s request, *Am. Broadcasting Cos., Inc. v. Aereo, Inc.*, 573 U.S. 431, 436 (2014). This makes sense for several reasons: (1) There is no technical advantage to maintaining antennas that can be assigned to each user individually, and Aereo almost certainly did this for the sole purpose of circumventing copyright law in light of *Cablevision*, see Brief for the New York Intellectual Property Law Association as Amicus Curiae in Support of Petitioners at 19–20, *Aereo*, 573 U.S. 431 (No. 13–461) [hereinafter NYIPLA Brief]; (2) the Supreme Court has now made clear this is not a valid way to avoid the “public” nature of the transmitted performance, *Aereo*, 573 U.S. at 446–48; and (3) in any event, if Locast’s theory is correct, it could shelter under the nonprofit exemption regardless of whether it is publicly performing copyrighted content.

⁵³ Answer, *supra* note 7, at 13 (stating that Locast functions, in part, by capturing over-the-air signals); *id.* at 57 (stating that Locast currently operates in New York, N.Y.; Philadelphia, Pa.; Boston, Mass.; Washington, D.C.; Baltimore, Md.; Chicago, Ill.; Houston, Texas; Dallas-Ft. Worth, Texas; Sioux Falls, S.D.; Denver, Colo.; Rapid City, Iowa; Los Angeles, Calif.; and San Francisco-Oakland-San Jose, Calif.).

⁵⁴ *Id.* at 13.

⁵⁵ *Id.*

⁵⁶ See Lee, *supra* note 1 (“If you live in, say, Miami, you can’t get Locast until Mr. Goodfriend puts up an antenna there.”); Answer, *supra* note 7, at 37 (stating that Locast uses “ISP geo-location and GPS geo-location” to restrict viewing to users physically located within one of its markets). One might wonder whether a user outside one of the thirteen markets could circumvent the geofence with a VPN or proxy server, effectively tricking the app into thinking the user is

local. Locast appears to have implemented at least some safeguards against this. See Jeff Porten, *Locast Gives You No Frills Broadcast TV at No Cost*, TIDBITS (Feb. 18, 2019), <https://tidbits.com/2019/02/18/locast-gives-you-no-frills-broadcast-tv-at-no-cost/> (“Your location appears to be double-checked against cookies storing past locations—I’ve fiddled with creating multiple accounts and using my VPN service to spoof my location to New York, but I was unable to get that working.”).

⁵⁷ *Donate*, *supra* note 3.

⁵⁸ Barbara Krasnoff, *Locast Review: Free Local Programming with a Catch*, THE VERGE (Feb. 25, 2019), <https://www.theverge.com/2019/2/25/18236704/locast-review-streaming-free-local-programming-tv>.

⁵⁹ See, e.g., Complaint, *supra* note 2, at 8 (“Locast’s operation is an acknowledged effort to devalue the entire market for the rights to retransmit Plaintiffs’ copyrighted content. Indeed, Defendants have candidly admitted that their unauthorized streaming service aids authorized services that pay for the rights to stream or otherwise retransmit over-the-air broadcasts in their efforts to negotiate lower fees for those rights.”). This argument relies on the existence of §325 of the Communications Act, under which cable systems and other pay-TV distributors can be required to directly negotiate retransmission consent rights with broadcasters rather than simply paying the compulsory license fee under §111. See 47 U.S.C. §325(2019).

⁶⁰ Complaint, *supra* note 2, at 3.

⁶¹ *Id.* at 4–6.

⁶² Answer, *supra* note 7, at 6–7.

⁶³ *Id.* at 9.

⁶⁴ *Id.* at 14.

⁶⁵ *Id.* at 63–65.

⁶⁶ *Id.* at 23.

⁶⁷ *Id.* at 26–27.

⁶⁸ This is not entirely implausible; although the plaintiffs would surely prefer to settle to avoid drawing further attention to Locast, Goodfriend has suggested that he welcomes the lawsuit—apparently as a means of testing his theory—and will litigate the suit for as long as it’s financially feasible. See Lee, *supra* note 1.

⁶⁹ Edmund Lee, *Locast, a Free Streaming Service, Sues ABC, CBS, NBC and Fox*, N.Y. TIMES (Jan. 31, 2019), <https://www.nytimes.com/2019/09/27/business/media/streaming-locast-sues-abc-cbs-nbc-fox.html> (quoting attorney Gerson Zweifach).

⁷⁰ See Jon Brodtkin, *TV Networks Sue Nonprofit to Kill Free TV Service*, ARSTECHNICA (July 31, 2019), <https://arstechnica.com/tech-policy/2019/07/abc-cbs-fox-nbc-sue-locast-to-stop-free-online-access-to-broadcast-tv/> (quoting law professor Blake Reid’s opinion that “the best [Locast’s funding situation] does for the broadcasters is stop Locast specifically and create a blueprint for another nonprofit to step up and do the same thing”).

⁷¹ 17 U.S.C. § 111(a)(5) (2019).

⁷² See *supra* note 35.

⁷³ See LOCAST: NON-PROFITRETRANSMISSION OFBROADCASTTELEVISION20 (June 2018), <https://news.locast.org/app/uploads/2018/11/Locast-White-Paper.pdf> (“The Copyright Office has not expressed any comparable opinion with respect to the non-profit exemption.”).

⁷⁴ See *id.* at 7 (“Locast’s service was clearly designed with the Section 111(a)(5) exemption in mind.”).

⁷⁵ See generally NYIPLA Brief, *supra* note 52, at 13–20 (discussing a line of cases in which defendants “were not permitted to evade infringement just because they made a technological innovation in the manner in which they transmitted the works,” and arguing that “the *Aereo* case presents . . . an even stronger [case] for assigning liability”).

⁷⁶ See *supra* note 51 and accompanying text.

⁷⁷ *Copyright Law Revision*, *supra* note 45, at 304.

⁷⁸ See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 450 (1984) (“Even copying for noncommercial purposes may impair the copyright holder’s ability to obtain the rewards that Congress intended him to have.”).

⁷⁹ 17 U.S.C. § 107(1) (2019).

⁸⁰ *Sony*, 464 U.S. at 449 (“If the Betamax were used to make copies for a commercial or profit-making purpose, such use would *presumptively* be unfair. The *contrary presumptionis* appropriate here, however, because the District Court’s findings plainly establish that time-shifting for private home use must be characterized as a *noncommercial, nonprofit activity*.”) (emphasis added).

⁸¹ See, e.g., 17 U.S.C. § 110(4) (2019) (exempting “performance of a nondramatic literary or musical work otherwise than in a transmission to the public, without any purpose of direct or indirect commercial advantage . . .”). See also Lydia Pallas Loren, *The Evolving Role of “For Profit” Use in Copyright Law: Lessons from the 1909 Act*, 26 SANTA CLARA COMPUTER & HIGHTECH. L.J. 255, 279 n.138 (2010) (cataloging other instances of the “nonprofit” distinction in the copyright statute).

⁸² See, e.g., Orly Lobel, *The Law of the Platform*, 101 MINN. L.R. 87, 139–42 (2016) (discussing the *Aereo* decision as an instance where an innovative company “took an entrepreneurial risk and lost, in the face of massive established industry players resistant to disruption”).

⁸³ *The Public and Broadcasting*, FCC, <https://www.fcc.gov/media/radio/public-and-broadcasting> (last visited Dec. 19, 2019).

⁸⁴ See Report on Broadcast Localism and Notice of Proposed Rulemaking, 73 Fed. Reg. 8255 (proposed Feb. 13, 2008) (“The Commission has consistently held that, as temporary trustees of the public’s airwaves, broadcasters are obligated to . . . air programming responsive to the needs and issues of the people in their communities of license.”).

⁸⁵ Answer, *supra* note 7, at 22.

⁸⁶ Lee, *supra* note 1.

⁸⁷ *American Pay Television Is In Decline*, THE ECONOMIST (May 9, 2019), <https://www.economist.com/business/2019/05/09/american-pay-television-is-in-decline>.

⁸⁸ Sarah Perez, *Nielsen: 16M U.S. Homes Now Get TV Over-the-Air, a 48% Increase Over Past 8 Years*, TECH CRUNCH (Jan. 15, 2019), <https://techcrunch.com/2019/01/15/nielsen-16m-u-s-homes-now-get-tv-over-the-air-a-48-increase-over-past-8-years/>.

⁸⁹ See, e.g., Clara Hendrickson, *Local Journalism In Crisis: Why America Must Revive Its Local Newsrooms*, BROOKINGS INSTITUTION (Nov. 12, 2019), <https://www.brookings.edu/research/local-journalism-in-crisis-why-america-must-revive-its-local-newsrooms/>.

**AN ILLICIT LOVE AFFAIR: HOW THE UNITED STATES' LEGAL LANDSCAPE
COUPLED WITH SOCIAL MEDIA HAS CREATED A FAST FASHION FIRESTORM**

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Draft Material: Not for Circulation

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I. INTRODUCTION

“Going through old fitting pics & found this gold look that Kanye made for me for my Miami trip last summer (I went w the neon vibes instead) P.S. fast fashion brands, can you please wait until I wear this in real life before you knock it off?” reads a February 8, 2019, Kim Kardashian-West Instagram caption.¹ The picture above the caption is Kardashian-West in a fitting room, posing in a gold, custom Yeezy dress.² Less than a day later, Missguided, an online fast fashion³ retailer, posted an exact replica of the gold, custom dress worn by a look a-like model on Instagram with the caption: “the devil works hard but missguided works harder.”⁴ Less than a week later, Kardashian-West was spotted wearing a one-of-a-kind vintage Thierry Mugler dress to dinner, which she also posted on Instagram.⁵ Less than twenty-four hours later, an exact replica of this vintage creation appeared on Missguided’s website.⁶ Kardashian-West filed suit against the second generation fast fashion company⁷ and tweeted the following:

“Only two days ago I was privileged enough to wear a one-of-a-kind vintage Mugler dress and in less than 24 hours it was knocked off and thrown up on a site, but it’s not for sale. You have to sign up for a waitlist because the dress hasn’t even been made to see yet. This is a way to get people to sign up for their mailing list and make people believe there is some kind of relationship between me and this fashion site. There is not. It is devastating to see these fashion companies rip off designs that have taken the blood sweat and tears of true designers

¹ Kim Kardashian-West, (@kimkardashian), INSTAGRAM, (Feb. 8, 2019) <https://www.instagram.com/p/Btn7Tm6nEof/>.

² *Id.*

³ Fast fashion is defined as an “approach to the design, creation and marketing of clothing fashions that emphasizes making fashion trends quickly and cheaply available to consumers.” *Fast fashion*, Merriam-Webster Dictionary, <https://www.merriam-webster.com/dictionary/fast%20fashion>.

⁴ Chavie Lieber, *Kim Kardashian’s Love-Hate Relationship with Fast Fashion Explained*, VOX (Feb. 26, 2019) <https://www.vox.com/the-goods/2019/2/26/18241625/kim-kardashian-fast-fashion-fashion-nova-missguided>.

⁵ Kim Kardashian-West, (@kimkardashian), INSTAGRAM, (Feb. 25, 2019) <https://www.instagram.com/p/BuUPOcJnIXx/>.

⁶ Lieber, *supra* note 4; Second generation fast fashion refers to the second wave of fast fashion companies that are less reliant on brick-and-mortar stores and more reliant on Internet sales. Sara Idacavage, *Fashion History Lesson: The Origins of Fast Fashion*, THE FASHIONISTA (Oct. 17, 2018) <https://fashionista.com/2016/06/what-is-fast-fashion>

⁷ *Id.*

who have put their all into their own original ideas. I've watched these companies profit off my husband's work for years and now its affecting designers who have been so generous to give me access to their beautiful works, I can no longer sit silent.”⁸

The complaint argued that Missguided was “blatantly and willfully” engaging in trademark infringement,”⁹ by systematically “using [Kardashian-West’s] name and images of [her] to advertise and spark interest in its website and clothing.”¹⁰ According to Kardashian-West, this is especially heinous when considering that just one of her social media posts is worth at least several hundred thousand dollars.¹¹ However, no suit was filed on behalf of the designer, Thierry Mugler. The legal remedy is clear for the influencer and celebrity. They have the ability to sue for theft of their likeness, right to publicity violations and trademark infringement, among other causes of action. But the creator of the clothing has no legal leg to stand on. As social media is now being used as a weapon of mass imitation, designers are being left behind in the legal field, subjected to constant imitation with no legitimate legal remedy to protect their brands. A new legal protection must be forged for designers in the fashion industry—one that strikes a balance between protecting the efforts of a designer’s creativity and maintaining the ideal of American competitive, free market.¹²

This paper explores how copycatting in the fashion industry has escalated in the social media era. It argues that the current intellectual property protections available to designers have proven wholly inadequate in the face of fast fashion companies that have developed digital

⁸ @KimKardashian, TWITTER, (Feb. 29, 2019 12:00 pm) <https://twitter.com/KimKardashian/status/1097903481518616576?s=20>; <https://twitter.com/KimKardashian/status/1097903657377361922?s=20>; <https://twitter.com/KimKardashian/status/1097903684527091712?s=20>.

⁹ Lieber, Love-Hate, *supra* note 4.

¹⁰ *Id.*

¹¹ *Id.*

¹² Thomas West, *The Economic Principles of America’s Founders: Property Rights, Free Markets and Sound Money*, HERITAGE.ORG (Aug. 30, 2010) <https://www.heritage.org/political-process/report/the-economic-principles-americas-founders-property-rights-free-markets-and>.

design strategies entirely reliant on social media and these gaps within the law. To combat this chaos, this paper offers a creative solution of unfair competition law, which is essentially the tort of misappropriation influenced by Japanese design protection law. Part I explores the origins of fast fashion and its rampant use of social media for theft of designers' creations. Part II analyzes current American intellectual property protections in the context of the fashion industry and social media. Additionally, this section looks to past Congressional attempts to expand copyright protection to the fashion industry. Part III analyzes current design protection in Japan. Part IV offers a hybrid solution of Japanese design protection law and the tort of misappropriation to create an extension of unfair competition laws that hopes to strike the balance between American ideals of a free market while still offering protection for designers

II. FAST FASHION & SOCIAL MEDIA: AN IN-DEPTH EXAMINATION OF THE CURRENT CHAOS

a. The Origins of Fast Fashion

Fast fashion is a creature of society's own industrial nature.¹³ It was born in the shadows of an exclusive, elitist industry spawning from a swirl of consumer desires for the most fashionable at the most affordable price.¹⁴ "By stimulating mass-consumer appetites, the designers inadvertently spawned a highly lucrative and imitative industry."¹⁵ The appeal of fast fashion has always been eponymous—it is fast, cheap, and yanks the dreamy elitism of the high fashion industry out of its Parisian ateliers¹⁶ and shoves the look-of-the-moment into the hands of

¹³ Idacavage, *supra* note 6 (explaining the origins of fast fashion in part were due to the industrial boom of early 20th Century and World War II).

¹⁴ *Id.*

¹⁵ Julie Zerbo, *The Big Couture Rip Off*, THE FASHION LAW (January 26, 2017)

<http://www.thefashionlaw.com/home/the-big-couture-rip-off> [hereinafter Zerbo, *Big Couture*].

¹⁶ *Behind the Seams: 8 Elite Haute Couture Ateliers*, <https://www.1stdibs.com/blogs/the-study/8-haute-couture-ateliers/> (last visited Dec. 13, 2019); Christine Brinkley, *The Rules of Shopping Haute Couture*, WALL STREET J. (Jan. 20, 2016, 8:26pm) <https://www.wsj.com/articles/the-rules-of-haute-couture-shopping-1453318223>.

middle-class consumers.¹⁷ Fast-forward to 2019, nearly fifty years after the birth of this industry subset¹⁸ fast fashion, social media and the Internet, in a kind of illicit *ménage au trois*, have presented the industry's perfect storm.¹⁹

In the past, design teams for “traditional specialty retailers” created products they believed would be trending “[twelve] months out.”²⁰ From there, the products were developed for the bi-annual fashion weeks.²¹ The traditional design cycle would take approximately six months from the time a look was showcased at fashion week before it was delivered to retail stores.²² Haute Couture,²³ considered by many as the “pinnacle of high fashion,”²⁴ took—and still does take—even longer with some designs taking up to 1,500 hours²⁵ to complete. In an “ADD (attention deficit disorder) society,”²⁶ this turnaround time was too slow for consumers looking for a “constant feed of buy now, wear now.”²⁷ A designer's biannual collections include less than one hundred looks, broken down into individual pieces.²⁸ Fast fashion retailers, on the other hand, have the capability to put out “anywhere from [six-hundred] new pieces a week to a

¹⁷ Amy Lamare, *How Fast Fashion Became a Multi-Trillion-Dollar Industry*, <https://media.thinknum.com/articles/examining-fast-fashions-appeal-and-issues/>.

¹⁸ Idacavage, *supra* note 6.

¹⁹ Craig Hilliard, *Contributory Infringement Liability: An Increasingly Potent Weapon for Apparel Manufacturers*, NEW YORK L.J. August 29, 2019.

²⁰ Mallory Schlossberg, *Zara Has One Key Advantage Over Gap and J. Crew*, BUSINESS INSIDER. (September 16, 2015) <https://www.businessinsider.com/how-instagram-is-helping-zara-take-over-the-fashion-world-2015-9> (internal quotations omitted).

²¹ Idacavage, *supra*, note 13.

²² Nikki Gilliland, *Runway to Retail: How Fashion Brands are Introducing 'See-Now Buy-Now'* ECONSULTANCY (Sept. 19, 2015) <https://econsultancy.com/runway-to-retail-how-fashion-brands-are-introducing-see-now-buy-now/>.

²³ *Haute Couture*, BUSINESS OF FASHION, <https://www.businessoffashion.com/education/fashion-az/haute-couture>; David Johnson, *What Is Haute Couture*, (Feb. 28, 2017) <https://www.infoplease.com/what-haute-couture>.

²⁴ Brinkley, *supra* note 16.

²⁵ Eugenie Trochu, *12 Couture Dresses That Took the Longest to Make*, VOGUE (Jan. 28, 2018) <https://en.vogue.me/fashion/13-couture-dresses-took-longest-create/>.

²⁶ Lauren Sherman, *From Fashion Cycle to Fashion Feed*, THE BUSINESS OF FASHION, (March 9, 2015 17:50) <https://www.businessoffashion.com/articles/intelligence/fashion-cycle-fashion-feed>.

²⁷ *Id.* (internal quotations omitted).

²⁸ Sarah Harris, *Chanel Spring/Summer 2020 Resort Collection*, VOGUE, (May 3, 2019) <https://www.vogue.co.uk/shows/spring-summer-2020-resort/chanel/collection>.

thousand.”²⁹ Unlike technology, fashion is not bogged down by a product stream that renders the previous products obsolete.³⁰ Essentially, there is no new feature of a piece of clothing that renders the previous piece lesser. Consumers buy “out of desire, not necessity: they buy a garment one season, but are unsatisfied with it by the next, so they purchase something new.”³¹

With Americans checking their phones up to fifty-two times per day,³² it is logical that the fashion industry, as a whole, has adapted.³³ Luxury brands that once “shunned social media” for fear of it cheapening their image have now jumped on the bandwagon—with one hundred billion dollars being spent in 2016 on digital ads by luxury brands.³⁴ What has now come in the wake of this innovation is a more fluid and interactive industry that capitalizes on the influential power of social media.³⁵

However, bringing these lux brands to every screen-wielding consumer creates the age-old problem of price. The average millennial can barely afford rent,³⁶ let alone an on-sale, \$2,900 Balmain Shearling jacket.³⁷ And despite the void between what a millennial can afford and the median price of a designer’s collection, there still exists the desire for the pieces within that collection. Other than the allure of a brand, millennials may be attracted to specific designers

²⁹ Lieber, *supra* note 4.

³⁰ Helena Pike, *The Copycat Economy*, THE BUSINESS OF FASHION, (March 14, 2015 5:30 A.M.) <https://www.businessoffashion.com/community/voices/discussions/what-is-the-real-cost-of-copycats/fashions-copycat-economy>.

³¹ *Id.*

³² Todd Spangler, *Are Americans Addicted to Their Smartphones? U.S. Consumers Check Their Phones 52 Times Daily, Study Finds* VARIETY <https://variety.com/2018/digital/news/smartphone-addiction-study-check-phones-52-times-daily-1203028454/> (last visited Dec. 13, 2019).

³³ Louise Richardson, *What Impact Does Social Media Have on the Fashion Industry?* (Aug. 30, 2019) <https://www.retailtouchpoints.com/features/executive-viewpoints/what-impact-has-social-media-had-on-the-fashion-industry>.

³⁴ *Id.*

³⁵ *Id.*

³⁶ Rebecca Fontana, *Nearly Half of NYC Millennials Can’t Afford Their Rent*, (August 17, 2017 5:54pm) <https://www.timeout.com/newyork/blog/nearly-half-of-nyc-millennials-cant-afford-their-rent-081717>.

³⁷ *Balmain Shearling Gilet*, THE OUTNET, https://www.theoutnet.com/en-us/shop/product/vests-and-gilets_cod5983760398245815.html#dept=AM_Balmain_DESIGNERS

because of constant exposure on social media.³⁸ High-fashion designers have embraced social media in full³⁹—even posting their shows on Instagram Live,⁴⁰ allowing those sitting on their couches to experience the front row. And, as Hannibal Lecter once said, “We begin coveting by what we see every day.”⁴¹ Millennials, with the possible exposure to these images up to fifty-two times per day⁴² as they check their Instagram accounts, begin to covet what they see and are left with the unsatisfactory reality that many of them cannot afford what they want. Enter fast fashion, offering a solution to this generation’s fashion woes: on-trend pieces that are in the affordable under-fifty-dollars range rather than a mortgage payment.

The original, first-generation fast fashion heavy hitters, Zara, H&M and Forever 21, rose to prominence for their ability to knock off designers from the moment the model hit the catwalk to being in their customers’ hands in as little as five weeks.⁴³ Shockingly, this is now considered slow; some second-generation fast fashion companies, (now called “ultra-fast fashion”⁴⁴) can make clothing in as little as “[twenty-four] hours.”⁴⁵ These companies are born and bred on the Internet. Because of “social media and nonstop access to celebrities, couple[d] with the ability to have clothing made cheaply overseas, fashion has never been faster[.]”⁴⁶ Social media has revolutionized the design strategy for fast fashion—a process I refer to as “digitized designing.” This strategy is entirely dependent upon social media; the goal is “to comb social media, study

³⁸ Richardson, *supra* note 33.

³⁹ *Id.*

⁴⁰ Danielle Fowler, *Instagram Live Is Set To Be The Biggest Trend At London Fashion Week*, GRAZIA, (Nov. 2, 2017) <https://graziadaily.co.uk/fashion/news/instagram-live-fashion-week/>.

⁴¹ *Silence of the Lambs*, *Quotes* <https://www.quotes.net/mquote/86245> (last visited Dec. 13, 2019).

⁴² Spangler, *supra* note 32.

⁴³ Lieber, *supra*, note 4.

⁴⁴ *Id.* (internal quotations omitted); “ultra fast fashion” is what second generation fast fashion is being called because of these companies’ ability to produce clothing at lightening speed. Idacavage, *supra* note 6.

⁴⁵ Lieber, *supra* note 4.

⁴⁶ *Id.*

the fashion of celebrities and influencers and identify looks that are trending.”⁴⁷ The issue lies in the imitative aspect of this strategy—there is nothing innovative about it; it exists as a mass-copying machine, essentially exploiting another’s blood, sweat and creativity for their own cheap, easy benefit.

Simply put, social media has changed the fashion industry entirely. It has changed the way people see and view brands; it may even change the way we all shop online, due to Instagram’s new checkout feature.⁴⁸ Social media has changed the landscape of the fashion industry; it’s time for the legal landscape of that industry to change as well.

b. The Fast Fashion Faux Pas

There is an inherent difference in the two bleeding wounds of the fashion industry: knockoffs and counterfeits. The counterfeit “represents a nearly exact duplicate of an item sold with the intent to be passed off as the original.”⁴⁹ Counterfeits represent their own unique problems in the fashion industry that will not be discussed in this paper.⁵⁰ A knockoff is a “close copy of the original design, mimicking its elements, but is not sold in an attempt to pass as the

⁴⁷ *Id.*

⁴⁸ Brooke Bobb, *Instagram Made a Major Announcement This Morning and It May Change the Way You Shop Online*, VOGUE (March 19, 2019) <https://www.vogue.com/article/instagram-shopping-check-out>. This checkout feature allows for credit card information to be saved directly in the user’s profile. For the launch, the app has partnered with an all-star lineup including “Burberry, Prada, Oscar de la Renta, Balmain . . . Michael Kors, H&M, Zara, Nike, Warby Parker, Outdoor Voices . . . KKW Beauty and NARS.” The goal is to have consumers’ shopping experiences be “seamless,” according to the company, “one that starts and ends on Instagram.” The mix of fast-fashion and traditional brands in this line-up shows the importance of social media, not just as a design strategy for fast fashion, but now as a one-stop-shop for potential buyers, who can buy a piece within minutes of opening their Instagram app. *Id.*

⁴⁹ *Id.*

⁵⁰ Zerbo, *supra* note 15. One of the harms from counterfeiting is if an item falls apart or breaks the consumer automatically blames the designer they think made it, thus ruining the brand in the mind of the consumer. *Id.* While this is a fascinating issue and a huge problem facing designers especially in Europe and China, this Note will focus on the implications of knockoffs in the context of social media. *Id.*

original.”⁵¹ The difference as to what is legal and what could be—and perhaps should be—illegal lies in the crucial distinction between inspiration and imitation.⁵²

The fashion industry itself thrives on inspiration—recycled ideas from days past.⁵³ Inspiration “entails taking existing elements and interpreting them in a new or original way.”⁵⁴ Imitation, on the other hand, refers to the “production of *identical* copies and/or the *substantial* copying other artistic works.”⁵⁵ Essentially, imitation is the “*blatant* replication of the cut, construction, print, pattern and/or other features of another garment or accessory.”⁵⁶ The line was always thin between what was inspired and what was knocked off,⁵⁷ but now it appears to have become increasingly blurred. It is clear that digitized designing is a model for mass imitation. There is no question of inspiration or imitation, these copies are exact replicas, made from cheaper fabric.⁵⁸ An exact replica of a design can be sold and marketed on social media—oftentimes with designers being tagged in the post of the imitation or the post contains side-by-side pictures of the original as a brash nod to the copy’s unoriginal origins.⁵⁹ Digitized designing

⁵¹ Elizabeth Ferrill & Tina Tanhehco, *Protecting the Material World: The Role of Design Patents in the Fashion Industry*, 12 N.C. J.L. & TECH. 251, 253 (2011).

⁵² Julie Zerbo, *When Is Inspiration Just Inspiration and Not Imitation*, THE FASHION L., (April 14, 2018) <http://www.thefashionlaw.com/home/when-is-inspiration-just-inspiration-and-not-imitation?rq=imitation>.

⁵³ Julie Zerbo, *Hey Fashion Not Everything That is Similar is Copied*, THE FASHION L., (May 27, 2017) <http://www.thefashionlaw.com/home/hey-fashion-not-everything-that-is-similar-is-copied?rq=fashion%20cycle>.

⁵⁴ Zerbo, *supra* note 52.

⁵⁵ Zerbo, *supra* note 53 (emphasis in original).

⁵⁶ Zerbo, *supra* note 52 (emphasis added).

⁵⁷ *Id.*

⁵⁸ Lieber, *supra* note 4.

⁵⁹ As Kal Raustiala, author of *The Knockoff Economy: How Imitation Sparks Innovation*, recognizes, “[there] are companies where you literally go to their websites and they say: Here’s the original, and here’s our version of it.... And they’re very upfront about it. They don’t try to hide it. They trumpet that fact.” NPR Staff, *Why Knockoffs Are Good for the Fashion Industry*, *Author Interview*, Sept. 10 2012 <https://www.npr.org/2012/09/10/160746195/why-knockoffs-are-good-for-the-fashion-industry>; *see also* Lieber, *supra* note 4.

and the knockoffs it produces exist in a “legal gray area,”⁶⁰ leaving harmed designers with no legal remedy.

Although the financial blow that designers sustain due to imitation is “notoriously difficult to quantify,” the dilution of the design is clear.⁶¹ Even worse, the existence of near-identical copies of luxury fashion designs can dilute luxury labels’ brand equity and makes their products less desirable.⁶² Pamela Love, a jewelry designer, stated, “Being copied by fast fashion designers really waters everything down. It makes our ideas less special, which ultimately hurts our business and our authenticity.”⁶³

Copying has always existed—that is an unavoidable fact of this industry. In the 1930s, Coco Chanel and one of her rivals sued a copyist in French court.⁶⁴ But during the era of Coco Chanel and her contemporaries, “copyists had to sneak into the shows and sketch new designs from memory, before sending them to far-off factories to be made into garments.”⁶⁵ The time it took to manufacture these copies was comparable to the times the designer faced in creating the originals. Now, anyone with a phone can access design images in seconds, even before the piece is debuted,⁶⁶ and have an exact copy out with twenty-four hours.⁶⁷ The speed at which this

⁶⁰ Lara Piras, *The Rise of Copycat Culture & Counterfeit Fashion*, REFINERY29 (May 19, 2016) <https://www.refinery29.com/en-us/copycat-fashion-inspiration> [hereinafter Piras, *The Rise*].

⁶¹ Pike, *supra* note 30. However, the difference in sales between original designers and their copycats can be dramatic; for example, “when Narciso Rodriguez designed Carolyn Bessette Kennedy’s wedding gown in 1996, he sold only forty-five more of the same dress....one copyist sold 80,000.” *Id.*

⁶² *Id.* (quoting Elaine Maguire O’Connor, fashion law lecturer). “Customers are tempted towards the lower-cost items, especially if it is a trendy piece they just want to wear for a season or two.” *Id.* quoting Julie Zerbo, editor in chief of the *The Fashion Law*. “If the luxury customer has seen the design in Primark or H&M, they’re less likely to pay all that money.” *Id.* (quoting Elaine Maguire O’Connor).

⁶³ *Id.*

⁶⁴ *What Are The Consequences of Copycats?* BUSINESS OF FASHION, <https://www.businessoffashion.com/community/voices/discussions/what-is-the-real-cost-of-copycats/fashions-copycat-economy> (last visited October 2, 2019).

⁶⁵ Pike, *supra* note 30.

⁶⁶ *Id.*

⁶⁷ Lieber, *supra*, note 4.

process occurs allows consumers access to fast fashion imitations long before the originals will ever see a shop floor.⁶⁸ Digitized designing has destroyed designers' "first-to-market" advantage.⁶⁹ To say that the Internet has made only "minor changes"⁷⁰ to the speed of copying is to ignore the truth of the fashion cycle in the Internet age: it is broken.⁷¹

III. HOW THE U.S. INTELLECTUAL PROPERTY SYSTEM LEFT OUT THE FASHION INDUSTRY AND WHY THAT HAS PROVEN CONTINUALLY PROBLEMATIC

In assessing the current status of the law available for fashion designs, one thing is clear: the current protections are sparse and piece-meal. While there are some remedies provided for designers and manufacturers, those laws have proven impotent in the face of digitized designing and a worldwide online market.⁷²

a. Patents: A High Hurdle for Designers to Jump

Traditionally, utility patents have been difficult to obtain for fashion design. The requirements of "novelty" and "nonobviousness"⁷³ has been a nearly impossible mountain to climb when considering this is an industry that is based off one primary shape: the human body. However, some utility patents have been obtained for fashion innovations, such as fasteners like Velcro and zippers, high-performance textiles like Kevlar, or protective garments like hazmat gear or spacesuits.⁷⁴ "Fashion designs or design elements that are not merely aesthetically

⁶⁸ Pike, *supra* note 30.

⁶⁹ *Id.*

⁷⁰ Christopher Sprigman and Kal Raustiala, *Piracy Doesn't Destroy the Incentive to Create, It Increases It*, THE BUSINESS OF FASHION, (March 16, 2016, 5:30am)

<https://www.businessoffashion.com/community/voices/discussions/what-is-the-real-cost-of-copycats/op-ed-piracy-doesnt-destroy-the-incentive-to-create-it-increases-it>.

⁷¹ Susan Scafidi, IP & Fashion Design in 1 *IP Information & Wealth* 115, 118 (Peter K. Yu ed., 2006)

⁷² Craig Hilliard, *Contributory Infringement Liability: An Increasingly Potent Weapon for Apparel Manufacturers*, NEW YORK L.J. August 29, 2019.

⁷³ 35 U.S.C. §101(a) (1952).

⁷⁴ Scafidi, *supra* note 71.

pleasing but also functional can, if sufficiently innovative, meet the exacting standards of a patentable invention.”⁷⁵

Utility patents exist for fashion designers in a limited sense; design patents provide a more available (albeit still limited) opportunity for protection. Under 35 U.S.C. §171(a), “whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent[.]”⁷⁶ Design patents protect ornamental rather than functional design elements.⁷⁷ Typically speaking, these types of patents only cover hardware on a handbag or the specific structural design of a heel.⁷⁸ Still, designers are taking advantage of the limited protection in droves to ward off the perils of digitized design strategies.⁷⁹ Yves Saint Laurent has been granted eight design patents. Louis Vuitton six. Bottega Veneta three. Balenciaga, two.⁸⁰

While design patents are available to fashion designers in a way that utility patents are not, they share the same limitations: the “temporal constraints” of the patent system as a whole prove incompatible with the seasonal, cyclical nature of the fashion industry.⁸¹ The patent office’s turnaround time, from filing to grant, tends to be eighteen months, which is often too long to wait for most garments and accessories.⁸² Therefore, this protection is usually only sought for staple items and only by brands that have a significant accessory business “with thousands of dollars to spend on each single patent.”⁸³ The problem that arises with design patents tend to be not only the cost, which can be upwards of \$10,000 per patent,⁸⁴ but also that

⁷⁵ *Id.*

⁷⁶ 35 USC §171(a) (2013).

⁷⁷ Scafidi, *supra* note 71 at 122.

⁷⁸ *Id.*

⁷⁹ Julie Zerbo, *Currently Trending: Design Patents*, THE FASHION L. (June 23, 2016) <https://www.thefashionlaw.com/home/currently-trending-in-fashion-design-patents>.

⁸⁰ *Id.*

⁸¹ Scafidi, *supra* note 71 at 122.

⁸² Zerbo, *supra* note 79.

⁸³ *Id.*

⁸⁴ *Id.*

even with these protections knockoffs can still occur.⁸⁵ The ornamental element itself may be patented, but the element's placement on a piece cannot.⁸⁶ For example, an ornamental element, such as studs, if it qualifies, may be patented, but the placement on that handbag may not.⁸⁷ Therefore, design pirates will mimic the exact placement of the studs on the handbag and just use a similar-looking stud.

b. Trademark and Trade Dress: Twins of Deception

In the fashion industry, trademarks have historically been a favorite. The availability of trademark protection for logos contrasted with the difficulty in establishing protection for underlying designs creates an incentive to make logos as visible as possible.⁸⁸ Therefore, designers have created and implemented the famous logos from the brands consumers know and recognize, such as the interlocking CCs for Chanel,⁸⁹ or Ralph Lauren's distinctly American Polo Player.⁹⁰ And quite possibly one of the most disputed and hard-fought trademark: Christian Louboutin's red sole.⁹¹ The nature of trademarks is to protect logos or identifying marks.⁹² Trade dress, on the other hand, is structured to protect the design of the product rather than the label or logo. Trade dress "is essentially [the] total image and overall appearance of a product" and "may include features such as size, shape, color or color combinations, texture, graphics or even particular sales techniques."⁹³ It protects aspects of a product's packaging and design that cannot

⁸⁵ Lauren Indvik, *Why Patent-Holding Designs Can Still Get Knocked Off: A Case Study with Alexander Wang* FASHIONISTA, (Apr. 11, 2014) <https://fashionista.com/2013/12/why-fashion-designers-get-knocked-off-alexander-wang>.

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ Scafidi, *supra* note 71 at 121.

⁸⁹ CC, Registration No. 85587843. <https://www3.wipo.int/branddb/en/#>.

⁹⁰ Ralph Lauren Blue Polo Player, Registration No. 5875615 <https://www3.wipo.int/branddb/en/#>.

⁹¹ *See generally* Christian Louboutin S.A. v. Yves Saint Laurent, 696 F.3d 206, 216 (2d Cir. 2012) "[t]he 'flash of a red sole' is... instantly recognizable to those in the know as Louboutin's handiwork." *Id.*

⁹² Lanham Act 15 USC §1127 (2006).

⁹³ *Two Pesos Cabana, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 764 n.1 (1992).

receive trademark registration.⁹⁴ Trade dress protection covers “visual impression, which functions like a word or design mark, as an indicator of source.”⁹⁵ In the fashion arena, a Chanel No. 5 bottle is instantly recognizable even without the word “Chanel” on it.⁹⁶ The same thought process follows for a Hermès Birkin Bag or a Converse Chuck Taylor. For trade dress, an item is protectable only if it has climbed the Everest-like feat of obtaining secondary meaning in the public mind.⁹⁷

Essentially, a piece of clothing is only protectable under trademark law if it is covered with a trademarked logo and even then the structure of the piece is still fair game. Established fashion houses do suffer the consequences of copying, but have the ability to hide behind the reputation of their labels, which are protected by trademark law.⁹⁸ Copyists, fueled by digitized designing, know to steal everything distinctive about a piece, but leave out the telltale logo of higher brands. Further, the inadequacy of trademark and trade dress law lie in its inherent elitism, with the advantage going to well-established fashion houses. While knockoffs are ubiquitous regardless of a brand’s net-worth, a consumer may be willing to pay the higher price for a well-known brand, whereas an emerging designer lacks the luxury of depending on brand recognition.⁹⁹ As a young designer expressed the problem, “[t]hey can just sell their trademarks. We have to sell our designs.”¹⁰⁰ For emerging designers, who lack name brand recognition and rely on their designs rather than their label, copyists poach the very essence of their creativity.¹⁰¹

c. Copyright Law: The Ultimate Excluder

⁹⁴ Karina K. Terakura, *Insufficiency of Trade Dress: Lack of Guidance For Trade Dress Infringement Litigation in the Fashion Design Industry*, 22 U. HAW. L. REV. 569 (Summer 2000).

⁹⁵ Julie Zerbo, *Trade Dress Law*, THE FASHION L. (Sept. 19, 2016) <http://www.thefashionlaw.com/learn/trade-dress>.

⁹⁶ *Id.*

⁹⁷ 15 U.S.C. §1125 (2012).

⁹⁸ Zerbo, *supra* note 95.

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

The American fashion industry has failed to follow in the footsteps of its publishing and music cousins.¹⁰² These industries have followed a pattern of exposure to unrestrained copying, which resulted in steadily increasing legal protection, in the form of copyright.¹⁰³ However, this pattern is wholly absent in the fashion industry.¹⁰⁴ While there are certainly cultural factors to blame,¹⁰⁵ this vacancy could simply be chalked up to the fact that when copyright laws¹⁰⁶ were being written in the 1970s, there were no huge American fashion houses.¹⁰⁷ Currently, nearly fifty years later, there are American design houses that have achieved international acclaim and amassed multibillion-dollar brands, and yet there has been no update in the law.¹⁰⁸ The Second Circuit has recognized that copyright law is arguably the best suited to protect the fashion design.¹⁰⁹ However, the Copyright Act's explicit exclusion of useful articles has effectively kneecapped the industry's ability to expand into its best-suited area of intellectual property law.¹¹⁰

The champion of the fashion industry in the copyright field was a cheerleading uniform. The Supreme Court articulated in *Star Athletica v. Varsity Brands* that an artistic feature of the design of a useful article is eligible for copyright protection if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article and (2) would qualify as a protectable pictorial, graphic, or sculptural work either on its own or in some other medium if

¹⁰² Scafidi, *supra* note 71 at 118 (explaining that the pattern in the music and publishing industries was that the US, once a notorious pirate nation, is now a promoter of intellectual property enforcement in all but one industry).

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ Chavie Lieber *Fashion's Copycat Problem: Why Brands Like Zara Get Away with Rip-Offs*, VOX (April 27, 2018) <https://www.vox.com/2018/4/27/17281022/fashion-brands-knockoffs-copyright-stolen-designs-old-navy-zara-h-and-m>.

¹⁰⁸ *Id.*; Summer Buesing, *20 of the Top American Luxury Fashion Designers*, THE RICHEST, (Mar. 24, 2014) <https://www.therichest.com/fashion/20-of-the-top-american-luxury-fashion-designers/>.

¹⁰⁹ *Christian Louboutin v. Yves Saint Laurent*, 696 F.3d 206, 216 fn. 19, (2d Cir. 2012).

¹¹⁰ 17 U.S.C.A. §102 (1976).

imagined separately from the useful article.”¹¹¹ This relatively recent advancement is certainly beneficial, but in a world where access to prints is only a click away, a copyright registration does not discourage the knockoff and at its best is a retroactive remedy.

d. Failures to Launch: The DPPA and IDPPPA

Both courts¹¹² and industry executives have long recognized the need to fashion a weapon for properly combating design pirates and knockoffs, even before social media exacerbated the problem. There have been several attempts by Congress to finally invite fashion design to the intellectual property protection party. The two most recent have been the Design Piracy Protection Act (“DPPA”) and its modified predecessor the Innovation Design Piracy Protection and Prevention Act (“IDPPPA”). Both bills stood poised to amend Chapter 13 of the Copyright Act to add fashion as a protected category under the sui generis design protection currently located in Chapter 13.¹¹³ These two attempts represent the ninety-second and ninety-third attempts respectively since 1914 to protect fashion law.¹¹⁴

The DPPA included fashion design under copyright law and provided for a protection period of three years, so long as the application for protection was made within three months of the design being made public.¹¹⁵ The IDPPPA was the successor of the DPPA, promulgated

¹¹¹ *Star Athletica v. Varsity Brands*, 137 S.Ct. 1002, 1016 (2017).

¹¹² *Millinery Creators Guild v. Federal Trade Commission*, 109 F.2d 175, 177 (2d Cir. 1940) (highlighting that “the [creator] suggests a real loss when the design is copied as soon as it appears; the imitator in turn reaps a substantial gain by appropriating for himself the style innovations produced by the creator’s investment. Yet the imitator may copy with impunity, and the law grants no remedy to the creator.”)

¹¹³ Sara R. Ellis, *Copyrighting Couture: An Examination of Fashion Design Protection and Why the DPPA and IDPPPA Are a Step Toward the Solution to Counterfeit Chic*, 78 TENN. L. REV. 163, 197 (Fall 2010).

¹¹⁴ Lauren Estrin et al., *In Vogue: IP protection for Fashion Design*, at 21, 24, COPYRIGHT WORLD, Apr. 2007, available at </articles/invogueipprotectionforfashiondesign.ashx>

¹¹⁵ Susan Scafidi, Opening Statement H.R. 5055, Subcomm. on Courts, the Internet, and Intellectual Property, (Jul. 27, 2006) <http://www.counterfeitichic.com/Images/HR%205055%20opening%20statement%20given%207-27-06.pdf>.

after many industry heavyweights opposed the DPPA.¹¹⁶ The IDPPPA provided the same three-year term of protection as the DPPA, but included protective features such as no required registration, heightened pleading standards, and a substantially identical standard for infringement.¹¹⁷ The purpose of the IDPPPA by those who testified in favor of the bill before the House argued that it “helps level the playing field.”¹¹⁸ The goal of the IDPPPA and its extremely high infringement standard was to attack knockoffs and imitators, but to ignore those who used a designer’s piece as inspiration.¹¹⁹ While these bills seemed to be the bright light American designers were looking for, they both effectively failed to launch.

Some scholars have argued that the IDPPPA adopted confusing language and that it could potentially “fail to adequately safeguard the very designs it was created to protect.”¹²⁰ Others have argued that the period of protection should only be one year so as to better suit the cyclical nature of the fashion industry and provide more guidance to courts in determining infringement.¹²¹ In any case, these once-beacons of hope have dimmed significantly and, with the presence of social media exacerbating a preexisting issue, the industry needs a solution now more than ever.

IV. EYES SET TOWARD THE EAST: HOW JAPAN HANDLES DESIGN PROTECTION

Japan fashions its design protection differently. Under Japanese design law, protection is available for the form, pattern, or color (or combination thereof) that appeals visually to the

¹¹⁶ Hearing Before the Subcommittee on Intellectual Property, Competition, and the Internet of the Committee on the Judiciary House of Representatives on H.R. 2511, 112th Cong. 112-46 (Jul. 15, 2011) <https://www.govinfo.gov/content/pkg/CHRG-112hhrg67397/html/CHRG-112hhrg67397.htm>.

¹¹⁷ Susan Scafidi, *IDPPA: Introducing the Innovative Design Protection and Piracy Prevention Act, a.k.a. Fashion Copyright* (Aug. 6, 2010) <http://counterfeitchic.com/2010/08/introducing-the-innovative-design-protection-and-piracy-prevention-act.html>.

¹¹⁸ Hearing, *supra* note 116.

¹¹⁹ *Id.*

¹²⁰ Ellis, *supra* note 113 at 201.

¹²¹ Laura C. Marshall, *Catwalk Copycats: Why Congress Should Adopt a Modified Version of the Design Piracy Prohibition Act*, 14 J. INTEL. PROP. L. 305, 327 (Spring, 2007).

viewer's sense of aesthetics.¹²² The design must be “completely new[;]” cannot “lack[] creativity;” must be unique; be recreated using industrial process; and cannot “breach public order and morals,” or “cause confusion with any item of any other person.”¹²³ From the date of registration, design rights continue for twenty years with a mandatory annuity to maintain protection.¹²⁴ Additionally, while the protection generally lapses after twenty years, if the “form of the registered object becomes famous,” it is possible to receive protection under the unfair competition prevention laws even “after design rights lapse.”¹²⁵

Under unfair competition laws in Japan, a design can receive protection, if (1) the infringing garment is a “dead copy” of an earlier garment, and (2) it could raise confusion with the earlier garment among consumers.¹²⁶ The purpose is to prevent “slavish copying of another product's configuration regardless of notice of any kind regardless of whether the configuration was distinctive in any way, and regardless of whether any consumer was confused or deceived.”¹²⁷ If this copying is found, the monopoly grant lasts for three years from the date that the product is first sold.¹²⁸ This facet of design arguably analogizes with patent protection in the United States, rather than copyright law.¹²⁹ Scholars have argued that this is too stringent a requirement to implement in the United States because it would effectively cut off the American ideal of a competitive market.¹³⁰

¹²² *Investing in Japan, Section 5: Trademark and Design Protection Systems*, JAPAN EXTERNAL TRADE ORGANIZATION https://www.jetro.go.jp/en/invest/setting_up/section5/page7.html (last visited Dec. 15, 2019).

¹²³ *Id.*

¹²⁴ *Id.*

¹²⁵ *Id.*

¹²⁶ Michele Woods and Miyuki Monroig, *Fashion Design and Copyright in the US and EU*, WIPO (Nov. 17, 2015) https://www.wipo.int/edocs/mdocs/mdocs/en/wipo_ipr_ge_15/wipo_ipr_ge_15_t2.pdf (referring to *Issey Miyake v. Meitetsu Department Store* (Tokoyo District Court, 1999)).

¹²⁷ Kenneth L. Port, “*Dead Copies*” *Under The Japanese Unfair Competition Prevention Act: The New Moral Right* 51 ST. LOUIS U.L.J. 93, 94 (Fall 2006).

¹²⁸ *Id.*

¹²⁹ See generally, Lisa J. Hedick, *Tearing Fashion Design Protection Apart at the Seams*, 65 WASH. & LEE L. REV. 215, 256 (Winter 2008).

¹³⁰ *Id.*

V. WHAT CUSTOM-TAILORED PROTECTION COULD LOOK LIKE

A new road needs to be paved to implement protection for designers. One of the main concerns is to maintain a competitive free market.¹³¹ A balance must be struck between maintaining designers' integrity and promoting a free market system where competition is chief and litigation is rife.¹³² A combination of the Japanese "dead copy" framework coupled with the tort of misappropriation offers a creative solution that will allow designers to bring a complaint when they have been subjected to the exact replication of one of their designs where no automatic right previously existed in an expansion of unfair competition.

The Japanese unfair competition model is attractive in the sense that it provides a remedy where no right previously existed. "The thin line between free competition and unfair competition is crucial to the fashion designer and the consumer."¹³³ The dead copy protection in Japan is simply too strong for the American goals of a competitive free market.¹³⁴ The dead copy framework in Japan does not require the plaintiff to have been financially damaged.¹³⁵ Kenneth Port highlights that some commentators in Japan have conflated the dead copy statute with the tort of misappropriation theory.¹³⁶ Under United States common law, to establish a cause of action for misappropriation, three things must be shown:

"(1) the plaintiff produced the thing appropriated expending much effort and money of a long period of time; (2) the defendant used the thing appropriated at little or no cost, such that one might characterize it as "reaping where you did not sow"; and (3) the plaintiff was financially damaged by the defendant's conduct."¹³⁷

¹³¹ Thomas West, *The Economic Principles of America's Founders: Property Rights, Free Markets and Sound Money*, HERITAGE.ORG (Aug. 30, 2010) <https://www.heritage.org/political-process/report/the-economic-principles-americas-founders-property-rights-free-markets-and>.

¹³² Hedick, *supra* note 129 at 246–47.

¹³³ Terakura, *supra* note 94 at 571–72.

¹³⁴ Port, *supra* note 127 at 95.

¹³⁵ *Id.* at 100.

¹³⁶ *Id.*

¹³⁷ *Id.* at 99–100.

A combination of the tort of misappropriation influenced by Japan's dead copy statute offers a creative solution to the industry's current crisis. The goal would be to protect the designer from exact imitations marketed on social media that exist in "a legal gray area" as discussed above.¹³⁸ To bring an action, the plaintiff first would have to show that she was financially harmed and that her design was not generic. Second, the plaintiff would need to plead that the infringing design was a "dead copy"¹³⁹ of her earlier work, and that this copy was created in bad faith. Breaking it down further, a plaintiff would have four overall elements to plead: (1) financial harm; (2) the design is sufficiently unique; (3) her design was first; (3) the later design is a "dead copy;" and (4) the later design was created in a bad faith.

Each element of the solution solves a current problem within the industry or anticipates a critique that has been brought by scholars when discussing expanding protection.¹⁴⁰ The first requirement in showing there was financial harm aims to reduce any meritless litigation. The second element, a showing of a sufficiently unique design, exists to prevent protection on an everyday item, such as a black shirt or blue jeans. Essentially, the designer must prove that the design is not generic. The third factor, requiring the plaintiff to show her designs was created first. In cases where that can be confused, looking to which design was published first. This factor is intended to prevent designers for getting damages for starting a trend or wiping out a smaller lesser-known designer who's design predated theirs. The fourth factor, requiring a showing that the second design is a "dead copy" of the first design, prevents a designer from bringing a meritless action. Dead copy would be an exact *imitation*, not mere inspiration.

The last requirement of a showing of bad faith ties right back into the social media origins of this Note. Evidence of bad faith conduct can include the actual tagging of designers or celebrities

¹³⁸ Lieber, *supra* note 4.

¹³⁹ Woods & Monroig, *supra* note 126.

¹⁴⁰ Sprigman & Raustiala fn (arguing that expanding protection will stifle the industry and creativity.)

wearing the design in the post promoting the copy. The goal of the bad faith requirement is to deter this rampant digitized designing, and the taunting on social media it sparks.¹⁴¹ Overall, this solution would entitle the designer to some damages, but not a permanent protection on the design. The goal is to discourage using digitized designing as a tool for theft, while not flooding the courts with meritless litigation.¹⁴²

Some pitfalls to this solution, however, may include the availability of this remedy on a wider scale to new and emerging designers. Heightened pleading standards can include higher legal fees. These independent and emerging designers may lack the funds to pursue this litigation. Additionally, the elements of financial harm and bad faith could prove problematic to designers as discussed earlier this can be “notoriously difficult to quantify.”¹⁴³

VI. CONCLUSION

Some of the greatest artists of the century are fashion designers, and what they created is greater than art because consumers live their lives in it.¹⁴⁴ Social media has exacerbated an existing crisis within the fashion industry. While this solution is certainly not perfect, it would provide a remedy to the current problems social media poses to the integrity of designers and would not flood the courts’ with meritless litigation or litigation based upon generic ideas. The ideals of balancing a competitive free market, while still protecting the integrity of a designer’s work can be achieved through several different methods. Whether Congress chooses to act or not is substantial to the life of the industry. Emerging creatives are no doubt hesitant to market on Instagram and social media with the knowledge that their work could be knocked off in an

¹⁴¹ Lieber, *supra* note 4. (Misguided posting a side by side picture, in a now deleted post, with the caption “the devil works hard but misguided works harder”).

¹⁴² Bill Donahue, *H&M Takes Copyright Ruling to Supreme Court*, LAW360, (Sept. 10, 2019). H&M filed for cert with the Supreme Court regarding the issues with Ninth Circuit ruling that textile company (Malibu) pleadings had plausibly alleged that the retailer’s apparel featured lace that was “strikingly similar” to Malibu’s. *Id.* The fast fashion retailer is alleging it will be “dramatically” easier to sue for infringement. *Id.*

¹⁴³ SUPRA CITE

¹⁴⁴ *The Devil Wears Prada* (Fox 2000 Pictures 2006).

instant, without remedy. However, designers engage in this risk due to the alternative and far worse fate: losing out on the mass marketing frenzy that is social media. Social media has been, and will continue to be, used as a tool to exploit these designers—both large and small. Protection with the proper balance is out there if Congress would only tailor it correctly.

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

AMERICAN BROADCASTING
COMPANIES, INC., DISNEY
ENTERPRISES, INC., TWENTIETH
CENTURY FOX FILM CORPORATION,
CBS BROADCASTING INC., CBS STUDIOS
INC., FOX TELEVISION STATIONS, LLC,
FOX BROADCASTING COMPANY, LLC,
NBCUNIVERSAL MEDIA, LLC,
UNIVERSAL TELEVISION LLC, and OPEN
4 BUSINESS PRODUCTIONS, LLC,

Plaintiffs,

v.

DAVID R. GOODFRIEND and SPORTS
FANS COALITION NY, INC.,

Defendants.

No. 19-cv-7136

COMPLAINT FOR DAMAGES AND INJUNCTIVE RELIEF

Plaintiffs American Broadcasting Companies, Inc., Disney Enterprises, Inc., Twentieth Century Fox Film Corporation, CBS Broadcasting Inc., CBS Studios Inc., Fox Television Stations, LLC, Fox Broadcasting Company, LLC, NBCUniversal Media, LLC, Universal Television LLC, and Open 4 Business Productions, LLC (collectively, “Plaintiffs”) bring this Complaint against defendants David R. Goodfriend and Sports Fans Coalition NY, Inc. (collectively, “Defendants”) for infringing Plaintiffs’ exclusive rights under the Copyright Act (17 U.S.C. §§ 101 *et seq.*). Plaintiffs allege as follows:

PRELIMINARY STATEMENT

1. The Copyright Act gives copyright holders like Plaintiffs the exclusive right “to perform the[ir] copyrighted work publicly.” 17 U.S.C. § 106(4). In fulfilling the mandate of Article 1, Section 8 of the Constitution to protect and thereby incentivize the creation of

copyrighted works, Congress has explicitly recognized the copyright holder's exclusive right to transmit copyrighted works to the public. *Id.*

2. Plaintiffs, including their affiliated companies, collectively invest billions of dollars to create, acquire, and provide valuable television programming. That programming is broadcast to the public for free over-the-air viewing, but the overwhelming majority of households have elected the convenience and reliability of viewing Plaintiffs' copyrighted programming through services offered by cable, satellite, broadband, and mobile providers. By virtue of several Acts of Congress, those providers must have a license to retransmit copyrighted television programming, notwithstanding that the programming is broadcast over the air by Plaintiffs and their local affiliates, and must also secure the consent of the broadcasters to retransmit the broadcast signals. Indeed, Congress in 1976 amended the statutory text of the Copyright Act embodying the exclusive public-performance right specifically to include the retransmission of copyrighted content for the express purpose of protecting the rights of copyright holders in broadcast television programming. And beginning in 1992, Congress also amended the Communications Act to give broadcasters the right to require pay-TV distributors, such as cable systems, to negotiate terms for the right to retransmit broadcast station signals to subscribers. Congress' actions together form the legal framework through which producers of copyrighted broadcast television content and broadcast stations recoup their investments. Broadcast networks license the copyrighted content from producers, sell advertising, and distribute the programming through networks of affiliated broadcast stations, which in turn negotiate payment from pay-TV providers for retransmission consent.

3. Defendants created and operate a service called Locast. Locast captures over-the-air broadcast signals, strips critical data from those signals, and then retransmits those signals,

and the copyrighted content that they carry, to registered users over the internet. The catch is, unlike licensed cable, satellite, and streaming services, Locast neither obtains Plaintiffs' permission nor pays for its exploitation of Plaintiffs' exclusive rights to publicly perform their copyrighted content. Instead, Locast simply takes Plaintiffs' copyrighted content and retransmits it to its registered users at will over the internet.

4. A white paper hosted on Locast's website claimed that when Locast launched in New York City it was acting to extend the "reach of [broadcast] signals throughout" the area, "including to places where tall buildings or other obstructions might interfere with over-the-air reception." Locast contended that it could retransmit these signals and the copyrighted programming contained therein without authorization pursuant to an exemption in the 1976 Copyright Act adopted to support government or other non-profit services that (a) do nothing more than boost a local broadcast signal to those who cannot receive it, (b) "without any purpose of direct or indirect commercial advantage," and (c) without any charge other than cost-defraying "assessments." Congress also required in the Communications Act that booster or translator stations first obtain the authorization of the local broadcast station whose signal they seek to boost.

5. Locast is nothing like the local booster services contemplated by Congress in creating this narrow exemption. Locast is not a public service devoted to viewers whose reception is affected by tall buildings. Nor is Locast acting for the benefit of consumers who, according to Locast when promoting its purportedly free service, "pay too much." Locast is not the Robin Hood of television; instead, Locast's founding, funding, and operations reveal its decidedly commercial purposes.

6. There is nothing local about Locast. Defendants have infringed Plaintiffs' copyrighted programming and the programming of New York City stations WABC-TV, WCBS-TV, WNYW, and WNBC, as well as stations in the following Nielsen television markets: Dallas; Houston; Denver; Chicago; Boston; Philadelphia; Washington, D.C.; Baltimore; Sioux Falls, South Dakota; Rapid City, South Dakota; Los Angeles; and San Francisco. As of July 2019, Defendants stream television stations serving thirteen markets, including the nine largest markets in the United States.

7. Nor is Locast in any respect limited to enhancing the local reception of over-the-air broadcast signals. Defendants' Locast service allows registered users to access Plaintiffs' copyrighted programming via internet-connected devices, including television sets, laptops, smartphones, and tablets. Defendants stream Plaintiffs' programming over the internet twenty-four hours a day, every day, without authorization, potentially to anyone in the world with an internet connection. And unlike legitimate booster and translator stations, Locast does not have the permission of the broadcast stations it retransmits, in New York or anywhere else.

8. Nor can Locast maintain the pretense that it is operating without any purpose of direct or indirect commercial advantage. It is operating for its own commercial benefit and for the commercial benefit of companies that are among the largest commercial pay-TV distributors in the country. By retransmitting Plaintiffs' copyrighted programming without authorization, Locast is not only infringing Plaintiffs' copyrights, it is devaluing the retransmission consent rights that Congress created for the benefit of broadcasters. That is why certain pay-TV distributors have played an increasing role in creating, sustaining, and expanding Locast.

9. Locast was founded by a former executive of DISH Network L.L.C. ("DISH"), David R. Goodfriend, and initially was able to operate because of a sizable loan from a company

founded by another former DISH executive. Immediately upon his exit from DISH, Mr. Goodfriend became a paid lobbyist for DISH, where he advances DISH's case for retransmission consent "reform" before Congress and the Federal Communications Commission ("FCC"). Locast serves as the direct action complement to DISH's and Mr. Goodfriend's lobbying efforts, providing them with self-help if they cannot persuade Congress or the FCC to eliminate or devalue broadcasters' right to compensation for retransmission consent.

10. DISH is not the only pay-TV player assisting Locast. When Locast needed more capital, it found support from an even larger pay-TV distributor, AT&T, Inc. ("AT&T"), which owns the U-Verse IPTV pay-TV service and whose subsidiary owns the satellite TV service DIRECTV and the streaming TV service DIRECTV NOW. AT&T recently disclosed a "donation" of \$500,000 to Locast. In the words of one analyst, "we sense an important strategic leverage rationale to supporting Locast" and "[w]e believe donating to Locast is the single smartest move any [multichannel video program distributor] can make today" to impact the market for retransmission consent. Richard Greenfield, BTIG, *Locast Threatens Balance of Power in Retrans Negotiations*, July 9, 2019.

11. These two for-profit businesses provide Locast with valuable nationwide distribution of the Locast app on the internet-connected set-top boxes of their subscribers. At the same time, Locast provides these two major distributors with commercial benefits that include the ability (a) to avoid obtaining retransmission consent from local stations to include local stations in their pay-TV offerings by integrating the Locast app into their customers' set-top boxes; (b) to gain leverage in negotiations with broadcast stations over retransmission consent rights to offer their subscribers access to broadcast channels; and (c) for DISH, to promote a version of its Sling TV internet television service that does not carry local broadcast channels by

telling potential customers that they can “supplement” Sling TV by getting the broadcast channels via Locast. Locast is not the noncommercial, community public service it purports to be. It is a strategic play funded by and functioning for the benefit of decidedly commercial interests.

12. Locast departs from the activities of a mere booster of broadcast signals in a variety of ways. Among other things, Locast

- i. captures, transcodes, and retransmits broadcast signals over the internet, where they reach not only the local area served by the originating stations but are also accessible to anyone with internet access and an internet-enabled device;
- ii. retransmits the signals of broadcast stations that serve tens of millions of Americans, with a goal of disrupting the national broadcast television retransmission consent market;
- iii. strips from the over-the-air broadcast signals the Nielsen watermarks that measure viewing for local and national advertisers, thereby endangering broadcasters’ advertising revenue;
- iv. partners with DISH and DIRECTV to integrate its internet-TV service into set-top boxes of the country’s two leading pay-TV satellite providers, even though DISH and DIRECTV satellite subscribers already receive the major broadcast stations’ signals as part of their subscriptions;
- v. competes unfairly in the market for live television delivered over the internet by refusing to seek the licenses paid for by every one of its streaming competitors;

- vi. supports and complements the commercial lobbying and consulting business of its founder and president David R. Goodfriend, who lobbies Congress on behalf of DISH for retransmission consent “reform”;
- vii. maintains and grows a commercially valuable database of Locast user email addresses by requiring users to register and log in with email addresses or Facebook accounts even though there is no technological reason to do so;
- viii. as enabled by its broad Terms of Service, collects commercially valuable data about its users’ television viewing habits while offering that data as an enticement for other commercial players to support Locast with infrastructure or other assistance;
- ix. helps DISH’s internet-TV service Sling TV compete unfairly with competitors like Hulu With Live TV, YouTube TV, and PlayStation Vue by enabling it to tell potential subscribers that they can “supplement” their lower-cost Sling TV service with the free Locast service; and
- x. claims to be a free service but interrupts its stream every fifteen minutes to display commercials that seek “donations” while also terminating the stream, requiring users to reload a channel to continue watching; Locast then promises that the commercials will abate if viewers commit to the recurring monthly “donation.”

13. As these and other facts set forth in more detail below demonstrate, Locast is engaged in a massive infringement of Plaintiffs’ exclusive rights under the Copyright Act. Locast illegally and unfairly competes with live TV streaming services that *pay* for permission to

retransmit broadcast television, offering live internet TV while refusing to pay for the commercially bargained-for licenses that the law requires.

14. Locast's operation is an acknowledged effort to devalue the entire market for the rights to retransmit Plaintiffs' copyrighted content. Indeed, Defendants have candidly admitted that their unauthorized streaming service aids *authorized* services that *pay* for the rights to stream or otherwise retransmit over-the-air broadcasts in their efforts to negotiate lower fees for those rights. That is why a former DISH executive who is a current paid lobbyist for DISH operates Locast, that is why another former DISH executive made substantial loans to enable Locast to operate initially, that is why AT&T has recently "donated" additional funding, and that is why DISH and AT&T have integrated Locast apps into their internet-connected set-top boxes.

15. Unless Defendants are restrained by this Court, Plaintiffs will be irreparably harmed. Harms caused by Defendants' unauthorized use of Plaintiffs' copyrighted works include, without limitation, Plaintiffs' loss of control over the distribution of their copyrighted programming and the interference with Plaintiffs' opportunities to license, among others.

16. Accordingly, Plaintiffs ask this Court to enjoin Defendants' unlawful conduct and to award Plaintiffs damages arising out of this conduct.

PARTIES

17. Plaintiff American Broadcasting Companies, Inc. ("ABC") is a Delaware corporation with its principal place of business at 77 West 66th Street, New York, New York, and does business as the ABC Television Network and as WABC-TV. ABC is actively engaged in the production and distribution of television programs and other copyrighted works, including programs ABC transmits to numerous broadcast television stations that it owns as well as other stations that are affiliated with its ABC Television Network and with other networks, in the United States. ABC grants these stations the right to broadcast programming within their

communities of license and to negotiate for redistribution of network programming in certain circumstances. The FCC has licensed ABC to operate the television station identified by the call letters WABC-TV (“WABC”), among other television stations. WABC’s signal is broadcast to viewers over-the-air in the New York City market. Cable systems, satellite services, and other multichannel video programming distributors also make WABC retransmissions available to their subscribers upon negotiating for the right to do so under Section 325 of the Communications Act, 47 U.S.C. § 325. ABC and/or its affiliated entities also own and operate the following broadcast television stations, among others, the retransmissions of which pay-TV providers also make available to their subscribers upon negotiating for the right to do so under Section 325: Chicago’s WLS, Houston’s KTRK, Philadelphia’s WPVI, Los Angeles’ KABC, and San Francisco’s KGO. ABC is a wholly owned indirect subsidiary of Plaintiff Disney Enterprises, Inc.

18. Plaintiff Disney Enterprises, Inc. (“DEI”) is a Delaware corporation with its principal place of business at 500 S. Buena Vista Street, Burbank, California. DEI is actively engaged in the licensing of its copyrighted properties, and certain of its affiliates are engaged in the worldwide production and distribution of copyrighted entertainment products, including programs that television broadcast stations and other media outlets transmit or retransmit to the public.

19. Plaintiff Twentieth Century Fox Film Corporation (“Twentieth Century Fox”) is a Delaware corporation with its principal place of business at 10201 West Pico Blvd., Los Angeles, California. Twentieth Century Fox, along with its subsidiaries and affiliates, is actively engaged in the worldwide production and distribution of copyrighted programming, including programs that television broadcast stations and other outlets transmit to the public. Twentieth

Century Fox typically grants these stations and TV networks licenses to broadcast programming on these stations within their local markets only. Twentieth Century Fox is a wholly owned indirect subsidiary of Plaintiff DEI.

20. Plaintiff CBS Broadcasting Inc. (“CBS”) is a New York corporation with its principal place of business at 51 West 52nd Street, New York, New York. CBS is actively engaged in the production and distribution of television programs and other copyrighted works, including programs CBS transmits to numerous broadcast television stations in the United States that are affiliated with its CBS Television Network, including stations that it owns and operates. CBS grants these stations the right to broadcast programming within their communities of license. The FCC has licensed CBS to operate the television station identified by the call letters WCBS-TV (“WCBS”), among other television stations. WCBS’ signal is broadcast to viewers over-the-air in the New York City market. Cable systems, satellite services, and other multichannel video programming distributors also make WCBS retransmissions available to their subscribers upon negotiating for the right to do so under Section 325 of the Communications Act, 47 U.S.C. § 325. CBS and/or its affiliated entities also own and operate the following broadcast television stations, among others, the retransmissions of which pay-TV providers also make available to their subscribers upon negotiating for the right to do so under Section 325: Boston’s WBZ-TV, Chicago’s WBBM-TV, Dallas’ KTVT, Denver’s KCNC-TV, Philadelphia’s KYW-TV and WPSG, Baltimore’s WJZ-TV, Los Angeles’ KCBS-TV and KCAL-TV, and San Francisco’s KPIX-TV.

21. Plaintiff CBS Studios Inc. (“CBS Studios”) is a Delaware corporation with its principal place of business at 51 West 52nd Street, New York, New York. CBS Studios is actively engaged in the worldwide production and distribution of copyrighted entertainment

products, including programs that television broadcast stations and other media outlets transmit or retransmit to the public.

22. Plaintiff Fox Television Stations, LLC (“Fox TV”) is a Delaware corporation with its principal place of business at 1211 Avenue of the Americas, New York, New York. Fox TV owns and operates many local broadcast television stations. These stations are actively engaged in the production and distribution of television programs and other copyrighted works in the United States and elsewhere. The FCC has licensed Fox TV to operate the television stations identified by the call letters WNYW and WWOR-TV (“WWOR”), among other television stations. WNYW’s and WWOR’s signals are broadcast to viewers over-the-air in the New York City market. Cable systems, satellite services, and other multichannel video programming distributors also make WNYW and WWOR retransmissions available to their subscribers upon negotiating for the right to do so under Section 325 of the Communications Act, 47 U.S.C. § 325. Fox TV and/or its affiliated entities also own and operate the following broadcast television stations, among others, the retransmissions of which pay-TV providers also make available to their subscribers upon negotiating for the right to do so under Section 325: Chicago’s WFLD and WPWR-TV, Dallas’ KDFW and KDFI, Houston’s KRIV and KTXH, Philadelphia’s WTXF-TV, Washington, D.C.’s WTTG and WDCA, Los Angeles’ KTTV and KCOP-TV, and San Francisco’s KTVU and KICU-TV.

23. Plaintiff Fox Broadcasting Company, LLC (“FBC”) is a Delaware corporation with its principal place of business at 10201 West Pico Blvd., Los Angeles, California. FBC operates the Fox Network, a national broadcast television network with affiliates reaching households across the United States. FBC, directly or through its affiliated entities, is actively engaged in the production and distribution of copyrighted television programming.

24. Plaintiff NBCUniversal Media, LLC (“NBCUniversal”) is a Delaware limited liability company with its principal place of business at 30 Rockefeller Plaza, New York, New York. NBCUniversal is actively engaged, among other things, in the production and distribution of television programs and other copyrighted works, including programs NBCUniversal transmits to broadcast television stations in the United States that it owns and operates, and numerous other stations that are affiliated with the NBC Television Network, which is also owned and operated by NBCUniversal. NBCUniversal grants these stations the right to broadcast programming within their communities of license. NBCUniversal operates the television station identified by the call letters WNBC, and owns the subsidiary entity that holds the FCC license for that station, among other television stations. WNBC’s signal is broadcast to viewers over-the-air in the New York City market. Cable systems, satellite services, and other multichannel video programming distributors also make WNBC retransmissions available to their subscribers upon negotiating for the right to do so under Section 325 of the Communications Act, 47 U.S.C. § 325. NBCUniversal licenses its copyrighted works to various media outlets in the United States and elsewhere through indirect wholly owned subsidiaries. NBCUniversal and/or its affiliated entities also own and operate the following broadcast television stations, among others, the retransmissions of which pay-TV providers also make available to their subscribers upon negotiating for the right to do so under Section 325: Boston’s WBTS-LD, Chicago’s WMAQ-TV, Dallas’ KXAS-TV, Philadelphia’s WCAU, Washington, D.C.’s WRC-TV, Los Angeles’ KNBC, and San Francisco’s KNTV.

25. Plaintiff Universal Television LLC (“Universal Television”) is a New York limited liability company, with its principal place of business at 30 Rockefeller Plaza, New York, New York, and is a wholly owned subsidiary of NBCUniversal. Universal Television is actively

engaged in the production and licensed distribution of copyrighted entertainment products, including programs that television broadcast stations and other media outlets transmit or retransmit to the public.

26. Plaintiff Open 4 Business Productions, LLC (“Open 4 Business”) is a Delaware limited liability company, with its principal place of business at 100 Universal City Plaza, Universal City, California, and is a wholly owned subsidiary of NBCUniversal. Open 4 Business is actively engaged in the production and licensed distribution of copyrighted entertainment products, including programs that television broadcast stations and other media outlets transmit or retransmit to the public.

27. Defendant David R. Goodfriend is an individual who resides in Bethesda, Maryland. Defendant Goodfriend is the President, Director, and Treasurer of Defendant Sports Fans Coalition NY, Inc.

28. Defendant Sports Fans Coalition NY, Inc. (“SFCNY”) is incorporated as and claims to be a charitable organization under the laws of the State of New York, with its principal place of business at 3075 Veterans Highway, Suite 131, Ronkonkoma, New York 11779. SFCNY operates Locast.

JURISDICTION AND VENUE

29. This is a civil action seeking damages and injunctive relief for copyright infringement under the Copyright Act, 17 U.S.C. § 101 *et seq.* This Court therefore has subject matter jurisdiction under 28 U.S.C. §§ 1331 and 1338(a).

30. This Court has personal jurisdiction over Defendant Goodfriend pursuant to N.Y. Not-for-Profit Corp. Law § 309 because he is a director and officer of SFCNY, which is a New York corporation. This Court has personal jurisdiction over Defendant SFCNY because it is incorporated in the State of New York. The Court also has personal jurisdiction over Defendants

under New York C.P.L.R. § 302(a) because Defendants engage in copyright infringement in the State of New York by retransmitting without authorization Plaintiffs' copyrighted programming to users located in New York, causing injury to Plaintiffs in this State.

31. Venue is proper in this District under 28 U.S.C. § 1391(b) because Defendant SFCNY captures the signals of, and programming transmitted by, broadcast television stations in this District—including stations owned and signals and programming transmitted by Plaintiffs—and most of the Plaintiffs are headquartered or have offices in this District and are injured in this District. Venue is also proper in this District pursuant to 28 U.S.C. § 1400(a) because both Defendant Goodfriend and Defendant SFCNY are subject to personal jurisdiction in this District.

STATUTORY BASIS OF PLAINTIFFS' CLAIMS

32. The Constitution empowers Congress “[t]o 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.” U.S. Const. art. 1, § 8, cl. 8. The basic “philosophy behind the . . . clause” is “the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors.” *Eldred v. Ashcroft*, 537 U.S. 186, 212 n.18 (2003) (quotation omitted). Thus, while the ultimate goal of copyright protection is to “promot[e] broad public availability of literature, music, and the other arts,” the law does so not by promoting public access at all costs, but rather by “rewarding the creators of copyrighted works,” *Capital Cities Cable, Inc. v. Crisp*, 467 U.S. 691, 710 (1984) (quotation omitted), thereby providing an “incentive” designed “to stimulate artistic creativity for the general public good,” *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

33. To that end, the Copyright Act grants copyright owners “exclusive rights to do and to authorize” certain uses of their works. 17 U.S.C. § 106. Among those is the exclusive right, “in the case of . . . audiovisual works, to perform the copyrighted work publicly.” *Id.* § 106(4).

34. Broadcasters and producers of broadcast television content collectively invest billions of dollars in the creation, acquisition, and production of copyrighted content, which broadcast stations then transmit over the air to the public. Broadcast television stations monetize the copyrighted content that they broadcast over the air for free through, among other things, advertising revenue and retransmission consent fees paid by cable and satellite providers, as well as fees paid by those who retransmit their copyrighted content over the internet.

35. The Copyright Act makes clear that the exclusive right to “perform the copyrighted work publicly” under Section 106(4) includes the exclusive right to transmit a performance of the work to the public.

36. To that end, the Copyright Act provides:

To perform or display a work “publicly” means—

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

Id. § 101. The Act thereby renders the unauthorized transmission of a broadcast containing copyrighted works an infringement of the exclusive right to perform a work publicly.

37. While the 1976 Copyright Act brought broadcast retransmissions within the broad scope of the exclusive public performance right under Section 106, Congress has enacted compulsory licensing schemes to allow the retransmission of broadcasts containing copyrighted works by certain categories of pay-TV services meeting certain criteria: specifically, by “cable systems,” § 111(c); by “satellite carriers” retransmitting “distant signals” to “unserved households,” § 119; and by “satellite carriers” transmitting “into the station’s local market,” § 122. Each of those compulsory licensing schemes is further conditioned on compliance by the licensee cable system or satellite carrier with the “rules, regulations, or authorizations of the Federal Communications Commission,” which include, at the broadcast station’s election, negotiation of “retransmission consent” terms pursuant to Section 325(b) of the Communications Act. *See* 47 U.S.C. § 325(b).

38. Plaintiffs rely on their exclusive rights under the Copyright Act, and their affiliated stations rely on the retransmission consent regime to earn fees and realize advertising revenue, to support broadcast programming.

39. Plaintiffs market their programming through broadcast networks, which participate in the retransmission consent fees paid to affiliated stations by cable and satellite providers, as well as licensing the rights to stream live-television programming over the internet. Indeed, the rights to stream Plaintiffs’ copyrighted programming over the internet to television sets and laptops, smartphones, and other mobile devices are tremendously valuable, and a vibrant and growing market has been developing for providing consumers live television signals of broadcast stations carrying local and major broadcast network programming over the internet.

FACTUAL BACKGROUND

40. In 2018, Defendants Goodfriend and SFCNY launched the Locast service.

41. Locast functions by capturing the signals of broadcast television stations serving a local market, transcoding the signals into digital formats viewable on internet-connected devices, and then streaming the signals from its servers over the internet to registered users on internet-connected devices.

42. To use Locast, a user need only visit Locast's website on a computer or other internet-connected device, register for a free account (or log in using Facebook) subject to Locast's Terms of Service, and select the programming to watch.

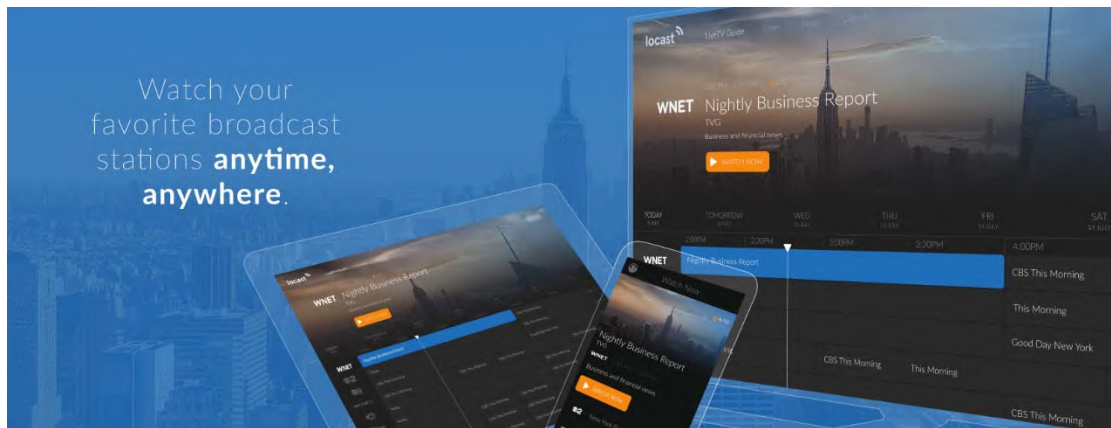
43. Locast does not have authorization to publicly perform the copyrighted programming embodied in the over-the-air broadcast signals it retransmits. Nor, unlike cable systems and satellite carriers, *see* 17 U.S.C. §§ 111 (c), 119(a), 122, does Locast qualify for or claim any right to a compulsory license to retransmit the copyrighted works within those over-the-air broadcasts. Nor has Locast obtained the consent of Plaintiffs' owned-and-operated stations or that of their affiliates to retransmit the over-the-air broadcast signals it offers.

44. Locast began streaming local television stations' programming in New York City under the guise of a public service purporting to have no direct or indirect commercial purpose; instead, Locast claimed that it was serving as a non-profit "booster" of signals to reach those whose ability to receive broadcast television was compromised by "tall buildings" in Manhattan.

45. While Locast acknowledged that it was engaged in the unauthorized retransmission of copyrighted content, it claimed that it was immunized from liability for that copyright infringement by an exemption in the Copyright Act, 17 U.S.C. § 111(a)(5). That narrow exemption permits local governments and other not-for-profit entities to operate booster and translator stations, which amplify broadcast signals so they can reach antennas in nearby areas otherwise unable to receive them. In order to avoid copyright liability, the local

governments and other non-profit entities must retransmit the signals “without any purpose of direct or indirect commercial advantage.” *Id.* This exemption was adopted against the backdrop of the provision of the Communications Act that requires booster and translator stations to have “express authority of the originating station” in order to retransmit the station’s signal. 47 U.S.C. § 325(a).

46. Locast no longer even purports simply to be enhancing signals for those plagued by tall buildings or otherwise unable to receive broadcast television. Instead, Locast promotes itself to users who already have access to broadcast television as a way to enjoy the added convenience of live mobile viewing over the internet without having to pay for it. Thus, in promotional materials featuring televisions, laptops, and smartphones, Locast promises users: “Watch your favorite broadcast stations **anytime, anywhere.**”



47. To that end, Locast makes its retransmissions available to users via all manner of devices and platforms, including applications for Android and Apple smartphones and devices, and applications for Roku, Chromecast, Amazon Fire TV, Apple TV, and Android TV television-viewing devices. A growing number of users have installed and use these applications to watch Plaintiffs’ copyrighted programming.

48. Locast now retransmits without permission the signals of broadcast television stations embodying Plaintiffs' copyrighted content in a total of thirteen television markets, including the nine largest markets in the United States. Locast offers to stream Plaintiffs' content to any of the tens of millions of people in those markets, without regard to whether "tall buildings" or anything else impedes their ability to access local signals. And Locast has stated its intention to continue to expand to other markets throughout the United States.

49. Moreover, while Locast purports to limit its streaming service to internet users within the applicable station's Nielsen Designated Market Area ("DMA"), its limits are easily circumvented by users. In addition, Locast itself often retransmits broadcast signals to users located hundreds of miles outside originating stations' local DMAs.

50. And unlike actual boosters and translators, Locast has never obtained consent from the local television stations that carry Plaintiffs' programming to retransmit their signals.

51. Nor can Locast purport to be operating—as the exemption it has invoked requires—"without any purpose of direct or indirect commercial advantage." 17 U.S.C. § 111(a)(5). Locast not only is securing important commercial advantages for itself, in forms including nationwide distribution of its application and valuable viewer data, but it is also operating in collaboration with, and for the commercial benefit of, two companies that are among the largest pay-TV distributors in the country.

52. Locast was founded by Defendant Goodfriend, who moved immediately from his position as Vice President of Law and Public Policy at DISH to serving as a paid lobbyist for DISH. Locast was initially able to operate because of a sizeable loan from a company called IOT Broadband, LLC, whose chairman and CEO, Michael Kelly, is another former DISH executive vice president.

53. When Locast needed more capital, it was supplied by an even larger pay-TV distributor, AT&T. AT&T, which operates the U-Verse pay-TV service and whose subsidiary DIRECTV, LLC operates the DIRECTV satellite service and the DIRECTV NOW streaming service, recently disclosed that it made a “donation” of \$500,000 to Locast.

54. DISH has refused to say whether it also has funded Locast through more direct means. On a February 13, 2019 DISH earnings call, DISH Chairman Charlie Ergen was asked the following question and gave the following answer: “[T]here’s been some conversation Charlie, that either you or DISH or both, are backing [Locast]. So do you have any comments on that?” “No.”

55. It is of little surprise that certain pay-TV companies are funding and otherwise assisting Locast, for Locast serves to provide them with considerable commercial benefits.

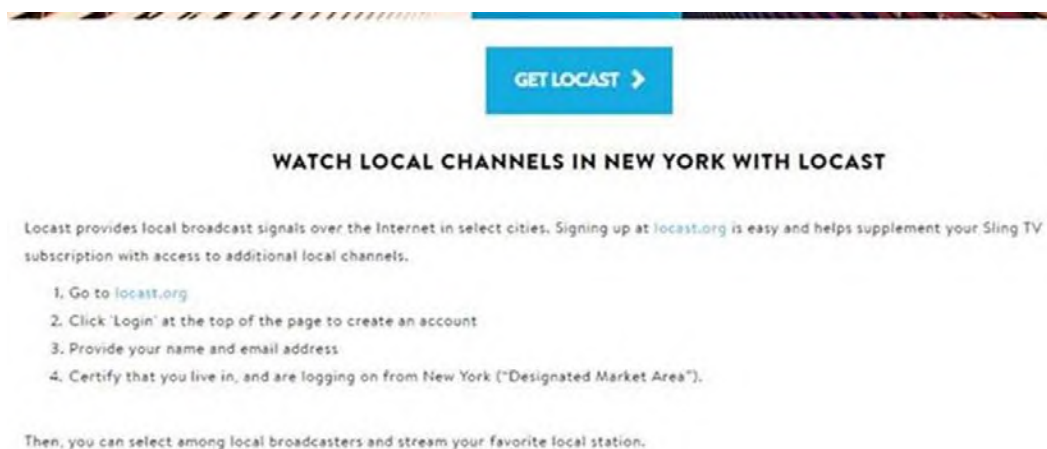
56. Locast has encouraged its potential users to “quit paying” for pay-TV services, insisting that they “cost too much,” and promotes itself as a way for people who already have TV service to watch television over the internet without paying for it. As Locast stated earlier this year: “If you’re sick of greedy companies over-charging you, fight back. Support Locast!”

57. While that may sound at first blush like a service that would disadvantage pay-TV services that include retransmitted broadcast programming, in fact, Locast is serving its two pay-TV patrons. Because Locast is not *paying* for the rights to retransmit Plaintiffs’ broadcasts, Locast enables certain pay-TV companies to provide their paying subscribers a path to receive Plaintiffs’ copyrighted content without the pay-TV companies paying for retransmission consent. As Locast extends its reach (including on apps now made accessible on DISH and DIRECTV set-top boxes), certain pay-TV companies are using and will likely continue to use Locast’s presence in the market in an effort to gain leverage in retransmission consent negotiations for

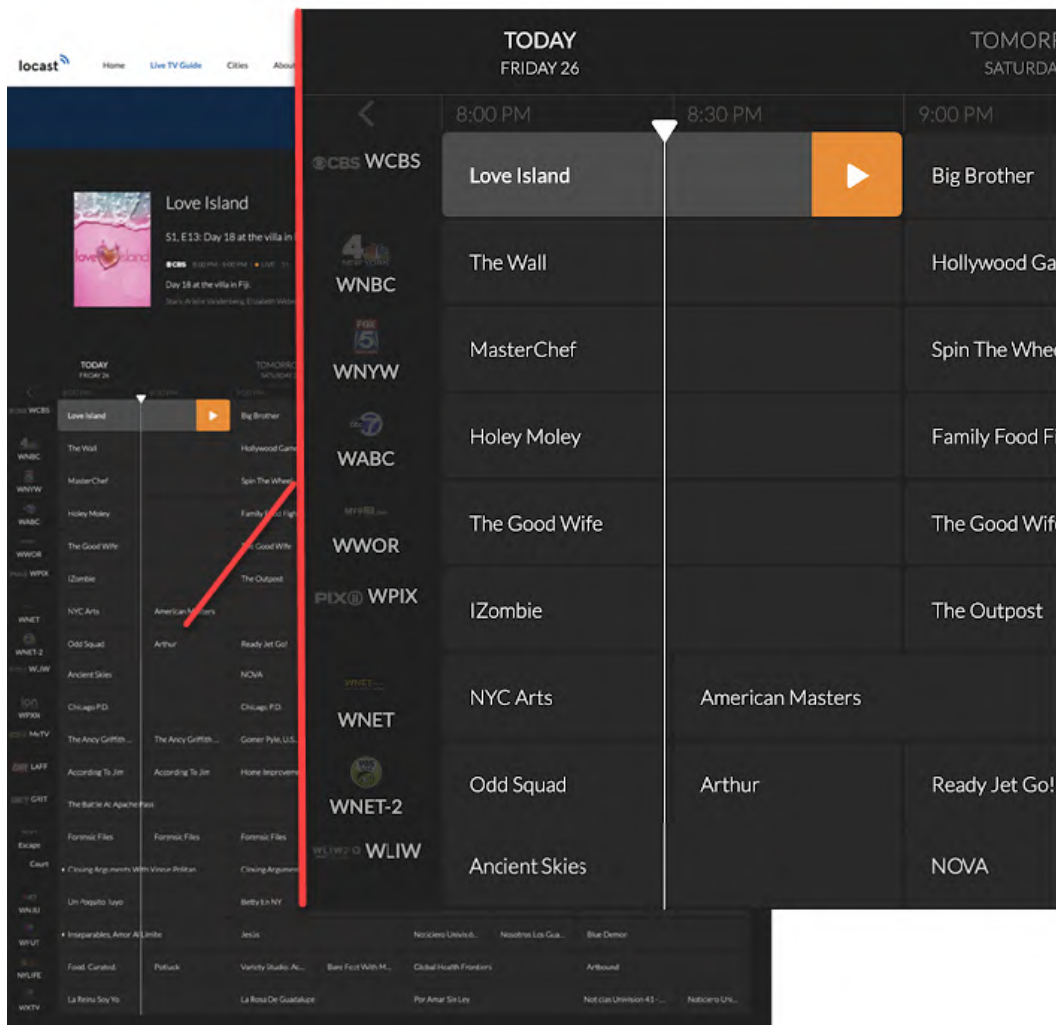
broadcast programming, because of Locast’s efforts to devalue retransmission rights. Locast is thereby attempting to achieve through copyright infringement what its president has been unable to achieve in lobbying efforts on behalf of DISH, *i.e.*, to undermine the retransmission consent market that was established by Acts of Congress.

58. Plaintiffs or their affiliate stations also license their streaming rights to authorized and paying licensees like Hulu With Live TV and YouTube TV. Through its unauthorized streaming of Plaintiffs’ copyrighted programming, Locast is diverting users from these legitimate streaming services offered by Plaintiffs or Plaintiffs’ legitimate licensees.

59. As is evident from DISH’s own efforts to promote Locast, there is yet another respect in which Locast provides DISH with a commercial benefit. In addition to integrating Locast apps into the internet-connected set-top boxes of DISH satellite subscribers, DISH has promoted its lower-cost OTT (“over the top”) streaming service, Sling TV, which does not include broadcast stations in most markets, by telling prospective subscribers that “[j]ust like Sling TV, Locast is live TV streamed over the internet in high definition,” and consumers can save money over Hulu and YouTube TV (which do include most broadcast stations) by subscribing to Sling TV and using the Locast app. DISH has also provided a link for potential customers to download Locast to “supplement [their] Sling TV subscription”:



60. The scope of Defendants’ infringement of Plaintiffs’ copyrighted works is massive. Locast has been operating twenty-four hours a day, seven days a week in markets around the country, infringing Plaintiffs’ copyrighted works in vast numbers. The Locast program guide makes clear the breadth of its ongoing infringement. Below, for example, is a copy of the guide for the New York City market, showing a selection of nineteen over-the-air broadcast stations:



61. Defendants have vowed to continue their infringing service and expand it into more markets.

62. Moreover, while Locast claims to be a free service (in order to attempt to maintain the fiction that it satisfies the requirements of the Copyright Act's exemption), it displays to viewers intrusive donation-requesting commercials that interrupt and terminate the stream and require users to reload a channel every fifteen minutes to continue watching. Locast then promises that the commercials will abate if viewers make a requested recurring monthly "donation" to SFCNY.

63. And while Locast initially allowed its users to access its retransmissions of Plaintiffs' copyrighted programming merely by visiting the website, Locast now requires users to provide an email address and create an account, or log in using a Facebook account, to access its retransmissions. That information is itself highly valuable to Locast, and is one of the many forms of commercial advantage that Locast is securing for itself while it serves the commercial purposes of the two pay-TV players that have sustained Locast and extended its reach.

DEFENDANTS' UNLAWFUL CONDUCT

64. Defendant Goodfriend has developed and operates and directs the Locast service.

65. Defendant SFCNY has developed and operates and directs the Locast service.

66. Defendant Goodfriend has been personally involved in (a) Defendants' decision to capture and retransmit Plaintiffs' copyrighted programming over the internet to registered users; (b) the development of the business model and technological systems employed by Defendants to infringe Plaintiffs' copyrights; (c) the decision to continue to expand Defendants' infringing activity; and (d) the supervision and active operation of this infringing activity. Defendant Goodfriend has been and is the primary actor in the activities that give rise to Plaintiffs' claims.

67. Through Defendants' actions, Locast without authorization streams over the internet copyrighted programming that was broadcast by numerous television stations serving the

New York City area, including stations owned by Plaintiffs or their affiliated entities: WABC-TV, WCBS-TV, WNYW, and WNBC.

68. Locast without authorization also streams copyrighted content from stations in other markets that are owned and operated by Plaintiffs or their affiliated entities, including:

- ABC's Chicago (WLS), Houston (KTRK), Philadelphia (WPVI), Los Angeles (KABC), and San Francisco (KGO) stations;
- CBS' Boston (WBZ-TV), Chicago (WBBM-TV), Dallas (KTVT), Denver (KCNC-TV), Philadelphia (KYW-TV and WPSG), Baltimore (WJZ-TV), Los Angeles (KCBS-TV and KCAL-TV), and San Francisco (KPIX-TV) stations;
- Fox's Chicago (WFLD and WPWR-TV), Dallas (KDFW and KDFI), Houston (KRIV and KTXH), Philadelphia (WTXF-TV), Washington, D.C. (WTTG and WDCA), Los Angeles (KTTV and KCOP-TV), and San Francisco (KTVU and KICU-TV) stations; and
- NBC's Boston (WBTS-LD), Chicago (WMAQ-TV), Dallas (KXAS-TV), Philadelphia (WCAU), Washington, D.C. (WRC-TV), Los Angeles (KNBC), and San Francisco (KNTV) stations.

69. Unless enjoined by this Court, Defendants intend to continue to infringe Plaintiffs' exclusive right to publicly perform their copyrighted works under the Copyright Act.

Count I

(COPYRIGHT INFRINGEMENT)

70. Plaintiffs incorporate each of the preceding paragraphs as if fully set forth herein.

71. Plaintiffs are the legal and beneficial owners of the copyrights of numerous programs that have been, or will be, exhibited over broadcast television stations and other media

outlets. A non-exhaustive list of representative examples of such television programs is set forth in Exhibit A (“Programs”) and Exhibit B (“Section 411 Notices”).

72. Each such Program is an original audiovisual work that has been or will be fixed in a tangible medium of expression and constitutes copyrightable subject matter within the meaning of 17 U.S.C. § 102. Each such Program has been or will be, consistent with the requirements of 17 U.S.C. § 411, registered with the United States Copyright Office. *See* Ex. A & Ex. B.

73. Under Section 106 of the Copyright Act, Plaintiffs have the exclusive rights, among other things, to “perform the copyrighted work publicly” and to authorize the same. 17 U.S.C. § 106(4).

74. Neither Plaintiffs nor any other person or entity authorized by Plaintiffs have granted permission, authorization, or a license to Defendants to exercise any of Plaintiffs’ exclusive rights, including under 17 U.S.C. § 106(4) with respect to the Programs or any other works in which Plaintiffs own copyrights.

75. In offering the Locast service, Defendants have exercised and will exercise (or have authorized or will authorize others to exercise) Plaintiffs’ exclusive rights under 17 U.S.C. § 106(4) with respect to the Programs or any other works in which Plaintiffs own copyrights.

76. Defendant Goodfriend is personally liable for the acts of infringement under the Copyright Act.

77. Defendant Goodfriend directed SFCNY to commence and continue infringement.

78. Defendants’ acts of infringement are willful, in disregard of Plaintiffs’ rights.

79. As a direct and proximate result of Defendants’ infringement, Plaintiffs have been harmed and are entitled to damages.

80. As a direct and proximate result of Defendants' acts, Plaintiffs have and will continue to sustain immediate and irreparable injury that cannot fully be compensated or measured in money. Unless enjoined and restrained by this Court, Defendants will continue to infringe Plaintiffs' rights in their copyrighted works.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for judgment against Defendants for the following relief:

1. For Plaintiffs' damages and Defendants' profits in such amount as may be found; alternatively, at Plaintiffs' election, for maximum statutory damages; or for such other amounts as may be proper pursuant to 17 U.S.C. § 504(c).

2. For a permanent injunction enjoining and restraining Defendants and all of their officers, agents, servants, and employees and all persons acting in concert or participation with them, from infringing Plaintiffs' exclusive rights under the Copyright Act by offering the Locast service and engaging in the conduct described above.

3. For prejudgment interest according to law.

4. For Plaintiffs' attorneys' fees and full costs incurred in this action pursuant to 17 U.S.C. § 505.

5. For all such further and additional relief, in law or in equity, to which Plaintiffs may be entitled or which the Court deems just and proper.

Dated: July 31, 2019

Respectfully submitted,

/s/ Gerson A. Zweifach

Gerson A. Zweifach

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Introduction: A Lawyer's Guide to CRISPR

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INTRODUCTION: A LAWYER'S GUIDE TO CRISPR*

JOHN M. CONLEY**

This Symposium on Legal, Ethical, and Policy Implications of New Gene-Editing Technologies was motivated by recent scientific developments in the field of gene editing. For years, genomic medicine has been hailed as the future of clinical treatment. The general premise is that doctors will use detailed information about a particular patient's DNA (and other "biomarkers") to custom-tailor diagnoses, advice, drug choices and doses, and other specifics of treatment.¹ President Obama's highly publicized Precision Medicine Initiative² (now rebranded—cryptically—as the "All of Us" Research Program)³ illustrates both the hope and the hype.

Despite this hope and hype, genomic medicine has thus far had a limited effect on the day-to-day practice of medicine, and that effect has been most notable in cancer treatment (for example, the use of *BRCA* gene testing in treating breast cancer made famous by Angelina Jolie).⁴ The limiting factors have included the facts that (1) genes tend to influence the probability of getting a disease but rarely "cause" a disease in a deterministic sense; (2) the relative influences of environment, lifestyle, and epigenetic factors (changes in DNA's

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** William Rand Kenan, Jr. Professor, University of North Carolina School of Law. My thanks to UNC law students Brian Champion, Zan Newkirk, and Zachary Shufro for their excellent research assistance to me and other contributors to the Symposium.

1. See generally Alan Wong et al., *Multiplexed Barcoded CRISPR-Cas9 Screening Enabled by CombiGEM*, 113 PROC. NAT'L ACAD. SCI. 2544 (2016) (providing an overview of the ability to tailor diagnoses, drug choice, and treatment options through CRISPR-Cas9 screening of patients).

2. Press Release, Office of the Press Sec'y, White House, Fact Sheet: President Obama's Precision Medicine Initiative (Jan. 30, 2015), <https://obamawhitehouse.archives.gov/the-press-office/2015/01/30/fact-sheet-president-obama-s-precision-medicine-initiative> [<https://perma.cc/9U9H-8H7N>].

3. See *All of Us Research Program*, ALL OF US, <https://www.joinallofus.org/en> [<https://perma.cc/3HCR-2EJJ>].

4. See, e.g., Angelina Jolie, Opinion, *My Medical Choice*, N.Y. TIMES (May 14, 2013), <https://www.nytimes.com/2013/05/14/opinion/my-medical-choice.html> [<https://perma.cc/H8DP-LS3P>].

immediate chemical environment in the body) on the ways genes are expressed are only beginning to be understood; and (3) for the rare cases of clear genetic-disease causation, treatment can only be symptomatic, since we have no “cures” at the genetic level.⁵

In fact, the holy grail of genomic medicine has always been the ability not just to identify dangerous gene mutations but to *fix* them: to go into a patient’s cells and change a dangerous DNA sequence to a healthy one. There have been efforts to do “gene therapy” by using viruses and other vectors to add desired DNA into the patient’s cells. There have been some limited successes⁶ but also some catastrophic failures, most infamously the death of a teenage boy in Pennsylvania⁷ and cases of leukemia-like side effects in France.⁸ In hindsight, the problems were probably due to insufficient knowledge about the DNA-delivery mechanisms.⁹

Now a new “gene-editing” technology, called CRISPR (or CRISPR-Cas9), may have the potential to provide a safe and effective way to cut out mutated sequences of DNA and paste in normal variants. As is so often the case in science, it is actually a new application of old knowledge—in this case, about the immune systems of bacteria. There is a long way to go before CRISPR becomes part of patient care, but, for the first time, there seems to be a way to leapfrog the use of potentially risky vectors to deliver DNA into a patient’s cells. The promise and potential value of the technology is reflected in the epic struggle underway over the foundational patent rights, featuring MIT and the Broad Institute on one side and the University of California-Berkeley and several European luminaries

5. Irwin Fridovich et al., *Human Genetic Disease: Management of Genetic Disease*, ENCYCLOPÆDIA BRITANNICA, <https://www.britannica.com/science/human-genetic-disease/Management-of-genetic-disease> [https://perma.cc/GQ4Z-VJPS].

6. There is a rare eye disease (choroideremia), for example, where in a trial of “14 patients [who] receiv[ed] a single injection into the back of the eye of a virus containing the missing gene” that caused their visual impairment, “there was a significant gain in vision across the group of patients as a whole . . . which was sustained for up to five years at the last follow up.” *Gene Therapy Breakthrough in Treating Rare Form of Blindness*, NIHR OXFORD BIOMEDICAL RES. CTR. (Oct. 8, 2018), <https://oxfordbrc.nihr.ac.uk/gene-therapy-breakthrough-in-treating-rare-form-of-blindness/> [https://perma.cc/VM7M-GH6V].

7. Sheryl Gay Stolberg, *The Biotech Death of Jesse Gelsinger*, N.Y. TIMES MAG., Nov. 28, 1999, at 136, 137–38.

8. Andrew Pollack, *F.D.A. Halts 27 Gene Therapy Trials After Illness*, N.Y. TIMES (Jan. 15, 2003), <https://www.nytimes.com/2003/01/15/us/fda-halts-27-gene-therapy-trials-after-illness.html> [https://perma.cc/D96D-9J6D].

9. *Id.*

on the other—a biomedical Clash of Titans.¹⁰ Meanwhile, in 2015 a Chinese research team reported the first successful gene-editing intervention in nonviable human embryos,¹¹ followed last year by a Chinese scientist’s claim to have edited the genome of twin baby girls.¹²

The rapid development of CRISPR technology—in particular, the ethically dubious Chinese activities—has spurred consternation, debate, and governance proposals among scientists, bioethicists, lawmakers, and regulators. The contributors to this Symposium are all significant contributors to this emerging discourse. In this Symposium, our contributors explain gene-editing technology and explore its significant implications for law, ethics, regulation, and health policy from their varied perspectives. In this Introduction, I will give a brief, “CRISPR for Lawyers” overview of the technology and then provide a synopsis of each of the contributions to this Symposium.

I. HOW CRISPR WORKS

CRISPR (pronounced “crisper,” like the lettuce drawer in the refrigerator) stands for Clustered Regularly Interspaced Short Palindromic Repeats.¹³ These are short, repeating sequences in the DNA of *E. coli* and other bacteria that were discovered by Japanese researchers in the 1980s.¹⁴ DNA is made up of long, two-stranded chains of four chemical building blocks, or bases: A, T, C, and G.¹⁵ The specific arrangement, or sequence, of these bases determines the

10. John Conley, *Clash of Titans: The Fight Over the CRISPR Gene-Editing Patent Rights*, ROBINSON BRADSHAW: PRIVACY REP. (Oct. 8, 2018), <https://theprivacyreport.com/2018/10/08/clash-of-titans-the-fight-over-the-crispr-gene-editing-patent-rights/> [<https://perma.cc/HNF4-TQMD>].

11. David Cyranoski & Sara Reardon, *Chinese Scientists Genetically Modify Human Embryos*, NATURE (Apr. 22, 2015), <https://www.nature.com/news/chinese-scientists-genetically-modify-human-embryos-1.17378> [<https://perma.cc/N3PN-JVB4>].

12. Dennis Normile, *CRISPR Bombshell: Chinese Researcher Claims to Have Created Gene-Edited Twins*, SCIENCE (Nov. 26, 2018, 1:10 PM), <https://www.sciencemag.org/news/2018/11/crispr-bombshell-chinese-researcher-claims-have-created-gene-edited-twins> [<https://perma.cc/HB4X-F52G>].

13. Brad Plumer et al., *A Simple Guide to CRISPR, One of the Biggest Science Stories of the Decade*, VOX (Dec. 27, 2018), <https://www.vox.com/2018/7/23/17594864/crispr-cas9-gene-editing> [<https://perma.cc/N6AM-MBMA>].

14. *Id.*

15. Richard J. Roberts et al., *Nucleic Acid*, ENCYCLOPEDIA BRITANNICA, <https://www.britannica.com/science/nucleic-acid#ref594016> [<https://perma.cc/8KXY-WVD3>].

nature of the organism—in simplest terms, whether it’s a bacterium or me.¹⁶

The CRISPR regions of bacteria were an enigma to the scientists who first noticed them. Their function was unknown for about twenty years, when food scientists using bacteria to make yogurt figured out that they are part of the bacteria’s immune system.¹⁷ These scientists realized that the CRISPR sequences resemble the DNA of viruses.¹⁸ In fact, the CRISPR sequences are taken from viral DNA that the bacteria has captured during past viral invasions.¹⁹ When a new viral attack occurs, the bacteria’s immune system compares the virus’s genetic material to the sequences stored in CRISPR; if it detects a match, it launches enzymes to cut up the incoming viral DNA and repel the invasion.²⁰

The details of this recognize-and-destroy process have proved critical to developing CRISPR’s gene-editing potential. But first a bit more terminology: An organism’s *genome* is the entirety of its DNA; *genes* are those DNA sequences that function to build, or *encode*, proteins.²¹ Genes account for only a small portion of the DNA in the genome.²² Other portions of the genome have regulatory functions, controlling when particular genes switch on and off, while other areas have no known current function.²³ *RNA* is a single-stranded cousin of DNA that performs many functions in the cell.²⁴

The bacterial CRISPR sequences are always accompanied by genes that code for enzymes (a class of proteins that facilitate chemical reactions) that can cut DNA.²⁵ The original CRISPR scientists called them Cas (for CRISPR-associated) genes.²⁶ Later research revealed that when viruses invade a bacterial cell, the

16. *Id.*

17. Plumer et al., *supra* note 13.

18. *Id.*

19. *Id.*

20. *Id.*

21. *Help Me Understand Genetics*, GENETICS HOME REFERENCE (May 14, 2019), <https://ghr.nlm.nih.gov/primer> [<https://perma.cc/72WD-LN52>].

22. Jonathan Henninger, *The 99 Percent . . . of the Human Genome*, HARV. U.: SCI. NEWS (Oct. 1, 2012), <http://sitn.hms.harvard.edu/flash/2012/issue127a/> [<https://perma.cc/ECM6-4HV9>].

23. *Id.*

24. Carl Zimmer, *Breakthrough DNA Editor Born of Bacteria*, QUANTA MAG. (Feb. 6, 2015), <https://www.quantamagazine.org/crispr-natural-history-in-bacteria-20150206/> [<https://perma.cc/3Q9J-D2CE>].

25. Plumer et al., *supra* note 13.

26. *Id.*

CRISPR regions produce RNA versions of the viral DNA sequences that it has captured and stored.²⁷ These RNA sequences are cradled by the Cas enzymes and carried around the cell.²⁸ When an RNA sequence encounters its viral DNA counterpart, it latches on and the Cas enzyme cuts the DNA, which stops the virus from replicating.²⁹

Current CRISPR gene-editing technology mimics this natural process. Researchers at the University of California-Berkeley chose a Cas enzyme called Cas9.³⁰ They supplied the enzymes with the RNA counterpart of the genetic sequence they wanted to edit—the target gene.³¹ The RNA finds and binds to the target DNA and the Cas9 enzymes cut it at its two ends.³² With the target gene excised, the cell can be induced to make a new one.³³ In the simplest application, the CRISPR mechanism finds and cuts out a “defective” gene—for example, one that causes a single-gene disease such as cystic fibrosis, hemophilia, or sickle cell disease—and the cell replaces it with a normal one.³⁴ CRISPR technology can also be used to introduce a new gene into the space.³⁵

This image provides a simple visual representation of how CRISPR-Cas9 is used to find and cut a target gene (the *g* in gRNA stands for *guide*; PAM is a DNA sequence adjacent to the target sequence that Cas9 recognizes³⁶):

27. *Id.*

28. *Id.*

29. *Id.*

30. *Id.*

31. *Id.*

32. *Id.*

33. *Id.*

34. *Id.*

35. Zimmer, *supra* note 24.

36. ADDGENE, CRISPR 101: A DESKTOP RESOURCE 9, 24–25 (2d ed. 2017), <https://bit.ly/2uRYyG0> [<https://perma.cc/ACU8-SLX3>].

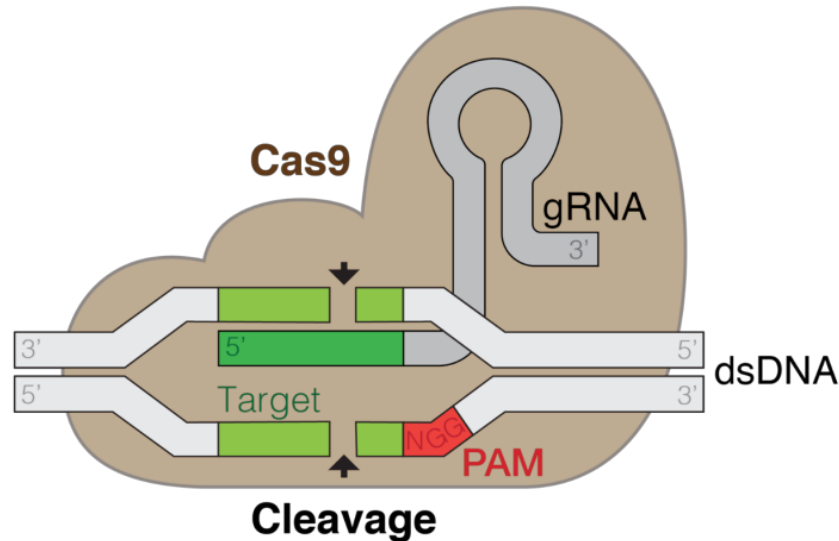
CRISPR-Cas9

Image Credit: Marius Walter, GRNA-Cas9, WIKIMEDIA COMMONS (Sept. 25, 2017), <https://commons.wikimedia.org/wiki/File:GRNA-Cas9.png> [<https://perma.cc/9RSM-DDL8>]. This image is licensed under the Creative Commons Attribution-ShareAlike 4.0 International license. See Attribution-ShareAlike 4.0 International License, CREATIVE COMMONS, <https://creativecommons.org/licenses/by-sa/4.0/legalcode> [<https://perma.cc/65BG-NRTQ>].

CRISPR is not the first gene-editing technology. Other approaches include Zinc-finger nucleases (“ZFN”) and transcription activator-like effector nucleases (“TALENs”).³⁷ ZFN, which dates to the early 1990s, employs custom-engineered proteins that find, bind to, and cut target DNA sequences.³⁸ ZFN improved on prior technology by significantly improving the accuracy of gene editing, in particular by reducing “off-target” edits that hit the wrong DNA sequences with unpredictable consequences.³⁹ However, ZFN’s

37. *Id.* at 53.

38. Thomas Gaj, Charles A. Gersbach & Carlos F. Barbas III, *ZFN, TALEN, and CRISPR/Cas-Based Methods for Genome Editing*, 31 *TRENDS BIOTECHNOLOGY* 397, 398–99 (2013).

39. *Id.* at 400–01.

custom engineering of proteins for each new target gene makes it slow, expensive, and inefficient.⁴⁰ TALENs, which appeared in 2009, is generally similar to ZFN but simpler and more efficient.⁴¹ CRISPR represents a major advance over both in terms of efficiency and accuracy.⁴²

There is a long way to go before CRISPR gene editing becomes part of everyday patient care, but it has the potential both to “fix” the causes of single-gene diseases and to contribute to the prevention or treatment of diseases that are caused by a complex interaction of genes and environmental factors, including cancer and heart disease.⁴³ Such uses seem—at least at first glance—to be ethically unproblematic, though there are worries about such safety issues as off-target edits.⁴⁴ But other possible uses are already engendering profound ethical concerns. Those uses include enhancement, or gene editing to improve on normal human traits;⁴⁵ editing human sperm or egg cells, which raises concerns about the intergenerational protection of those who might inherit edited genomes;⁴⁶ gene editing of embryos, the subject of the recent Chinese claims;⁴⁷ gene editing of animals, for a variety of purposes;⁴⁸ and attempting to alter ecology, as in the proposed use of CRISPR to eliminate malarial mosquitoes.⁴⁹ Such concerns are the subject of many of the Articles in this Symposium.

40. ADDGENE, *supra* note 36, at 8.

41. J. Boch et al., *Breaking the Code of DNA Binding Specificity of TAL-Type III Effectors*, 326 *SCIENCE* 1509, 1509–12 (2009); Gaj et al., *supra* note 38, at 399.

42. ADDGENE, *supra* note 36, at 9.

43. *See id.* at 15; Mark Shwartz, *Target, Delete, Repair*, *STAN. MED.* (2018), <https://stanmed.stanford.edu/2018winter/CRISPR-for-gene-editing-is-revolutionary-but-it-comes-with-risks.html> [<https://perma.cc/QVZ5-ZLZZ>].

44. Gaj et al., *supra* note 38, at 402.

45. *See, e.g.*, Shwartz, *supra* note 43.

46. *See, e.g.*, Jianhua Luo, *Here's What We Know About CRISPR Safety – And Reports of 'Genome Vandalism'*, *WASH. POST* (Sept. 3, 2018), https://www.washingtonpost.com/national/health-science/heres-what-we-know-about-crispr-safety--and-reports-of-genome-vandalism/2018/08/31/2ed90212-9735-11e8-a679-b09212fb69c2_story.html?noredirect=on&utm_term=.9ed673af0653 [<https://perma.cc/6ZGT-LZHW>].

47. *See, e.g.*, Normile, *supra* note 12.

48. *See, e.g.*, Preetika Rana & Lucy Craymer, *Big Tongues and Extra Vertebrae: The Unintended Consequences of Animal Gene Editing*, *WALL ST. J.* (Dec. 14, 2018), <https://www.wsj.com/articles/deformities-alarm-scientists-racing-to-rewrite-animal-dna-11544808779> [<https://perma.cc/BYJ3-U87M>]; *see also* THE NETH. COMM'N ON GENETIC MODIFICATION (COGEM), *CRISPR & ANIMALS: IMPLICATIONS OF GENOME EDITING FOR POLICY AND SOCIETY* 5–6 (2018).

49. *See, e.g.*, Megan Molteni, *Here's the Plan to End Malaria with CRISPR-Edited Mosquitos*, *WIRED* (Sept. 24, 2018, 11:00 AM), <https://www.wired.com/story/heres-the-plan-to-end-malaria-with-crispr-edited-mosquitoes/> [<https://perma.cc/XTE4-FU9Q>]; *see*

II. SUMMARY OF THE ARTICLES

The Articles in this issue are ordered generally according to theme. The first three deal in various ways with the ethics and legality of human gene editing. In *Human Gene-Editing Research*, Nancy King's primary concern is the creation of inheritable gene changes. Her worries include the perpetuation of dangerous outcomes and the use of gene editing for enhancement rather than treatment. Expressing skepticism about global enforcement mechanisms, she argues rather for transparency, ongoing discussion, and the development of best practices.

Next, Vence Bonham and Lisa Smilan's *Somatic Genome Editing in Sickle Cell Disease* uses the history of sickle cell disease to explore the issue of equitable access to gene-editing treatments. Sickle cell disease is a prime candidate for the early application of somatic gene editing, but, as the authors document, the history of the treatment of people living with the disease is one of discrimination and health inequities. They offer ethical prescriptions for policymakers in an effort to avoid a repeat of that tragic story.

Then, in *Editing Humanity*, Paul Enríquez examines the legality of human germline editing from multiple legal perspectives. He concludes that the Food and Drug Administration has ample current authority to regulate the practice but offers an innovative constitutional argument against efforts to ban germline gene-editing technologies. He proposes organizing possible uses of germline editing along an ethical continuum and using this continuum as a blueprint for future regulation.

A second group of Articles addresses gene editing in relation to animals and the environment. Rebecca Walker and Matthias Eggel focus on the ethics of using animals to model potential human applications of CRISPR. In *Replacement or Reduction of Gene-Edited Animals in Biomedical Research*, they identify the inherent ethical tension in the trend toward reducing the number of animals used while at the same time replacing mice and rats with more "complex"—and thus more humanlike—species such as primates.

In *Before We Make a Pig's Ear of It*, Karen Meagher and Paul Thompson use recent nuisance suits against the North Carolina hog-

also Dylan Matthews, *The Bold Plan to End Malaria with a Gene Drive*, VOX (Sept. 26, 2018, 5:03 PM), <https://www.vox.com/science-and-health/2018/5/31/17344406/crispr-mosquito-malaria-gene-drive-editing-target-africa-regulation-gmo> [<https://perma.cc/HG2Q-RZ39>].

farming industry as a vehicle for thinking about the ethics of the gene editing of livestock. They argue for new bioethical frameworks that combine divergent perspectives as policymakers grapple with ethical problems at the intersection of the environment, public health, and the legitimate needs of agriculture.

Governing Extinction in the Era of Gene Editing, by Jonas Monast, explores CRISPR technology as a conservation tool, including such uses as improving the genetic diversity of endangered species, controlling invasive species, and even reviving extinct species. The problem is that, whereas traditional conservation methods allow time and space for debating competing values, CRISPR-based conservation may move too fast. Monast offers a framework based in the Endangered Species Act to ensure that conservation uses of gene editing undergo appropriate public policy analysis.

Three more Articles examine some of the health implications of gene editing. *Legal and Ethical Implications of CRISPR Applications in Psychiatry*, by Alexandra Foulkes and colleagues, addresses psychiatry's increasing focus on the genomic correlates of many conditions. The authors identify some of the conditions that are especially promising for gene-editing treatment, as well as the special clinical challenges that CRISPR presents in the mental-health context. They conclude with some thoughts about the ethical and legal issues that are likely to arise, focusing particularly on the vulnerability of psychiatric patients who are likely to enlist in gene-editing research.

In *DIY CRISPR*, Christi Guerrini, Evan Spencer, and Patricia Zettler explore the overlooked and unregulated world of "citizen scientists" doing CRISPR research on their own, and sometimes on themselves. The authors' extensive interview study reveals a surprisingly robust—and generally effective—self-regulatory regime. But their interviews also identify emerging challenges that may portend an increase in risky experimentation.

Then, in *Gene Therapy's Field of Dreams*, Laura Hercher and Anya Prince consider the critical question of who will pay for gene therapy. It is expensive and, because it is individualized, it is likely to remain so. Consequently, cost should be a fundamental concern, lest we slip into a world of "genetic haves and have-nots," a world in which health inequalities are even more profound than they are now.

In our final Article, *The Pick-and-Shovel Play*, Jacob Sherkow and Christopher Scott take a bioethical perspective on the role of patents in the development of gene-editing technology. While the

debate thus far has been largely limited to the propriety of patents on gene-editing technologies themselves, the authors urge greater attention to the vectors that are used for introducing gene-editing mechanisms into the body. They contend that some commercial players have shrouded their vector information in secrecy, raising serious ethical and safety issues about the therapies in which those vectors are used.

370 N.C. 602

Michael KRAWIEC, Jennifer Krawiec, and Happy Dance, Inc./CMT Dance, Inc. (d/b/a Fred Astaire Franchised Dance Studios)

v.

Jim MANLY, Monette Manly, Metropolitan Ballroom, LLC, Ranko Bogosavac, and Darinka Divljak

No. 252A16

Supreme Court of North Carolina.

Filed April 6, 2018

Background: Employer, which was dance studio, filed action against competitor and former employees, who were dance instructors and performers, for tortious interference with contract, misappropriation of trade secrets, unfair and deceptive practices, civil conspiracy, unjust enrichment, and other causes of action, arising from former employees' alleged breach of their exclusive employment agreements. The Superior Court, Mecklenburg County, Louis A. Bledsoe, III, Special Superior Court Judge for Complex Business Cases, sitting by appointment, 2016 WL 374734, granted defendants' motions to dismiss in part. Employer appealed.

Holdings: The Supreme Court, Jackson, J., held that:

- (1) employer's allegations were insufficient to state claim for tortious interference with contract against competitor;
- (2) as an issue of first impression, employer failed to allege that misappropriated information derived independent commercial value, as required to allege existence of trade secret;
- (3) as an issue of first impression, employer failed to allege information was subject to reasonable efforts to maintain secrecy, as required to allege existence of trade secret;
- (4) employer's allegations failed to state claim for unfair and deceptive acts;

- (5) allegations by employer were sufficient to state claim for civil conspiracy; and
- (6) no benefit was conferred by employer on competitor with respect to nonimmigrant work visas, and thus competitor was not liable for unjust enrichment.

Modified and affirmed; remanded.

Beasley, J., filed dissenting opinion.

1. Appeal and Error ⚡3284

On appeal from an order dismissing an action for failure to state a claim upon which relief could be granted, the Supreme Court conducts de novo review. N.C. R. Civ. P. 12(b)(6).

2. Appeal and Error ⚡3896

When reviewing a complaint dismissed for failing to state a claim upon which relief could be granted, the Supreme Court treats a plaintiff's factual allegations as true. N.C. R. Civ. P. 12(b)(6).

3. Appeal and Error ⚡3808

In conducting its analysis of a complaint dismissed for failing to state a claim upon which relief could be granted, the Supreme Court also considers any exhibits attached to the complaint. N.C. R. Civ. P. 10(c), 12(b)(6).

4. Labor and Employment ⚡904

Allegation by employer, which was dance studio, that competitor knew or should have known of employment agreements between employer and former employees, who were dance instructors and performers, based on nonimmigrant work visas between employers and former employees was insufficient to allege that competitor knew of exclusivity provision in employment agreements, as was required for former employer to state claim for tortious interference with contract against competitor; there was no indication that work visas themselves constituted or contained any reference to exclusivity agreement, and there was no indication how competitor could have known of alleged exclusivity agreement through knowledge of visas.

5. Torts ⇨212

A claim for tortious interference with contract requires proof of five elements: (1) a valid contract between the plaintiff and a third person which confers upon the plaintiff a contractual right against a third person; (2) the defendant knows of the contract; (3) the defendant intentionally induces the third person not to perform the contract; (4) and in doing so acts without justification; (5) resulting in actual damage to plaintiff.

6. Antitrust and Trade Regulation ⇨428

To plead misappropriation of trade secrets, a plaintiff must identify a trade secret with sufficient particularity so as to enable a defendant to delineate that which he is accused of misappropriating and a court to determine whether misappropriation has or is threatened to occur; in contrast, a complaint that makes general allegations in sweeping and conclusory statements, without specifically identifying the trade secrets allegedly misappropriated, is insufficient to state a claim for misappropriation of trade secrets. N.C. Gen. Stat. Ann. § 66-153, 66-152, 66-155; N.C. R. Civ. P. 8.

7. Antitrust and Trade Regulation ⇨421

Provided that the information meets the statutory requirements, information regarding customer lists, pricing formulas, and bidding formulas can qualify as a “trade secrets.” N.C. Gen. Stat. Ann. § 66-152(3).

See publication Words and Phrases for other judicial constructions and definitions.

8. Antitrust and Trade Regulation ⇨428

Allegations by employer, which was dance studio, that competitor and former employees, who were dance instructors and performers, misappropriated its original ideas and concepts for dance productions, marketing strategies and tactics, and student, client, and customer lists and their contact information, were insufficient to allege the information derived independent commercial value from not being generally known or readily ascertainable through independent development or reverse engineering, as was required to allege existence of trade secret protected from misappropriation; employer provided no further detail required for notice about pre-

cise information allegedly misappropriated, and there was no indication that customer lists contained any information that would not be readily accessible to competitor or employees. N.C. Gen. Stat. Ann. § 66-152(3)(a).

9. Antitrust and Trade Regulation ⇨431

There is no presumption that a thing is a secret subject to protection from misappropriation of trade secrets. N.C. Gen. Stat. Ann. § 66-152(3).

10. Antitrust and Trade Regulation ⇨428

Allegations by employer, which was dance studio, that it shared information regarding original ideas and concepts for dance productions, marketing strategies and tactics, and student, client, and customer lists and their contact information, with former employees, who were dance instructors and performers, with expectation of confidentiality, were insufficient to allege that information was the subject of efforts that were reasonable under the circumstances to maintain its secrecy, as required to state a claim for misappropriation of trade secrets against former employees and competitor who subsequently hired former employees, in the absence of any allegation of a method, plan, or other act by which they attempted to maintain the secrecy of the alleged trade secrets. N.C. Gen. Stat. Ann. § 66-152(3).

11. Antitrust and Trade Regulation ⇨428

Allegations by employer, which was dance studio, that competitor maliciously, deliberately, secretly, wantonly, recklessly, and unlawfully solicited and subsequently hired former employees, who were dance instructors and performers, and misappropriated employer’s trade secrets for competitor’s own benefits, failed to allege specific unfair or deceptive acts, and thus failed to state claim for violation of statute prohibiting unfair or deceptive acts. N.C. Gen. Stat. Ann. § 75-1.1.

12. Antitrust and Trade Regulation ⇨134

To plead a valid claim for unfair and deceptive trade practices, a plaintiff must show: (1) defendant committed an unfair or deceptive act or practice, (2) the action in question was in or affecting commerce, and

(3) the act proximately caused injury to the plaintiff. N.C. Gen. Stat. Ann. § 75-1.1(a).

13. Antitrust and Trade Regulation ⇨363

Determination of whether an act or practice is an unfair or deceptive practice is a question of law for the court. N.C. Gen. Stat. Ann. § 75-1.1.

14. Conspiracy ⇨18

Allegations by employer, which operated dance studio, that former employees, who were dance instructors and performers, unlawfully left employer to work for competitor and that competitor and former employees unlawfully solicited employer's customers, failed to supply sufficient detail as to which laws were allegedly violated and how competitor and former employees allegedly violated them, and thus failed to state a claim for civil conspiracy against competitors and former employees.

15. Conspiracy ⇨1.1

A civil action for conspiracy is an action for damages resulting from acts committed by one or more of the conspirators pursuant to the formed conspiracy, rather than the conspiracy itself.

16. Conspiracy ⇨1.1

To create civil liability for conspiracy there must have been a wrongful act resulting in injury to another committed by one or more of the conspirators pursuant to the common scheme and in furtherance of the objective.

17. Implied and Constructive Contracts

⇨32

No benefit was conferred on competitor by conduct of employer, which operated dance studio, in procuring nonimmigrant work visas for former employees, who were dance instructors and performers, on the ground that competitor was able to employ former employees without paying for their work visas, and thus competitor was not liable to employer for unjust enrichment, since visa petition approval for nonimmigrant work visa applied only to employment outlined in petition and any change in nonimmigrant worker's employer required filing of new visa petition.

18. Implied and Constructive Contracts

⇨30, 32

General rule of unjust enrichment is that where services are rendered and expenditures made by one party to or for the benefit of another, without an express contract to pay, the law will imply a promise to pay a fair compensation therefor.

19. Implied and Constructive Contracts

⇨3

A claim for unjust enrichment is neither in tort nor contract but is described as a claim in quasi contract or a contract implied in law.

20. Implied and Constructive Contracts

⇨3

An unjust enrichment claim is not based on a promise but is imposed by law to prevent an unjust enrichment.

21. Implied and Constructive Contracts

⇨3

To establish a claim for unjust enrichment, a party must have conferred a benefit on the other party, and the benefit must not be gratuitous and it must be measurable.

22. Corporations and Business Organizations ⇨1031

Doctrine of piercing the corporate veil is not a theory of liability, and consequently that theory is rendered inapposite when all underlying claims have been or should be dismissed.

Appeal pursuant to N.C.G.S. § 7A-27(a)(3)(a) from an order dated 22 January 2016 entered by Judge Louis A. Bledsoe, III, Special Superior Court Judge for Complex Business Cases appointed by the Chief Justice pursuant to N.C.G.S. § 7A-45.4, in Superior Court, Mecklenburg County. Heard in the Supreme Court on 30 August 2017.

Hatcher Legal, PLLC, by Erin B. Blackwell and Nichole M. Hatcher, Durham, for plaintiff-appellants.

Brock & Scott, PLLC, by Renner St. John, Charlotte, for defendant-appellees.

JACKSON, Justice.

In this case we consider whether plaintiffs have stated claims for tortious interference with contract, misappropriation of trade secrets, unfair and deceptive practices, civil conspiracy, and unjust enrichment sufficient to survive defendants' motions to dismiss pursuant to North Carolina Rule of Civil Procedure 12(b)(6). *See* N.C.G.S. § 1A-1, Rule 12(b)(6) (2017). Because we conclude that plaintiffs' amended complaint reveals the absence of law or facts essential to these claims, or alleges facts that necessarily defeat these claims, we affirm the portions of the North Carolina Business Court's 22 January 2016 Order and Opinion on Defendants' Motions to Dismiss Amended Complaint dismissing the claims listed above.

According to the factual allegations in plaintiffs' amended complaint, which we take as true for purposes of reviewing an order on a motion to dismiss pursuant to Rule 12(b)(6), *see State ex rel. Cooper v. Ridgeway Brands Mfg., LLC*, 362 N.C. 431, 442, 666 S.E.2d 107, 114 (2008) (quoting *Stein v. Asheville City Bd. of Educ.*, 360 N.C. 321, 325, 626 S.E.2d 263, 266 (2006)), plaintiffs Michael Krawiec and Jennifer Krawiec are residents and citizens of North Carolina who own plaintiff Happy Dance, Inc./CMT Dance, Inc. (Happy Dance)—a North Carolina corporation doing business as Fred Astaire Franchised Dance Studios in Forsyth County. Defendants Jim Manly and Monette Manly own defendant Metropolitan Ballroom, LLC (Metropolitan Ballroom) (collectively, the Metropolitan defendants), which is a North Carolina limited liability company doing business in Mecklenburg County. Defendants Ranko Bogosavac, a citizen of Bosnia and Herzegovina, and Darinka Divljak, a Serbian citizen, (the dancer defendants) were employed by plaintiffs pursuant to O1-B nonimmigrant work visas.

On or about 18 July 2011, plaintiffs entered into contracts with Bogosavac and Divljak pursuant to which plaintiffs procured the visas in exchange for each dancer's express promise to work exclusively for plaintiffs as a dance instructor and performer. Bogosavac, who previously had been employed by plaintiffs, was to work exclusively for plaintiffs

from 31 January 2012 to 3 January 2013, and Divljak was to do the same from 1 September 2011 to 31 August 2014. The dancer defendants also agreed not to work for any other company that offered dance instruction or competed against Happy Dance for one year after either the expiration or termination of their employment with Happy Dance.

On or about 7 February 2012, the dancer defendants began working as dance instructors for the Metropolitan defendants in violation of their respective employment agreements with plaintiffs. In support of this allegation, plaintiffs attached to their amended complaint copies of Bogosavac's and Divljak's biographies as they appeared on a list of Metropolitan Ballroom's staff on Metropolitan Ballroom's website on 7 February 2012. In addition, according to plaintiffs, the dancer defendants shared confidential information with the Metropolitan defendants, specifically, plaintiffs' "ideas and concepts for dance productions, marketing strategies and tactics, as well as . . . customer lists [containing] contact information." From this information, the Metropolitan defendants produced and marketed plaintiffs' dance shows as their own, original productions. The dancer defendants also lured away plaintiffs' customers, resulting in a significant loss of revenue for plaintiffs.

Based on these factual allegations, plaintiffs asserted various causes of action against all defendants. The Metropolitan defendants and dancer defendants all filed motions to dismiss the amended complaint in its entirety pursuant to Rule 12(b)(6). In its order and opinion regarding the motions to dismiss, the Business Court granted defendants' motions as to all of plaintiffs' claims except for plaintiffs' claims for breach of contract, fraudulent misrepresentation, unjust enrichment, and punitive damages against the dancer defendants. Plaintiffs filed a notice of appeal from the Business Court's order and opinion to this Court pursuant to N.C.G.S. § 7A-27(a)(2)-(3). In their appeal, plaintiffs challenge the Business Court's dismissal of their claims against the Metropolitan defendants for tortious interference with contract, mis-

appropriation of trade secrets, unfair and deceptive practices, civil conspiracy, and unjust enrichment. Plaintiffs also contest the Business Court's dismissal of their claims against the dancer defendants for misappropriation of trade secrets and civil conspiracy. We consider each of plaintiffs' dismissed claims in turn.

[1-3] On appeal from an order dismissing an action pursuant to Rule 12(b)(6), we conduct de novo review. *Arnesen v. Rivers Edge Golf Club & Plantation, Inc.*, 368 N.C. 440, 448, 781 S.E.2d 1, 8 (2015) (citing *Bridges v. Parrish*, 366 N.C. 539, 541, 742 S.E.2d 794, 796 (2013)). A Rule 12(b)(6) dismissal "is appropriate when the complaint 'fail[s] to state a claim upon which relief can be granted.'" *Id.* at 448, 781 S.E.2d at 7 (alteration in original) (quoting N.C.G.S. § 1A-1, Rule 12(b)(6) (2013)). We have determined that a complaint fails in this manner when: "(1) the complaint on its face reveals that no law supports the plaintiff's claim; (2) the complaint on its face reveals the absence of facts sufficient to make a good claim; or (3) the complaint discloses some fact that necessarily defeats the plaintiff's claim." *Wood v. Guilford County*, 355 N.C. 161, 166, 558 S.E.2d 490, 494 (2002) (citing *Oates v. JAG, Inc.*, 314 N.C. 276, 278, 333 S.E.2d 222, 224 (1985)). "When reviewing a complaint dismissed under Rule 12(b)(6), we treat a plaintiff's factual allegations as true." *Ridgeway Brands*, 362 N.C. at 442, 666 S.E.2d at 114 (quoting *Stein*, 360 N.C. at 325, 626 S.E.2d at 266). In conducting our analysis, we also consider any exhibits attached to the complaint because "[a] copy of any written instrument which is an exhibit to a pleading is a part thereof for all purposes." N.C.G.S. § 1A-1, Rule 10(c) (2017).

[4] The Business Court dismissed plaintiffs' claim against the Metropolitan defendants for tortious interference with contract on the basis that plaintiffs failed to allege that the Metropolitan defendants knew of the exclusive employment agreement between plaintiffs and the dancer defendants. Plaintiffs contend that the Business Court was in error because plaintiffs' factual allegations included the statement that the Metropolitan

defendants had "knowledge of the contracts." We disagree.

[5] Whether plaintiffs sufficiently alleged that the Metropolitan defendants had knowledge of the exclusivity agreement is essential because a claim for tortious interference with contract requires proof of five elements:

- (1) a valid contract between the plaintiff and a third person which confers upon the plaintiff a contractual right against a third person;
- (2) the defendant knows of the contract;
- (3) the defendant intentionally induces the third person not to perform the contract;
- (4) and in doing so acts without justification;
- (5) resulting in actual damage to plaintiff.

United Labs., Inc. v. Kuykendall, 322 N.C. 643, 661, 370 S.E.2d 375, 387 (1988) (citing *Childress v. Abeles*, 240 N.C. 667, 674, 84 S.E.2d 176, 181-82 (1954)).

The entirety of the relevant allegation in plaintiffs' amended complaint is that "Defendants Metropolitan and Manlys, as well as Defendants Bogosavac and Divljak, all had knowledge and/or should have had knowledge of the existing contracts pursuant to the O1-B work visas between Plaintiffs and Defendants Bogosavac and Divljak." That the Metropolitan defendants allegedly knew of the existing contract "pursuant to the O1-B work visas" does not satisfy plaintiffs' Rule 12(b)(6) burden because the amended complaint is devoid of any allegation that the work visas themselves constituted or contained any reference to an exclusivity agreement. In fact, elsewhere in the amended complaint, plaintiffs only alleged that "[p]ursuant to the second I-129 Petition . . . Defendant Bogosavac agreed to work exclusively for Plaintiffs The agreement did not authorize Defendant Bogosavac to engage in other part-time or concurrent work with other dance studios." Regarding Divljak, plaintiffs stated, in even more general terms, "Pursuant to the contract with Plaintiffs, Defendant Divljak was to work exclusively for Plaintiffs The agreement did not authorize Defendant Divljak to engage in other part-time or concurrent work with other dance studios." Neither of these factual allegations demonstrates how the Metropolitan defendants could have known of the alleged

exclusive employment agreement through knowledge of the O1-B work visas. Therefore, we conclude that “the complaint on its face reveals the absence of facts sufficient to make a good claim” for tortious interference with contract because the plaintiffs failed to allege that the Metropolitan defendants had knowledge of the exclusivity provision. *Wood*, 355 N.C. at 166, 558 S.E.2d at 494 (citing *Oates*, 314 N.C. at 278, 333 S.E.2d at 224).

We now turn to plaintiffs’ claims for misappropriation of trade secrets against all defendants. The Business Court dismissed these claims on the basis that plaintiffs both failed to identify the alleged trade secrets with sufficient particularity and to allege the specific acts of misappropriation in which defendants engaged. On appeal, plaintiffs contend that their description of their trade secrets as “original ideas and concepts for dance productions, marketing strategies and tactics, as well as student, client and customer lists and their contact information,” was legally sufficient. Plaintiffs also argue that customer lists and contact information are protectable trade secrets as a matter of law. Finally, plaintiffs maintain that they adequately described the act of misappropriation by stating that the dancers learned of the pertinent information in confidence while employed by plaintiffs, that the dancers shared that information with the Metropolitan defendants without plaintiffs’ consent, and the Metropolitan defendants used that information to benefit their own business. Consequently, plaintiffs contend that the Business Court erred in dismissing their claim. We disagree with plaintiffs and reach the same conclusion as the Business Court, albeit based upon a somewhat different rationale.

Section 66-153 of the General Statutes provides that an “owner of a trade secret shall have remedy by civil action for misappropriation of his trade secret.” N.C.G.S. § 66-153 (2017). For purposes of the Trade Secrets Protection Act, misappropriation is the “acquisition, disclosure, or use of a trade secret of another without express or implied authority or consent, unless such trade secret was

arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret.” *Id.* § 66-152(1) (2017). A trade secret consists of

business or technical information, including but not limited to a formula, pattern, program, device, compilation of information, method, technique, or process that:

- a. Derives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reverse engineering by persons who can obtain economic value from its disclosure or use; and
- b. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Id. § 66-152(3) (2017). As to the burden of proof, the General Statutes further direct:

Misappropriation of a trade secret is prima facie established by the introduction of substantial evidence that the person against whom relief is sought both:

- (1) Knows or should have known of the trade secret; and
- (2) Has had a specific opportunity to acquire it for disclosure or use or has acquired, disclosed, or used it without the express or implied consent or authority of the owner.

Id. § 66-155 (2017).

[6] This Court has not considered the requirements for pleading a claim for misappropriation of trade secrets previously, but we conclude that the reasoning of our Court of Appeals, which mirrors the notice-pleading standard set forth in North Carolina Rule of Civil Procedure 8,¹ is persuasive on this topic. The Court of Appeals has stated, “To plead misappropriation of trade secrets, a plaintiff must identify a trade secret with sufficient particularity so as to enable a defendant to delineate that which he is accused of misappropriating and a court to determine

occurrences, intended to be proved showing that the pleader is entitled to relief.” N.C.G.S. § 1A-1, Rule 8(a)(1) (2017).

1. Rule 8(a)(1) requires “[a] short and plain statement of the claim sufficiently particular to give the court and the parties notice of the transactions, occurrences, or series of transactions or

whether misappropriation has or is threatened to occur.” *Washburn v. Yadkin Valley Bank & Tr. Co.*, 190 N.C. App. 315, 326, 660 S.E.2d 577, 585 (2008) (quoting *VisionAIR, Inc. v. James*, 167 N.C. App. 504, 510-11, 606 S.E.2d 359, 364 (2004)) (internal quotation marks omitted), *disc. rev. denied*, 363 N.C. 139, 674 S.E.2d 422 (2009); see *Savor, Inc. v. FMR Corp.*, 812 A.2d 894, 897 (Del. 2002) (concluding that a defendant had sufficient notice of a claim for misappropriation of trade secrets to survive a motion to dismiss when the court could identify the trade secret as “the allegedly unique combination of marketing strategies and processes for the implementation of a program under which consumers would be able to use rebates from their qualified purchases to fund a 529 Plan”); see also *SmithKline Beecham Pharm. Co. v. Merck & Co.*, 766 A.2d 442, 447 (Del. 2000) (noting that a plaintiff “must disclose the allegedly misappropriated trade secrets with reasonable particularity” in order to, *inter alia*, “ensure that defendants are put on notice of the claimed trade secrets early in the litigation, preventing defendants from being subject to unfair surprise on the eve of trial”). This standard also has been applied by federal courts in our state. See *Prometheus Grp. Enters. v. Viziya Corp.*, No. 5:14-CV-32-BO, 2014 WL 3854812, at *7 (E.D.N.C. Aug. 5, 2014) (“In order to adequately plead misappropriation of trade secrets, a plaintiff ‘must identify a trade secret with sufficient particularity so as to enable a defendant to delineate that which he is accused of misappropriating and a court to determine whether misappropriation has or is threatened to occur.’” (quoting *Analog Devices, Inc. v. Michalski*, 157 N.C. App. 462, 468, 579 S.E.2d 449, 453 (2003))); *Asheboro Paper & Packaging, Inc. v. Dickinson*, 599 F.Supp.2d 664, 676 (M.D.N.C. 2009) (“The alleged trade secret information must be identified ‘with sufficient particularity so as to enable a defendant to delineate that which he is accused of misappropriating and a court to determine whether misappropriation has or is threatened to occur.’” (quoting *Analog Devices*, 157 N.C. App. at 468, 579 S.E.2d at 453)). In contrast, “a complaint that makes general allegations in sweeping and conclusory statements, without specifi-

cally identifying the trade secrets allegedly misappropriated, is ‘insufficient to state a claim for misappropriation of trade secrets.’” *Washburn*, 190 N.C. App. at 327, 660 S.E.2d at 585-86 (quoting *VisionAIR*, 167 N.C. App. at 511, 606 S.E.2d at 364).

[7] Provided that the information meets the two requirements for a trade secret as defined in subsection 66-152(3), we agree with the determination of the Court of Appeals that “[i]nformation regarding customer lists, pricing formulas and bidding formulas can qualify as a trade secret under G.S. § 66-152(3).” *Area Landscaping, L.L.C. v. Glaxo-Wellcome, Inc.*, 160 N.C. App. 520, 525, 586 S.E.2d 507, 511 (2003) (citation omitted). We are persuaded by the fact that other jurisdictions have reached the same conclusion. See, e.g., *Home Pride Foods, Inc. v. Johnson*, 262 Neb. 701, 709, 634 N.W.2d 774, 781 (2001) (“We agree [with other cited jurisdictions] and hold that a customer list can be included in the definition of a trade secret”); *Ed Nowogroski Ins., Inc. v. Rucker*, 137 Wash. 2d 427, 440, 971 P.2d 936, 943 (1999) (en banc) (“A customer list is one of the types of information which can be a protected trade secret if it meets the criteria of the Trade Secrets Act.” (citing *Am. Credit Indem. Co. v. Sacks*, 213 Cal. App. 3d 622, 262 Cal.Rptr. 92 (1989))); *Fred’s Stores of Miss., Inc. v. M & H Drugs, Inc.*, 96-CA-00620-SCT, 96-CA-00633-SCT (¶¶ 21, 28), 725 So.2d 902, 910-11 (1998) (en banc) (holding that the information on a customer list qualified as a trade secret when evidence showed that it had independent economic value, was not known or readily ascertainable, and was subject to reasonable efforts to maintain its secrecy). However, in light of the requirements of subsection 66-152(3), a customer database did not constitute a trade secret when “the record show[ed] that defendants could have compiled a similar database through public listings such as trade show and seminar attendance lists.” *Combs & Assocs. v. Kennedy*, 147 N.C. App. 362, 370, 555 S.E.2d 634, 640 (2001) (citation omitted). Similarly, a plaintiff failed to allege sufficiently that its “customer lists and other compilations of customer data” were protected trade secrets when it “ha[d] not come

forward with any evidence to show that the company took any special precautions to ensure the confidentiality of its customer information” and “any information used to contact the clients would have been easily accessible to defendant through a local telephone book.” *NovaCare Orthotics & Prosthetics E., Inc. v. Speelman*, 137 N.C. App. 471, 478, 528 S.E.2d 918, 922 (2000); see also *Asheboro Paper*, 599 F.Supp.2d at 676 (noting that “[c]ustomer names and addresses may not be protected as a ‘trade secret’ inasmuch as they can be readily ascertained through independent development” (citing *UBS Paine-Webber, Inc. v. Aiken*, 197 F.Supp.2d 436 (W.D.N.C. 2002))).

[8, 9] In their amended complaint, plaintiffs described their trade secrets only as their “original ideas and concepts for dance productions, marketing strategies and tactics, as well as student, client and customer lists and their contact information.” Plaintiffs provided no further detail about these ideas, concepts, strategies, and tactics sufficient to put defendants on notice as to the precise information allegedly misappropriated. In addition, plaintiffs’ failure to describe a specific idea, concept, strategy, or tactic with respect to their marketing plan or to provide any detail about their dance productions renders their claim too general for this Court to determine—even taking plaintiffs’ factual allegations as true—whether there is a “formula, pattern, program, device, compilation of information, method, technique, or process” at issue that “[d]erives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reverse engineering.” N.C.G.S. § 66-152(3)(a). Similarly, plaintiffs’ amended complaint, on its face, does not show that plaintiffs’ customer lists constituted a protected trade secret because plaintiffs failed to allege that the lists contained any information that would not be readily accessible to defendants. Like the Ohio Court of Common Pleas in an often cited case involving a dispute between a dance studio and its former employee, we recognize that “[t]here is no presumption that a thing is a secret,” and emphasize the shortcomings of “general allegations” in making a case for misappropriation of trade secrets.

Arthur Murray Dance Studios of Cleveland, Inc. v. Witter, 105 N.E.2d 685, 709-10 (Ohio Ct. Com. Pl. 1952) (citing *Super Maid Cook-Ware Corp. v. Hamil*, 50 F.2d 830, 832 (5th Cir. 1931)).

In light of the concern inherent in any misappropriation of trade secrets claim that, in pursuing litigation, the alleged trade secret not be revealed in a public document such as the complaint, see *Glaxo Inc. v. Novopharm Ltd.*, 931 F.Supp. 1280, 1301 (E.D.N.C. 1996), we note at this point that our analysis of plaintiffs’ claim is entirely dependent upon the extremely general nature of plaintiffs’ allegations. There exists a wide gulf between plaintiffs’ description of its alleged trade secrets as “original ideas and concepts for dance productions” and “marketing strategies and tactics,” and exposure or compromise of the critical details of those alleged trade secrets. If plaintiffs had provided additional descriptors to put defendants and the courts on notice as to which “original ideas and concepts for dance productions” and “marketing strategies and tactics,” were allegedly misappropriated, then we would have a different claim before us with the potential for a different outcome.

[10] Additionally, the only allegation of secrecy in plaintiffs’ amended complaint is that “Plaintiffs shared this information with Defendants Bogosavac and Divljak in confidence.” That plaintiff shared the information at issue with the dancer defendants with nothing more than an expectation of confidentiality is insufficient to establish that the information was the “subject of efforts that [were] reasonable under the circumstances to maintain its secrecy.” *Id.* § 66-152(3)(b). Plaintiffs’ amended complaint is devoid of any allegation of a method, plan, or other act by which they attempted to maintain the secrecy of the alleged trade secrets. For all of these reasons, plaintiffs failed to allege the existence of a trade secret in their amended complaint.

[11] We next address the Metropolitan defendants’ motion to dismiss plaintiffs’ claim for unfair and deceptive practices (UDP). The Business Court concluded that plaintiffs failed to allege egregious or aggravating cir-

cumstances essential to the claim because plaintiffs did not sufficiently plead their claim for tortious interference with contract or misappropriation of trade secrets. On appeal from the dismissal of their UDP claim, plaintiffs argue only that the Business Court should not have dismissed the claim because they pleaded valid claims for tortious interference with contract and misappropriation of trade secrets. We disagree.

[12, 13] We have recognized an action for UDP based on the provision of the General Statutes that “[u]nfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are declared unlawful.” *Id.* § 75-1.1(a) (2017); see *Dalton v. Camp*, 353 N.C. 647, 655-56, 548 S.E.2d 704, 710 (2001). To plead a valid claim for UDP, “a plaintiff must show: (1) defendant committed an unfair or deceptive act or practice, (2) the action in question was in or affecting commerce, and (3) the act proximately caused injury to the plaintiff.” *Dalton*, 353 N.C. at 656, 548 S.E.2d at 711 (citing *Spartan Leasing Inc. v. Pollard*, 101 N.C. App. 450, 461, 400 S.E.2d 476, 482 (1991)). “The determination of whether an act or practice is an unfair or deceptive practice that violates N.C.G.S. § 75-1.1 is a question of law for the court.” *Gray v. N.C. Ins. Underwriting Ass’n*, 352 N.C. 61, 68, 529 S.E.2d 676, 681 (2000) (citing *Ellis v. N. Star Co.*, 326 N.C. 219, 226, 388 S.E.2d 127, 131 (1990)).

Here the unfair or deceptive acts alleged in the amended complaint were that the Metropolitan defendants had “maliciously, deliberately, secretly, wantonly, recklessly, and unlawfully solicit[ed] and subsequently hir[ed] Plaintiffs’ employees, Bogosavac and Divljak, and misappropriat[ed] Plaintiffs’ trade secrets for their own benefit.” Plaintiffs made no further allegations of specific unfair or deceptive acts. Because we determined that plaintiffs failed to state a valid claim for tortious interference with contract or misappropriation of trade secrets, we necessarily must conclude that plaintiffs also failed to adequately allege that the Metropolitan defendants “committed an unfair or deceptive act or practice.” *Dalton*, 353 N.C. at 656, 548

S.E.2d at 711. Consequently, plaintiffs have not stated a valid claim for UDP.

[14] We turn next to plaintiffs’ claims for civil conspiracy against all defendants. The Business Court dismissed the claim against the dancer defendants on the grounds that a civil conspiracy claim must be based on an underlying claim and the underlying claim for fraudulent misrepresentation—the only applicable, surviving claim—was based on allegations of fraud completely unrelated to the alleged, conspiratorial agreement between the dancer defendants and Metropolitan defendants. The Business Court then dismissed the civil conspiracy claim against the Metropolitan defendants on the grounds that all underlying tort claims against the Metropolitan defendants also had been dismissed. On appeal, plaintiffs argue that they pleaded a valid claim for civil conspiracy because that claim rested on plaintiffs’ legitimate claims against all defendants based on the underlying tort of misappropriation of trade secrets. We disagree.

[15, 16] “A civil action for conspiracy is an action for damages resulting from acts committed by one or more of the conspirators pursuant to the formed conspiracy, rather than the conspiracy itself.” *Burton v. Dixon*, 259 N.C. 473, 476, 131 S.E.2d 27, 30 (1963). “To create civil liability for conspiracy there must have been a wrongful act resulting in injury to another committed by one or more of the conspirators pursuant to the common scheme and in furtherance of the objective.” *Ridgeway Brands*, 362 N.C. at 444, 666 S.E.2d at 115 (quoting *Henry v. Deen*, 310 N.C. 75, 87, 310 S.E.2d 326, 334 (1984)). This is because a “conspiracy charged does no more than associate the defendants together and perhaps liberalize the rules of evidence to the extent that under the proper circumstances the acts of one may be admissible against all.” *Henry*, 310 N.C. at 87, 310 S.E.2d at 334 (first citing *Shope v. Boyer*, 268 N.C. 401, 150 S.E.2d 771 (1966); then citing *Muse v. Morrison*, 234 N.C. 195, 66 S.E.2d 783 (1951)). Therefore, we have determined that a complaint sufficiently states a claim for civil conspiracy when it alleges “(1) a conspiracy, (2) wrongful acts done by certain of the alleged conspirators in

furtherance of that conspiracy, and (3) injury as a result of that conspiracy.” *Ridgeway Brands*, 362 N.C. at 444, 666 S.E.2d at 115 (citing *Muse*, 234 N.C. at 198, 66 S.E.2d at 785).

Two examples from our case law are instructive. We have held that a plaintiff “fail[ed] to allege any overt, tortious, or unlawful act which any defendant committed in furtherance of the conspiracy” when the defendants’ attempt to bankrupt the plaintiff by “subscribing to stock” from a third-party supplier did not breach their agreement to “from time to time [] purchase *some* of [their] requirements of such parts and other articles as are warehoused and sold by [plaintiff].” *Shope*, 268 N.C. at 404-05, 150 S.E.2d at 773. In contrast, we also have held that a plaintiff sufficiently pleaded a cause of action for civil conspiracy when the plaintiff specifically alleged that the parties to the conspiracy concealed and falsified medical records—acts that “would amount to the common law offense of obstructing public justice.” *Henry*, 310 N.C. at 87, 310 S.E.2d at 334 (citation omitted).

Plaintiffs here alleged in their amended complaint that the Metropolitan defendants reached an agreement with the dancer defendants according to which the latter “would unlawfully leave Plaintiffs’ dance studio to come work for Defendants Metropolitan and Manlys, unlawfully solicit Plaintiffs’ customers, and unlawfully disclose Plaintiffs’ trade secrets to Metropolitan and Manlys in order to cripple or eliminate Plaintiffs as a competitor in the dance industry.” Plaintiffs asserted that, as a result of the conspiracy, “Plaintiffs’ business and reputation were significantly damaged.”

Regarding the allegations that the dancer defendants unlawfully left plaintiffs to work for the Metropolitan defendants and that all defendants unlawfully solicited plaintiffs’ customers, plaintiffs’ amended complaint must fail because it lacks sufficient detail. It is unclear from the face of the amended complaint which laws were allegedly violated and how defendants violated them. To the extent these allegations of unlawfulness may be read to invoke plaintiffs’ claim for tortious interference with contract as to the dancer

defendants’ alleged exclusive employment agreement and plaintiffs’ claim for misappropriation of trade secrets as to the customer lists, we already have determined that plaintiffs failed to plead either of those claims sufficiently. The only remaining allegation of a wrongful act in furtherance of the conspiracy is that the dancer defendants unlawfully disclosed plaintiffs’ trade secrets to the Metropolitan defendants. As we have already determined that plaintiffs failed to allege a viable claim for misappropriation of trade secrets, we now conclude that plaintiffs did not plead any wrongful acts that were done in furtherance of the alleged conspiracy. Accordingly, the claims for civil conspiracy against all defendants necessarily fail.

[17] Next, we consider plaintiffs’ claim for unjust enrichment against the Metropolitan defendants. The Business Court dismissed plaintiffs’ unjust enrichment claim against the Metropolitan defendants on two grounds. First, the Business Court determined that plaintiffs could not seek a remedy in equity through their unjust enrichment claim while seeking the exact same damages at law through their breach of contract claim against the dancer defendants—a claim that survived defendants’ motions to dismiss. Second, the Business Court determined that plaintiffs failed to plead that the Metropolitan defendants took any action to solicit or induce plaintiffs to incur the expenses alleged, which the Business Court found to be a necessary element of an unjust enrichment claim. On appeal, plaintiffs argue that they adequately stated a claim for unjust enrichment by alleging that the Metropolitan defendants accepted the benefit of employing the dancers without obtaining new visas and that plaintiffs did not procure the visas gratuitously. We disagree with plaintiffs’ argument, and although we agree with the conclusion the Business Court reached, we base our decision on different grounds.

[18–21] “The general rule of unjust enrichment is that where services are rendered and expenditures made by one party to or for the benefit of another, without an express contract to pay, the law will imply a promise to pay a fair compensation therefor.” *Atl. Coast Line R.R. Co. v. State Highway*

Comm'n, 268 N.C. 92, 95-96, 150 S.E.2d 70, 73, (1966) (first citing *Beacon Homes, Inc. v. Holt*, 266 N.C. 467, 146 S.E.2d 434 (1966); then citing *Dean v. Mattox*, 250 N.C. 246, 108 S.E.2d 541 (1959)). A claim for unjust enrichment “is neither in tort nor contract but is described as a claim in quasi contract or a contract implied in law.” *Booe v. Shadrick*, 322 N.C. 567, 570, 369 S.E.2d 554, 556 (1988). “The claim is not based on a promise but is imposed by law to prevent an unjust enrichment.” *Id.* at 570, 369 S.E.2d at 556. “In order to establish a claim for unjust enrichment, a party must have conferred a benefit on the other party,” and “[t]he benefit must not be gratuitous and it must be measurable.” *Id.* at 570, 369 S.E.2d at 556 (citing *Britt v. Britt*, 320 N.C. 573, 359 S.E.2d 467 (1987)).

Plaintiffs stated in their amended complaint that “Defendants Metropolitan and Manlys have [] received the benefit of Plaintiffs’ procurement of the O1-B work visas for Defendants Bogosavac and Divljak, because they were able to employ Defendants Bogosavac and Divljak, though unlawfully, without paying for their O1-B work visas.” This allegation is contradicted by the Form I-797A and Form I-797B from the United States Citizenship and Immigration Services, which plaintiffs attached to their amended complaint. Both forms indicate that petition approval for a nonimmigrant worker visa applies only to the employment outlined in the petition and that any change in a nonimmigrant worker’s employment requires the filing of a new I-129 visa petition. Accordingly, if the Metropolitan defendants employed the dancer defendants without filing new petitions, no benefit was conferred on the Metropolitan defendants by plaintiffs because their petitions did not authorize the dancers’ employment with the Metropolitan defendants. As a conferred benefit is a necessary element of a claim for unjust enrichment, plaintiffs’ “complaint discloses some fact that necessarily defeats the plaintiff[s]’ claim.” *Wood*, 355 N.C. at 166, 558 S.E.2d at 494 (citing *Oates*, 314 N.C. at 278, 333 S.E.2d at 224).

[22] Finally, plaintiffs argue on appeal that the Manlys can be held liable in their individual capacities for the tort claims

brought against Metropolitan Ballroom as a corporate entity. In the order and opinion below, the Business Court dismissed all claims against the Manlys that were based on the theory of piercing the corporate veil. Citing to our decision in *Green v. Freeman*, the Business Court correctly observed that “[t]he doctrine of piercing the corporate veil is not a theory of liability,” 367 N.C. 136, 146, 749 S.E.2d 262, 271 (2013), and consequently that the theory is rendered inapposite when, as here, all underlying claims have been or should be dismissed. Indeed, in the absence of an underlying claim, “evidence of domination and control is insufficient to establish liability.” *Id.* at 146, 749 S.E.2d at 271. Because plaintiffs have failed to state a valid, underlying claim for relief against the Metropolitan defendants, we agree with the Business Court that it is immaterial whether Metropolitan Ballroom or the Manlys, in their individual capacities, would be liable for those claims.

Pursuant to Rule 12(b)(6), we dismiss a complaint or any claim therein when the plaintiff “fail[s] to state a claim upon which relief can be granted.” *Arnesen*, 368 N.C. at 448, 781 S.E.2d at 7 (alteration in original) (quoting N.C.G.S. § 1A-1, Rule 12(b)(6)). For the reasons stated above, we hold that plaintiffs failed to state valid claims for tortious interference with contract, unfair and deceptive practices, and unjust enrichment against the Metropolitan defendants. We also hold that plaintiffs failed to state valid claims for misappropriation of trade secrets and civil conspiracy against all defendants. Accordingly, we affirm, as modified herein, the portions of the Business Court’s order and opinion dismissing those claims and remand this case to that court for further proceedings consistent with this Court’s opinion.

MODIFIED AND AFFIRMED; REMANDED.

Justice BEASLEY dissenting.

I dissent from the majority opinion to specifically highlight the problematic and muddled standards for North Carolina plaintiffs seeking to properly plead a claim for misappropriation of trade secrets. In this case this Court considered whether plaintiffs’ descrip-

tion of their trade secrets as “original ideas and concepts for dance productions, marketing strategies and tactics, as well as student, client and customer lists and their contact information” was sufficient to put defendants on notice of trade secrets allegedly misappropriated. I believe that a complaint alleging the above is sufficient under our liberal pleading standards to put defendants on notice of the transactions and occurrences at issue.

The majority’s reasoning and reliance on various authority conflate the North Carolina standards for Rule 12(b)(6) motions to dismiss, motions for preliminary injunction, and motions for summary judgment as well as other jurisdictions’ standards regarding discovery. Notably, the majority relies on cases that are in various procedural postures, and in doing so, the majority validates a heightened pleading standard for a claim in which public disclosure of confidential information is a real concern for plaintiffs. Further, the majority’s erroneous affirmation of the trial court’s dismissal of this single claim is also the basis for the majority’s affirmation of the trial court’s dismissal of plaintiffs’ unfair and deceptive trade practices and civil conspiracy claims against Metropolitan Ballroom and the Manlys in their individual capacities.¹ Therefore, I respectfully dissent.

The sufficiency of a claim for misappropriation of trade secrets is a matter of first impression for this Court. Generally, the North Carolina pleading standards require a “short and plain statement of the claim sufficiently particular to give the court and the parties notice of the transactions, occurrences, or series of transactions or occurrences, intended to be proved showing that the pleader is entitled to relief.” N.C.G.S. § 1A-1, Rule 8(a)(1) (2017) (emphases added). This is not a difficult standard for plaintiffs to meet: “The complaint is construed liberally,” *U.S. Bank Nat’l Ass’n v. Pinkney*, 369 N.C. 723, 726, 800 S.E.2d 412, 415 (2017), “view[ing] the allegations as true and . . . in the light most favorable to the non-moving party,” *id.* at 726, 800 S.E.2d at 415 (alterations in original) (quoting *Kirby v. NC DOT*,

368 N.C. 847, 852, 786 S.E.2d 919, 923 (2016)), and the claim is not dismissed “unless it appears beyond doubt that [the] plaintiff could prove no set of facts in support of his claim which would entitle him to relief,” *Holloman v. Harrelson*, 149 N.C. App. 861, 864, 561 S.E.2d 351, 353 (2002) (alteration in original) (quoting *Dixon v. Stuart*, 85 N.C. App. 338, 340, 354 S.E.2d 757, 758 (1987)), *disc. rev. denied*, 355 N.C. 748, 565 S.E.2d 665 (2002). Rule 12(b)(6) “generally precludes dismissal except in those instances where the face of the complaint discloses some insurmountable bar to recovery,” *Sutton v. Duke*, 277 N.C. 94, 102, 176 S.E.2d 161, 166 (1970) (quoting *Am. Dairy Queen Corp. v. Augustyn*, 278 F.Supp. 717, 721 (N.D. Ill. 1967)), such as “(1) the complaint on its face reveals that no law supports the plaintiff’s claim; (2) the complaint on its face reveals the absence of facts sufficient to make a good claim; or (3) the complaint discloses some fact that necessarily defeats the plaintiff’s claim,” *Wood v. Guilford County*, 355 N.C. 161, 166, 558 S.E.2d 490, 494 (2002) (citation omitted).

To sufficiently plead a prima facie claim for misappropriation of trade secrets, a plaintiff must allege defendant (1) “[k]nows or should have known of the trade secret,” and (2) “[h]as had a specific opportunity to acquire it for disclosure or use or has acquired, disclosed, or used it without the express or implied consent or authority of the owner.” N.C.G.S. § 66-155 (2017). There is no statutory heightened pleading standard for misappropriation of trade secrets, *see id.* § 1A-1, Rule 9 (2017), and additional guidance from the Court of Appeals on pleading this particular claim rests on cases evaluating the issue from an entirely different procedural posture than a motion to dismiss. In *Washburn v. Yadkin Valley Bank & Trust*, our Court of Appeals quoted language from *VisionAIR, Inc. v. James* to establish a pleading standard now propounded by the majority of this Court: “a plaintiff must identify a trade secret with sufficient particularity so as to enable a defendant to delineate that which he is accused of misappropriating,” *Washburn*, 190 N.C. App. 315, 326, 660 S.E.2d 577, 585

1. Even if the misappropriation of trade secrets claim was sufficiently pleaded, I express no opin-

ion regarding the sufficiency of the pleadings for these additional claims.

(2008) (quoting *VisionAIR*, 167 N.C. App. 504, 510, 606 S.E.2d 359, 364 (2004)), *disc. rev. denied*, 363 N.C. 139, 674 S.E.2d 422 (2009), and “a complaint that makes general allegations in sweeping and conclusory statements, without specifically identifying the trade secrets allegedly misappropriated, is ‘insufficient to state a claim for misappropriation of trade secrets,’” *id.* at 327, 660 S.E.2d at 585-86 (quoting *VisionAIR*, 167 N.C. App. at 511, 606 S.E.2d at 364). There are two problems with relying on this language from *Washburn* to establish a pleading standard: (1) this language from *VisionAIR* is dicta because *VisionAIR* evaluated the merits of the misappropriation of trade secrets claim for the purposes of issuing a preliminary injunction, *see VisionAIR*, 167 N.C. App. at 510-11, 606 S.E.2d at 364, and (2) this language from *VisionAIR* quotes another preliminary injunction case for this proposition, *see id.* at 511, 606 S.E.2d at 364 (citing *Analog Devices, Inc. v. Michalski*, 157 N.C. App. 462, 468-70, 579 S.E.2d 449, 453-54 (2003)).

It is important to note that

[t]he standards under Rule 12(b)(6) are dramatically different than those for issuance of a preliminary injunction. While a motion for a preliminary injunction requires a showing of a likelihood of success on the merits, requiring more than conclusory allegations, it is well established that “[w]ith the adoption of ‘notice pleading,’ mere vagueness or lack of detail is no longer ground for allowing a motion to dismiss.”

Barbarino v. Cappuccine, Inc., 219 N.C. App. 400, 722 S.E.2d 211, 2012 WL 698373, at *4 (unpublished) (second alteration in original) (quoting *Gatlin v. Bray*, 81 N.C. App. 639, 644, 344 S.E.2d 814, 817 (1986)), *aff’d per curiam*, 366 N.C. 330, 734 S.E.2d 570 (2012). Yet much of the majority’s reasoning on this issue conflates not only these two standards, but its reasoning also conflates cases evaluating motions for summary judgment with the issue at hand. *See VisionAIR*, 167 N.C. App. at 510-11, 606 S.E.2d at 364 (evaluating whether a plaintiff was likely to succeed on the merits of its misappropriation of trade secrets claim in an appeal from an

order denying a preliminary injunction); *see also Asheboro Paper & Packaging, Inc. v. Dickinson*, 599 F.Supp.2d 664, 676-78 (M.D.N.C. 2009) (preliminary injunction); *UBS PaineWebber, Inc. v. Aiken*, 197 F.Supp.2d 436, 446-48 (W.D.N.C. 2002) (preliminary injunction); *Washburn*, 190 N.C. App. at 325-27, 660 S.E.2d at 585-86 (applying standard from *VisionAIR* to a Rule 12(b)(6) motion to dismiss); *Analog Devices*, 157 N.C. App. at 468-70, 472, 579 S.E.2d at 453-54, 455 (preliminary injunction); *Combs & Assocs. v. Kennedy*, 147 N.C. App. 362, 370-71, 555 S.E.2d 634, 640 (2001) (summary judgment); *NovaCare Orthotics & Prosthetics E., Inc. v. Speelman*, 137 N.C. App. 471, 477-78, 528 S.E.2d 918, 922 (2000) (preliminary injunction). Beyond announcing a heightened pleading requirement, the majority now requires *evidence* at the pleading stage showing the plaintiff took steps to keep its trade secrets confidential. That has never been the law in North Carolina; the only cases requiring a plaintiff to affirmatively *prove* efforts to maintain the secrecy of a trade secret were decided at the preliminary injunction or summary judgment stage.

Succeeding on motions for both summary judgment and preliminary injunction require *proof* on the merits of the claim, while our pleading standards merely require a plaintiff to allege a “short and plain statement of the claim” giving the trial court and the defendant *notice* of the transactions or occurrences the plaintiff *intends to prove*. Compare N.C.G.S. § 1A-1, Rule 8(a)(1) with *id.* § 1A-1, Rule 56(c) (2017) (stating summary judgment “shall be rendered if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that any party is entitled to judgment as a matter of law”), and *Ridge Cmty. Inv’rs, Inc. v. Berry*, 293 N.C. 688, 701, 239 S.E.2d 566, 574 (1977) (explaining a preliminary injunction will issue only upon the movant’s showing a “likelihood of success on the merits of his case”).

By definition, trade secrets are business or technical information, including but not limited to a formula, pattern, program, device, compilation of information,

method, technique, or process that . . . [d]erives independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reverse engineering by persons who can obtain economic value from its disclosure or use[,] and . . . [i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

N.C.G.S. § 66-152(3) (2017). Our Court of Appeals has held that “customer lists and their contact information” constitute trade secrets under the definition established in subsection 66-152(3). *Sumbelt Rentals, Inc. v. Head & Engquist Equip., L.L.C.*, 174 N.C. App. 49, 55, 620 S.E.2d 222, 227 (2005) (stating that “customer information, preferred customer pricing, employees’ salaries, equipment rates, fleet mix information, budget information and structure of the business” constitute trade secrets under the Trade Secrets Protection Act), *petition for disc. rev. dismissed*, 360 N.C. 296, 629 S.E.2d 289 (2006); *Area Landscaping, L.L.C. v. Glaxo-Wellcome, Inc.*, 160 N.C. App. 520, 525, 586 S.E.2d 507, 511 (2003) (noting that “information regarding customer lists, pricing formulas and bidding formulas can qualify as” a trade secret); *State ex rel. Utils. Comm’n v. MCI Telecomms. Corp.*, 132 N.C. App. 625, 634, 514 S.E.2d 276, 282 (1999) (concluding that a “compilation of information” involving customer data and business operations which has “actual or potential commercial value from not being generally known” is sufficient to constitute a trade secret); *Drouillard v. Keister Williams Newspaper Servs.*, 108 N.C. App. 169, 174, 423 S.E.2d 324, 327 (1992) (concluding customer lists and pricing and bidding formulas can constitute trade secrets), *disc. rev. denied and cert. dismissed*, 333 N.C. 344, 427 S.E.2d 617 (1993). Because these decisions have recognized that customer lists can constitute trade secrets, it is unreasonable to conclude that a plaintiff cannot rely on these holdings to plead its claims. Nonetheless, the majority again conflates the summary judgment standard, *see Combs & Assocs., Inc.*, 147 N.C. App. at 368-71, 555 S.E.2d at 639-40, and the preliminary injunction standard, *see NovaCare Orthotics*, 137 N.C. App. at 477-78, 528 S.E.2d at 922,

with the Rule 12(b)(6) motion to dismiss standard by requiring plaintiffs to “come forward with . . . evidence to show that [they] took . . . special precautions to ensure the confidentiality of [their] customer information.”

Further, the Court of Appeals, North Carolina business courts, and federal courts exercising diversity jurisdiction applying North Carolina law have also treated “marketing” strategies as trade secrets. *See Med. Staffing Network, Inc. v. Ridgway*, 194 N.C. App. 649, 658-59, 670 S.E.2d 321, 328-29 (2009); *Bldg. Ctr., Inc. v. Carter Lumber, Inc.*, No. 16 CVS 4186, 2016 WL 6142993, at *4 (N.C. Super. Ct. Mecklenburg County (Bus. Ct.) Oct. 21, 2016) (unpublished); *see also Olympus Managed Health Care, Inc. v. Am. Housecall Physicians, Inc.*, 853 F.Supp.2d 559, 572 (W.D.N.C. 2012); *Merck & Co. v. Lyon*, 941 F.Supp. 1443, 1456-57 (M.D.N.C. 1996). The majority’s dismissal of this part of the allegation without additional consideration of these cases is error.

Though there is no support in North Carolina for the premise that “original ideas and concepts for dance productions” constitute trade secrets, there is no authority that they are decidedly not, and similar information has been valued and protected when former employees accept similar employment from competitors. *See Amdar, Inc. v. Satterwhite*, 37 N.C. App. 410, 413, 416, 246 S.E.2d 165, 166, 168, *disc. rev. denied*, 295 N.C. 645, 248 S.E.2d 249 (1978) (affirming trial court’s award of preliminary injunctive relief prohibiting defendant-dance instructor from accepting employment in any capacity in any dance studio or school, giving instruction on dancing in any form whatsoever, and from competing with the business of the plaintiff in any other way, which included prohibiting the defendant from using or disclosing the plaintiff’s trade secrets which included teaching techniques and sales methods). A forecast of the merits of a case like this reveals that performers and businessmen in the variety arts are not likely to receive protection under the Trade Secrets Protection Act because once performed, the productions can be recreated through reverse engineering and are observable by the public. *See* N.C.G.S. § 66-155; *see also* Sara J. Crasson, *The Limited*

Protections of Intellectual Property Law for the Variety Arts: Protecting Zacchini, Houdini, and Cirque du Soleil, 19 Vill. Sports & Ent. L.J. 73, 77, 111-12 (2012). But in liberally construing the complaint in this case, there is no indication that these productions had actually been performed. The majority is correct that “[t]here is no presumption that a thing is a secret,” *Arthur Murray Dance Studios of Cleveland, Inc. v. Witter*, 105 N.E.2d 685, 709 (Ohio Ct. Com. Pl. 1952); however, there is also no presumption that any particular idea has been disclosed.

In *Washburn*, a case cited by the majority that actually evaluated a complaint under a Rule 12(b)(6) standard (though a heightened standard as per its reliance on *VisionAIR*), the complaint’s description of trade secrets that led the court to conclude that the claim was not pleaded with sufficient particularity consisted of “confidential client information” and “confidential business information.” *Washburn*, 190 N.C. App. at 327, 660 S.E.2d at 586. These are examples of “sweeping and conclusory” statements that the court intended to fail under Rule 12(b)(6). In contrast, the allegations here provided more specific details regarding both client and business information to more particularly describe the trade secrets as “original ideas and concepts for dance productions, marketing strategies and tactics, as well as student, client and customer lists and their contact information.” Because this description is sufficient to put defendants on notice of the transactions and occurrences at issue, I cannot join the majority.

With this case this Court had an opportunity to correct the faulty logic that for over a decade has resulted in the substitution of a preliminary injunction standard for our general pleading standard governing this particular claim. Instead, the majority has validated a heightened pleading standard for a misappropriation of trade secrets claim with no discussion as to why it believes it is necessary to do so. “[T]he term trade se-

cret is one of the most elusive and difficult concepts in the law to define’ and the ‘question of whether an item taken . . . constitutes a trade secret is of the type normally resolved by a fact finder after a full presentation of evidence from each side.’” Eric D. Welsh, *Betwixt and Between: Finding Specificity in Trade Secret Misappropriation Cases* (Am. Bar Ass’n, Aug. 20, 2015), <http://apps.americanbar.org/litigation/committees/businessstorts/articles/summer2015-0815-specificity-trade-secret-misappropriation-cases.html> [hereinafter *Betwixt and Between*] (ellipses in original) (quoting *Furmanite Am., Inc. v. T.D. Williamson, Inc.*, 506 F.Supp.2d 1134, 1141 (M.D. Fla. 2007) (internal quotation marks omitted)). Because I believe we should not reject plaintiffs’ misappropriation of trade secrets claim at this early stage in the proceeding given our notice pleading standard,² I respectfully dissent.



370 N.C. 595

**IN RE: Inquiry Concerning a Deputy
Commissioner, No. 15-057 William
Henry SHIPLEY, Respondent**

No. 425A17

Supreme Court of North Carolina.

Filed April 6, 2018

Background: Disciplinary proceeding was brought against deputy commissioner of the Industrial Commission based on commissioner’s vehicle collision while under the influence of an impairing substance.

2. An alternative to requiring a heightened pleading standard to protect defendants from unwarranted discovery, while also allowing plaintiffs to proceed with their claim at this early stage, may be to require plaintiffs to identify the trade secret with more specificity prior to discovery. Instead

of using Rule 12(b)(6), defendants could challenge the claim “either through a re-sequencing of discovery or a motion for a more definite statement coupled with a stay of discovery.” *Betwixt and Between*.

Intellectual Property and Fashion Design

Susan Scafidi

After decades on the margins of legal scholarship, fashion law is once again in style. The rise of digital technologies that facilitate copying, increased attention to the counterfeiting of trademarked goods, changes in the global locus of production following the elimination of textile import quotas, diffusion of original efforts across all levels of the industry, and growing recognition of fashion design as a form of creative expression—all of these have contributed to a new interest in the relationship between intellectual property and clothing.

In particular, the lack of protection under U.S. law for fashion designs themselves, as opposed to the trademarks or logos affixed to them, has come under scrutiny. Neither copyright law nor our societal norms against plagiarism allows an individual to copy this book verbatim and put his or her own name on it, but line-for-line knockoffs of the clothing that you are presumably wearing while reading it are perfectly legal. While some of those garments may be generic—a standard, white button-down shirt, perhaps?—others may be the result of a designer's unique vision.

Whether or not the United States should fill this gap in the law through an amendment to the Copyright Act or some other mechanism is a subject of ongoing debate, especially in light of recent developments in the European Union and other countries. American fashion designers are lobbying to put an end to what they perceive as legalized piracy, while copyists assert that any extension of intellectual property protection to fashion design would be yet another instance of harmful hyperprotection. To put this issue in context, a particularly important task given efforts to harmonize intellectual property protection across national boundaries, this chapter offers an overview of both the current state of the law and the historical factors leading to the protection, or lack thereof, for fashion design.

FROM RAW TEXTILES TO FAST FASHION

Although fashion design does not enjoy the same intellectual property protection as original works in other media, the field is not a legal blank slate. Clothing itself is a universal human phenomenon, and anthropologists have recently cited 100,000-year-old shell necklaces as the first evidence of symbolic thought.¹ Predictably, where there is human behavior, there are laws regulating it.

In the West, sumptuary laws governing the consumption and use of material goods, including clothing, date back at least to classical Greece.² Over the centuries, legislation aimed at regulating luxury placed limits on a plethora of physical adornments, from silks to furs to precious stones.³ In addition to curbing perceived excesses, sumptuary laws have also served to police the boundaries of social class. For example, English law long restricted the wearing of any silk of the color purple to members of the nobility.⁴ Similar laws were designed to identify specific professions, notably professors, prostitutes, and priests, or to identify characteristics like marital status or gender.⁵ Like modern laws regulating the copying of various forms of expression, both the letter and the spirit of these sumptuary laws were difficult to enforce.⁶ In one case the great fourteenth-century jurist Bartolo de Sassoferrato, often referred to simply as Bartolus, reportedly granted the appeal of a woman convicted of wearing prohibited pearls on the grounds that hers were actually fake.⁷

Despite the complexities of regulating dress, sumptuary laws continued to multiply during the late medieval and early modern period as changes in the distribution of wealth combined with new technologies to provide greater access to luxury clothing. Among these new technologies was the printing press, which not only facilitated the distribution of Bibles and political tracts, but also produced the forerunners of modern fashion magazines, thus disseminating images of new styles beyond the narrow circle of the elite. More advanced technology also provided a less expensive way to place images on fabric, as compared with labor-intensive hand painting or embroidery.⁸ At the same time, improvements in the means of textile weaving increased the availability of affordable fabrics—and thus the opportunities for copying fashionable garments. Ever cheaper copies of innovative new fabric designs soon followed.

These advances in the technologies of textile production and decoration, and the consequent growth of the textile industry, heralded a shift from laws focused on limiting consumption to laws focused on facilitating production—in other words, from sumptuary laws to intellectual property laws. In the early eighteenth century, the silk weavers of Lyon, France, became the first to demand intellectual property protection of their original designs, and by 1787 a royal decree had extended the protection to silk manufacturers nationwide.⁹ Not to be outdone, competing British textile manufacturers that same year secured protection for several types of fabric—namely linen, cotton, calico, and muslin—along “much the same lines as earlier Acts relating to engravings and prints.”¹⁰

Following the industrialization of textile production, the nineteenth century witnessed both the establishment of the modern *haute couture* in Paris and the rise of the ready-to-wear clothing industry. These two facets of apparel production would ultimately develop a complex legal and practical relationship, but at the outset only the couture had any significant influence on the development of new styles. When Charles Worth, generally acknowledged as the first couturier, established his atelier in the late 1850s, most garments were the unique creations of an individual sewing at home or giving instructions to her seamstress. Worth instead developed a system of presenting a series of new designs each season and then taking orders for the designs from individual clients, for whom the clothes were made to measure. This system, which exists to the present day, established the influence of professional clothing designers over the direction of fashion.¹¹ It also spawned an industry of knockoff artists eager to manufacture and sell less expensive versions of Paris originals.

The French couture industry responded to the rise of design piracy in two ways: first, by seeking intellectual property protection for original fashion designs; and second, by licensing those designs to reputable manufacturers, both domestic and foreign. In their quest for inclusion in the intellectual property system, French designers were able to rely on both the 1793 copyright law, as amended in 1902, and the 1806 industrial design law, as amended in 1909.¹² Both types of protection arguably applied to fashion design, an interpretation that the courts confirmed in lawsuits brought by in the early decades of the twentieth century well-known designers like Jeanne Paquin, Madeline Vionnet, and Gabrielle “Coco” Chanel.¹³

Thus armed with a legal weapon against blatant copyists in their own domestic market, couturiers exported French fashion to women around the world. The most affluent customers traveled to Paris for personal fittings and received their garments first, the middle classes bought licensed copies from local department stores and boutiques, and the relatively impecunious either sewed their own versions at home or waited for cheap ready-to-wear copies to become available.¹⁴ Apart from a brief hiatus during the Second World War, this top-down fashion system remained virtually unchanged until the 1960s, and it still exerts significant influence on current trends in fashion. Modern “fast fashion” chains, the sartorial equivalent of the fast food industry, are adept at quickly reinterpreting the innovations of the couture for the mass market; however, those items that stray too close to the original versions may find themselves subject to legal action.¹⁵

While French intellectual property law has by no means eliminated design piracy, at home or abroad, the protection enjoyed by designers working in Paris contributed to the strength of the industry and its global influence throughout the twentieth century and into the twenty-first. Today, the haute couture serves primarily as an advertisement for its designers’ own ready-to-wear styles, and the hierarchical structure of creativity in the realm of fashion has been replaced with a far more democratic diffusion of influential ideas. Even so, France has

the world's strongest legal protections for fashion design, and Paris remains the world's fashion capital.¹⁶

THE STARS & STRIPES OR THE JOLLY ROGER?

While France was developing a creative fashion industry and intellectual property laws to protect it, the United States instead became a haven for design pirates who strenuously resisted efforts to introduce laws protecting fashion. As noted, some of this copying was the product of legitimate licensing arrangements with French couture houses, but New York's Seventh Avenue generally thrived instead on the manufacture and sale of cheap knockoffs.

In historical terms, the pattern of industrial development in the United States and more recent emerging economies often commences with a period of initial piracy, during which a new industry takes root by means of copying.¹⁷ This results in the rapid accumulation of both capital and expertise. The late eighteenth- and early nineteenth-century development of textile manufacturing in New England was a perfect example of this economic growth through intellectual property theft, as aspiring industrialists memorized and transported proprietary technologies across the Atlantic.¹⁸ Ideally, the pirate country begins to develop its own creative sector in the industry, which in turn leads to enactment of intellectual property protection to further promote its growth. This was the pattern followed in the music and publishing industries, in which the United States was once a notorious pirate nation but is now a promoter of intellectual property enforcement.

In the case of the American fashion industry, however, the usual pattern of unrestrained copying followed by steadily increasing legal protection is not present. An examination of the cultural factors that have contributed to the denial of specific intellectual property protections for fashion design is beyond the scope of this chapter.¹⁹ In order to understand the current state of U.S. intellectual property law with respect to clothing, however, a brief tour of past legal efforts is in order.

Textile and clothing designs, which are aesthetic creations that also serve useful functions, could theoretically be eligible for protection under either a copyright regime or an industrial design regime. France, as indicated, opted for both types of protection from at least the early twentieth century; the United States effectively elected neither. While U.S. law provided for design patents starting in 1842, the strict standards precluded registration of most fashion designs.²⁰ The 1882 denial of a patent to a silk manufacturing firm galvanized the industry, which began lobbying for protection, but to no avail.²¹ The copyright route was no more successful for creative designers, despite the Register of Copyright's explicit call in 1913 for amendment of the Copyright Act to follow the French model and allow registration of fashion designs alongside the "fine arts" then afforded protection.²² Indeed, the only U.S. legislative or judicial concession to protection of textiles or clothing during the early decades of the twentieth century

was the 1913 Kahn Act, which was intended to protect European designers who had refused to send their works for the impending Panama-Pacific International Exhibition without first receiving assurances against American piracy.²³

Fashion designers were not without allies in Congress, however. Over the following two decades, a series of bills sought to extend protection to fashion design and related or similarly situated industries. The most nearly successful of these, the Vestal Bill, was introduced in 1926. After a series of amendments, it passed the House in 1930 only to languish in the Senate until Congress adjourned the following year.²⁴ Even Judge Learned Hand's dictum regarding the necessary injustice of his decision in *Cheney Brothers v. Doris Silk Corp.*, a case in which one textile manufacturer admitted to deliberately copying another's original design despite the warning printed every few inches on the selvedge of the goods, was insufficient to provoke legislative action. In Judge Hand's words:

True, it would seem as though the plaintiff had suffered a grievance for which there should be a remedy, perhaps by an amendment of the Copyright Law, assuming that this does not already cover the case, which is not urged here. It seems a lame answer in such a case to turn the injured party out of court, but there are larger issues at stake than his redress. Judges have only limited power to amend the law; when the subject has been confined to the legislature, they must stand aside, even though there be a hiatus in completed justice.²⁵

Although there were several more attempts to pass a design protection law following defeat of the Vestal Bill, including one that cleared the Senate, textile and clothing manufacturers elected to supplement their lobbying efforts with more direct forms of action.²⁶

Chief among these self-help efforts to control design piracy was the establishment of the Fashion Originators' Guild of America in 1932. The Guild began as a voluntary organization of clothing manufacturers who agreed among themselves to sell exclusively to retailers who in turn formally committed to buy only original designs. In order to ensure compliance, the Guild created a system of design registration, policed retailers, engaged in arbitration proceedings, and notified its membership of violations by means of a card index. If a retailer either refused to eschew pirated designs or agreed to the Guild's rules but then cheated, the offender was listed on a red card sent out to Guild manufacturers. If a manufacturer ignored this boycott and sold merchandise to a red-carded retailer, the manufacturer was subject to a fine. The National Federation of Textiles soon developed a similar system of design registration and joined forces with the Guild, whose members agreed to incorporate only original textile designs into their finished garments.²⁷

These industry efforts might have been effective in controlling the distribution of pirated designs, at least among reputable retailers, had it not been for the intervention of antitrust law. Although the Guild survived a series of lawsuits by red-carded retailers, the Federal Trade Commission decided to investigate and

ultimately issued an injunction against the Guild. The question finally reached the Supreme Court, which upheld the decision of the Commission that the Guild had acted in unreasonable restraint of trade.²⁸ Although the manufacturers were still free to take action against copyists who obtained access to original designs through fraud or other forms of unfair competition, their private system of design protection had lasted less than a decade.

In the 1950s, the development of the doctrine of conceptual separability in copyright advanced the cause of a number of design-related industries. While the landmark case of *Mazer v. Stein* involved decorative lamps, the decision made reference to “works of artistic craftsmanship” more generally, including “artistic jewelry.”²⁹ So long as the artistic form of an otherwise utilitarian object was independent of its function, that form became potentially eligible for copyright protection. Subsequent cases clarified that this protection extended to costume jewelry (and much later to sculptural belt buckles),³⁰ although the same reasoning was not applied to clothing designs as a whole. That era also saw the end of textile manufacturers’ long battle for protection, as courts quietly decided that printed designs on fabric were indistinguishable in copyright terms from other printed designs.³¹

Renewed lobbying efforts in the late 1950s and the 1960s, this time under the auspices of the National Committee for Effective Design Legislation, proved no more effective in securing protection for fashion designs than their forerunners of thirty years earlier.³² Although the popular press publicized the complaints of both Parisian and New York fashion designers and exposed the various strategies of knockoff or “bump off” houses who plagiarized them, the opposition of the National Retail Merchants Association ultimately defeated the new generation of design protection bills.³³ Even the wide-ranging negotiations that culminated in the Copyright Act of 1976 did not generate protection for fashion design. In fact, the legislative history of the act specifically excluded “ladies’ dress” from the subject matter of protection.³⁴

After this series of legislative defeats, the fashion industry turned its attention to other potential avenues of protection. While individual designers continued to test the limits of conceptual separability in copyright,³⁵ the more widespread and successful strategy was the appeal to trademark (and to a lesser extent trade dress) protection. The design of a shirt or a handbag might be beyond the scope of U.S. intellectual property law, but a logo appearing on the outside of that garment or accessory enjoys the full protection of the trademark system. Thus, as fashion designers indulged the status-conscious consumers of the 1980s with conspicuous logo designs and exterior labels, the industry simultaneously cultivated the cooperative relationships with law enforcement officials that still play an important role in anticounterfeiting efforts.³⁶

Although intellectual property protection for fashion design remains the holy grail of industry lawyers in the United States, the absence of such protection does not reflect an indifference to design piracy or a lack of effort on the part of creative designers over the past century. Rather, history reveals a series of public

and private attempts to address the issue that, while falling short of their ultimate goal, have nevertheless carved out limited areas of protection ranging from textile patterns to designer logos.

AN AMERICAN QUILT: THE CURRENT PATCHWORK OF PROTECTION

As a result of the fashion industry's persistent legal efforts, American designers today have a range of intellectual property law options that, taken together, offer partial protection for innovative articles of clothing and accessories. The overall appearance of most items is still vulnerable to the encroachments of copyists; however, certain elements of a design may be protected through the application of U.S. trademark, patent, or copyright law. Enforcement of such rights, like in other creative industries, nevertheless remains a challenge.

The most universally applicable and flexible mechanism for the protection of fashion design is trademark law. Whether on an interior label or as an exterior design element, virtually all apparel items incorporate trademarks in some form. The ease of trademark registration, combined with limited protection for even unregistered marks, assures that virtually all designers have access to protection for the names and logos affixed to their goods.³⁷

The ready availability of trademark protection, as compared with the difficulty in establishing protection for the underlying designs, creates an interesting incentive for fashion houses, however. The more easily visible the logo is, the greater the intellectual property protection for the item, and the better the chance of successful actions against counterfeiters. Thus, designers, to the extent that they are influenced by legal concerns, are likely to feature their logos as prominently as possible and incorporate them into their designs to the greatest degree that customers are willing to accept. While this is a matter of taste and marketing as well as legal strategy, it remains an observable phenomenon that current styles are more likely to incorporate prominent external logos than their vintage counterparts. The more subtle approach of a luxury label—like Bottega Veneta, whose signature *intrecciato* or woven leather handbags were originally advertised with the slogan, “When your own initials are enough”—is the exception rather than the rule.³⁸

In addition, the primacy of trademark law as a means of protection for fashion designs offers a competitive advantage to more established companies with better-known logos. Even if a famous designer's new line is knocked off, consumers may still be willing to pay higher prices for the trademarked version. Emerging designers, by contrast, cannot depend exclusively on brand recognition for protection against design piracy. As one young designer expressed the problem, “They can just sell their trademarks. We have to sell our designs.”³⁹

The advantage enjoyed by more established companies is further amplified within the small category of designs that have become so iconic as to qualify for trade dress protection. This subcategory of trademark law grants protection not

only to the usual discrete symbols or devices that comprise a trademark, but also to product packaging or even product designs that serve to indicate the source of the goods. According to the Supreme Court's unanimous opinion in *Wal-Mart Stores v. Samara Brothers*, product designs like the children's garments at issue in the case are never "inherently distinctive" or intrinsically capable of source identification.⁴⁰ Instead, the Court assumes that product designs are primarily the result of aesthetic or functional considerations and only point to their origin if they have developed "secondary meaning" in the minds of consumers.⁴¹ In other words, a never-before-seen handbag or shoe may appeal to consumers as chic or practical, but only later become instantly recognizable as an Hermès Birkin or a Converse Chuck Taylor All Star. The result is that even without registration famous designs with an existing fan base receive more protection, in the form of trade dress, than new arrivals on the fashion scene. In the event of design piracy, the successful owner of a famous design is therefore in a stronger legal position than a fledgling designer, and often in a stronger financial position as well.

Patent law, too, can play a role in the protection of clothing, albeit a much smaller one than trademark. Fashion designs or design elements that are not merely aesthetically pleasing but also functional can, if sufficiently innovative, meet the exacting standards of a patentable invention. Fasteners like Velcro or zippers, high-performance textiles like Lycra or Kevlar, protective garments like hazmat gear or spacesuits, and even more whimsical items of apparel have all been the subject of utility patents.⁴² For most fashion designs, however, the patentability requirements of novelty, utility, and nonobviousness,⁴³ the expense of prosecuting a patent, and above all the amount of time required to obtain a patent make this form of protection impractical if not impossible.⁴⁴

Design patents, which protect ornamental rather than functional design elements, are also theoretically available to fashion designs.⁴⁵ In practice, however, they share the same limitations as utility patents. The temporal constraints of the patent system as a whole, which requires prior examination of items to determine eligibility for registration, are particularly incompatible with the seasonal nature of fashion. In this context, it is important to recognize the distinction between the general category of clothing and the subcategory of fashion, which may be understood as a seasonally produced form of creative expression.⁴⁶ While some fashion designs are intended to last more than a season or two, most are available for only a short time before trends change and fashion-conscious consumers move on to new styles. By the time a fashion designer could obtain either a utility patent or a design patent, the item at issue (and even its copies) would already be passé.

Copyright law in the United States, as previously noted, does not permit the registration of fashion designs. The somewhat artificial distinction within intellectual property law between nonfunctional literary and artistic works, which are the subject matter of copyright, and useful inventions, which are the domain of patents, has generally excluded clothing from the subject matter of copyright on the grounds of its utilitarian nature. Only in limited circumstances have

courts invoked the doctrine of conceptual separability in copyright to distinguish between the artistic elements of a new fashion design and its basic function of covering the human body.⁴⁷

In a recent case involving a Halloween costume design, for example, the court noted that elements of a costume like a head or tail are at least in theory separable from the main body of the garment and thus potentially subject to copyright protection.⁴⁸ Similarly, the doctrine of conceptual separability can result in copyright eligibility for an original design on the front of a T-shirt or for an innovative textile pattern.⁴⁹ In addition to this limited accommodation for designs that are both aesthetic and functional, copyright law can apply to the two-dimensional representations of fashion designs, such as photographs or drawings, that often play a role in design piracy.

The U.S. intellectual property system, while deliberately excluding fashion designs from direct protection, is nevertheless adaptable to provide original clothing and textile designs with a degree of legal recognition.

MODEL BEHAVIOR: EXTRALEGAL MEANS OF PROTECTION

In the absence of more than a limited pastiche of intellectual property protection, and in the face of persistent enforcement difficulties with regard to existing laws, fashion designers have developed extralegal means to either limit the copying of original styles or mitigate its effects. These efforts fall into the categories of social control, mechanical or technological means, and exploitation of the fashion cycle. Each of these categories represents an attempt to influence or leverage the behavior of a different set of actors: fashion insiders, professional copyists, and consumers, respectively. While the utility of such efforts is limited, especially in light of the ever-increasing speed of information transfer, they nevertheless form part of the industry's efforts against knockoff artists.

Among fashion designers, editors, and cognoscenti, there are established social norms against copying. Designers, like artists who work in other media, regularly seek inspiration from earlier styles, as well as from visual artworks and from nature. When an ostensibly creative designer imitates another too literally, however, he or she takes a reputational risk. In 2002, for example, Balenciaga's rising star Nicolas Chesquiere made a virtually identical copy of a 1973 patchwork vest by little-known designer Kaisik Wong and presented it as part of his spring collection.⁵⁰ Although members of the fashion community acknowledged that copying is not uncommon, the news still caused a scandal. Even three years later, influential fashion critic Cathy Horyn noted that the event "definitely did not help [Chesquiere's] reputation as fashion's new messiah."⁵¹ The importance of this type of social disapprobation is underscored by the decision in a French lawsuit brought by Yves Saint Laurent against Ralph Lauren and involving a copy of a sleeveless tuxedo gown. The American designer was not only fined, but also ordered to advertise the court's decision in ten separate publications.⁵² A designer

who imitates another's style perhaps not as literally but too soon after the original innovation appears is similarly vulnerable to public censure.

As in other communities, the social norms of the fashion world are subject to change over time. Whereas in the past creative fashion design had, or was at least perceived to have, a strongly hierarchical structure, with true innovation occurring only among a small cadre of elite designers and at the highest price points, modern creativity exists at all levels of the industry. Many designers who would formerly have dressed only the elite few and perhaps licensed some of their designs to exclusive retail establishments now find it either necessary or desirable to create diffusion lines or enter into agreements with mass market retailers, thus disseminating their ideas at a range of retail levels. Isaac Mizrahi has an ongoing relationship with Target, for example, and Chanel designer Karl Lagerfeld has also produced a line for the fast fashion chain H&M.⁵³ While haute couturiers are still held to a higher standard of creativity, designers at all levels are expected to exercise their imaginations. Moreover, design originators prefer to have the opportunity to reinterpret their own work for the general public.

While some designers, faced with the impossibility of eliminating all knock-offs, publicly claim to be flattered by the tacit acknowledgement that their work is worth copying, these statements rarely reflect the whole story. Often the same designer's legal team is simultaneously taking whatever action may be available against copyists. Coco Chanel, for example, is sometimes quoted as having said, "Fashion should slip out of your hands. The very idea of protecting the seasonal arts is childish. One should not bother to protect that which dies the minute it is born."⁵⁴ In the 1930s, however, Chanel herself joined fellow designers as a plaintiff in a landmark French lawsuit that shut down a notorious design pirate.⁵⁵ Even today, the norms governing public relations and the reality of designers' responses to copying of their own work are sometimes at odds with one another. Creativity is nevertheless the stock in trade of the fashion world, and the professional disdain that designers express with respect to excessively derivative work by others is unmistakable.

In addition to social controls on copying, which operate primarily among established designers or those hoping to develop a reputation for creativity, fashion designers rely on mechanical or technological means to combat knockoff artists. These methods range from efforts to maintain secrecy and prevent potential copyists from previewing new styles to the creation of complex and difficult to replicate designs to the use of high quality materials and craftsmanship. In an attempt to bolster consumer confidence and clearly distinguish real from fake, generations of designers have also incorporated cutting-edge indicators of authenticity into the finished goods. In the 1920s and 1930s, the labels on garments issuing from Madeline Vionnet's atelier bore her thumbprint.⁵⁶ Today, designers are experimenting with holographic labels and RFID tags.⁵⁷ As in other creative industries, however, self-help measures directed at professional pirates are at best a match of wits between creators and imitators.

Less a method of discouraging copyists than a means of mitigating their effect, the fashion cycle is essentially a pattern of consumer behavior that luxury goods industries can under limited circumstances leverage to create desire for new products. Commentators identified this pattern at least as early as the nineteenth century,⁵⁸ and successive generations of scholars have repeated their analysis.⁵⁹ Described in modern sociological and economic terms, the cycle begins when high-status individuals or early adopters acquire an item. That item becomes a social signaling device, provoking demand among lower status individuals or outsiders who wish to emulate and perhaps interact with the original purchasers. As more consumers purchase the item, however, it loses its signaling value. This loss of value may be further exacerbated by third-party production of knockoffs, which make a version of the item accessible and affordable to still more aspirational consumers. Thus, the original individuals move on to new expensive or rare objects of desire in order to differentiate themselves, and a fashion cycle is complete.⁶⁰

Today, however, this fashion cycle scenario is rendered obsolete by the fact that poor-quality knockoffs can be manufactured and distributed even more quickly than the originals, leaving creative designers little opportunity to recover their investment before the item is already out of style. Even if the fashion cycle were ever sufficient to support the design industry in general and individual designers in particular, a questionable assertion, that is no longer the case.

In the absence of comprehensive or effective intellectual property protection, the denunciation of non-normative behavior and the use of extralegal methods to halt or limit the effects of copying have arguably helped maintain the ability of fashion designers to exercise their talents. Modern challenges to these mechanisms have nevertheless increased pressure on the industry and prompted a reinvigorated quest for legal support.

FASHION LAW'S CUTTING EDGE: RECENT DEVELOPMENTS AND FUTURE DIRECTIONS

In the first decade of the twenty-first century, the fashion industry has renewed its designs on intellectual property law. From the WTO to WIPO, clothing-related issues have become part of the global agenda.⁶¹ As a result, the United States and other nations are reexamining the relationship between law and fashion.

New challenges to the industry are manifold, stemming from both technological change and global economic shifts. The speed and accuracy of information flow in the Internet era disseminates images of new styles instantly, piquing consumer interest but also aiding in the production of knockoffs. At the same time, the movement of textile and clothing production to centralized production centers in Asia, a trend that increased dramatically after the dismantling of sector import quotas on January 1, 2005, has facilitated the manufacture of high-quality

fashion counterfeits—sometimes in the same factories licensed to produce legitimate merchandise.

At the same time, greater cultural recognition of fashion as a form of creative expression and the diffusion of original design efforts across all levels of the industry have increased sympathy toward fashion designers. At a time when aspiring young designers appear in independent documentaries and on reality television shows,⁶² it is no longer credible to claim that legal protection for fashion design is somehow elitist, especially in light of the expansive copyright protection enjoyed by other industries.⁶³

The European Union's legislative reaction to these changed circumstances has captured the attention of fashion designers in the United States and around the globe. In addition to the protection that countries like France and Britain already afforded designers,⁶⁴ the European Union in 2002 established community-wide protection for original designs, including apparel and accessories.⁶⁵ All original designs now receive three years of automatic, unregistered protection. Moreover, since 2003, creators may register their designs in order to receive a five-year term of protection, renewable for up to twenty-five years.⁶⁶

In the United States, the Council of Fashion Designers of America has responded to changed circumstances in the industry by seeking passage of the Design Piracy Prohibition Act.⁶⁷ In its current form this bill, if enacted, would amend the Copyright Act to provide three years of protection for registered fashion designs, after which they would enter the public domain.⁶⁸ The measure parallels the ten-year protection already available for boat hulls;⁶⁹ the shorter term of years for fashion reflects its seasonal nature, as well as a desire to respect designers' interest in their own creations while stopping short of full inclusion in the copyright system. Indeed, this bill arguably represents the triumph of the current low-protectionist orthodoxy within American intellectual property law scholarship, providing neither the expansive copyright protection of the French system nor the unregistered or longer-term registered design protection available in the European Union. Unlike the proposed legislation of previous decades, there has been little industry opposition to the bill to date, a circumstance that may result in part from a greater cultural emphasis on creativity rather than copying as an economic strategy. Nevertheless, it remains to be seen whether Congress will choose this particular means of addressing the challenges of a new era in fashion.

As art historian Anne Hollander has observed, "Clothes, even when omitted, cannot be escaped."⁷⁰ Intellectual property law, it would appear, is no exception to this maxim.

NOTES

1. Marian Vanhaeren et al., *Middle Paleolithic Shell Beads in Israel and Algeria*, 312 *Sci.* 1785 (2006).

2. Alan Hunt, *Governance of the Consuming Passions: A History of Sumptuary Law* 18–19, 140 (1996).
3. Reed Benhamou, *Sumptuary Laws*, in *Encyclopedia of Clothing and Fashion* 238 (Valerie Steele ed., 2005) [hereinafter *Encyclopedia*].
4. See, e.g., *Enforcing Statutes of Apparel*, 16 *Eliz.* (1574).
5. See, e.g., Marjorie Garber, *Vested Interests: Cross Dressing and Cultural Anxiety* 21–37 (1992); Hunt, *supra* note 2, at 71–72, 214–272.
6. See Fred Davis, *Fashion, Culture, and Identity* 58–59 (1992); Ann Hollander, *Seeing Through Clothes* 362 (1978).
7. Hunt, *supra* note 2, at 354.
8. For a comprehensive overview of textile technology, see *The Cambridge History of Western Textiles* (David Jenkins ed., 2003).
9. Jeanne Belhumeur, *Droit International de la Mode* 70 (2000).
10. A.D. Russell-Clarke, *Copyright and Industrial Designs* 3 (2d ed. 1951).
11. Philippe Perrot, *Fashioning the Bourgeoisie: A History of Clothing in the Nineteenth Century 184–188* (Richard Bienvenue trans., 1994).
12. Belhumeur, *supra* note 9, at 71–73.
13. Didier Grumbach, *Histoires de la Mode* 67–72 (1993); Mary Lynn Stewart, *Copying and Copyrighting Haute Couture: Democratizing Fashion, 1900–1930s*, 28 *French Hist. Stud.* 103, 118–30 (2005).
14. Teri Agins, *The End of Fashion: How Marketing Changed the Clothing Business Forever* 23–25 (2000).
15. Although few such disputes result in litigation, copyists who are challenged under French law frequently pay financial settlements to the original designers. Interview with Didier Grumbach, President of the *Fédération Française de la Couture, du Prêt-à-Porter des Couturiers et des Créateurs de Mode* (Aug. 2, 2006). Perhaps the best-known recent piracy trial in France involved a prominent American designer, Ralph Lauren, whose tuxedo dress was found to have infringed the Yves Saint Laurent original. *Société Yves Saint Laurent Couture S.A. et al. v. Société Louis Dreyfus Retail Mgmt. S.A. et al.*, [1994] E.C.C. 512 (Trib. Comm. (Paris)).
16. Article L112–2(14) of France’s Intellectual Property Code includes the following in its list of “works of the mind” that comprise the subject matter of copyright:

Creations of the seasonal industries of dress and articles of fashion. Industries which, by reason of the demands of fashion, frequently renew the form of their products, particularly the making of dresses, furs, underwear, embroidery, fashion, shoes, gloves, leather goods, the manufacture of fabrics of striking novelty or of special use in high fashion dressmaking, the products of manufacturers of articles of fashion and of footwear and the manufacture of fabrics for upholstery shall be deemed to be seasonal industries.

Articles of fashion may also qualify for protection as registered industrial designs, for a more limited term of up to twenty-five years. See Article L511 of the Intellectual Property Code, available at http://www.legifrance.gouv.fr/html/codes_traduits/cpiatext.htm.

17. Peter K. Yu, *From Pirates to Partners: Protecting Intellectual Property in China in the Twenty-First Century*, 50 *Am. U. L. Rev.* 131, 180–182 (2000).

18. See generally Robert F. Dalzell, Jr., *Enterprising Elite: The Boston Associates and the World They Made* (1987); Barbara J. Tucker, *Samuel Slater and the Origins of the American Textile Industry, 1790–1860* (1984).

19. For a summary preview of forthcoming work on the cultural factors contributing to the deliberate exclusion of fashion design from the U.S. intellectual property regime, see *Law Profs, Part 2*, Posting of Susan Scafidi to *Counterfeit Chic* (Jan. 8, 2006 12:06 PM), http://www.counterfeitchic.com/2006/01/law_profs_part_2_1.php.

20. Maurice A. Weikart, *Design Piracy*, 19 Ind. L.J. 235 (1944).

21. Sylvan Gotshal, *The Pirates Will Get You: A Story of the Fight for Design Protection* 10 (1945).

22. *Id.* at 11.

23. *Id.* Many U.S. designers opposed the Kahn Act, arguing, inter alia, that it would allow European designers to steal American designs, register them in their home countries, and file complaints against the original American manufacturers. *Differ on Way to Fight Kahn Act*, N.Y. Times, Nov. 22, 1913; *Kahn Law Needs Change*, N.Y. Times, Dec. 19, 1913.

24. Weikart, *supra* note 20, at 246, 250.

25. *Cheney Bros. v. Doris Silk Corp.*, 35 F. 2d 279, 281 (2d Cir. 1929).

26. See Weikart, *supra* note 20, at 251–256; Note, *Self-Protection of Design Creation in the Millinery Industry*, 49 Yale L.J. 1290 (1940).

27. Fed. Trade Comm'n, Annual Report of the Federal Trade Commission for the Fiscal Year Ended June 30, 1939, at 102 (1939).

28. *Fashion Originators' Guild v. Fed. Trade Comm'n*, 312 U.S. 457 (1941).

29. *Mazer v. Stein*, 347 U.S. 201, 212–213 (1954).

30. *Kieselstein-Cord v. Accessories by Pearl, Inc.*, 632 F.2d 989 (2d Cir. 1980); *Trifari, Krussman & Fishel v. Charel Co.*, 134 F. Supp. 551 (S.D.N.Y. 1955).

31. *Peter Pan Fabrics, Inc. v. Brenda Fabrics, Inc.*, 169 F. Supp. 142 (S.D.N.Y. 1959).

32. See Nat'l Comm. for Effective Design Legislation, *Protection for Designs* (1959); Nat'l Comm. for Effective Design Legislation, *Summary of the Provisions of Design Protective Bills S. 2075 and H.R. 9525, 86th Congress* (1960); *Silk's Potential Held Unrealized*, N.Y. Times, Oct. 24, 1957.

33. Robert E. Dallos, *The Fashion Pirates: Their Booty Is the Treasure of Design*, N.Y. Times, Jan. 25, 1966; Leonard Sloane, *Design Pirating Sets Off Battle*, N.Y. Times, Jan. 4, 1964.

34. H. Rep. No. 94–1476, at 55.

35. See, e.g., *Galiano v. Harrah's Operating Co.*, 416 F.3d 411 (5th Cir. 2005) (uniform design, like most clothing design, does not qualify for copyright protection); *Knitwaves, Inc. v. Lollytogs Ltd.*, 71 F.3d 996 (2d Cir. 1995) (applique design on sweater qualifies for copyright protection); *Poe v. Missing Persons*, 745 F.2d 1238 (9th Cir. 1984) (clear rock-filled bikini protected as soft sculpture); *Whimsicality, Inc. v. Rubie's Costumes*, 721 F. Supp. 1566 (E.D.N.Y. 1989), *aff'd in part, vacated in part* by 891 F.2d 452 (2d Cir. 1989) (costumes fail to meet separability standard); *Nat'l Theme Prods., Inc. v. Jerry B. Beck, Inc.*, 696 F. Supp. 1348 (S.D. Ca. 1988) (Halloween costume contains separable artistic elements); *Animal Fair, Inc. v. Amfesco Indus.*, 620 F. Supp. 175 (D. Minn. 1985) (bear paw slippers contain separable artistic elements); *Knitwaves, Inc. v. Lollytogs Lt. (Inc.)*, *Policy Decision*, Copyright Office, 65 Fed. Reg. 66530 (Nov. 5, 1991) (addressing inquiries as to copyright protection for garment and costume design).

36. See, e.g., *Barbara Kolsun: Counterfeit Cop*, *Women's Wear Daily*, May 25, 2006, at 12; Meredith Derby et al., *Vendors Step Up Efforts in Counterfeit War*, *Women's Wear Daily*, Apr. 11, 2005, at 13; Martha Groves, *In Jeans Business, Trademark Suits Are in Style*, *L.A. Times*, Apr. 13, 1986, § 4, at 5; Patricia Hurtado, *Louis Vuitton, Coach Fight \$23 Bln Flood of Fakes in New York*, *Bloomberg.com*, http://www.bloomberg.com/apps/news?pid=10000103&sid=aaTetDaRc_fQ&refer=us# (last updated Jan. 26, 2006); *Putting the Teeth in Trademark Laws*, *Bus. Wk.*, Oct. 8, 1984, at 75; Peter Wilkinson, *Federal Court Convicts 5 Men in Louis Vuitton 'Sting' Scheme*, *Women's Wear Daily*, May 25, 1984, at 2.

37. 15 U.S.C. §§ 1051–1052, 1125 (2004); U.S. Patent & Trademark Office, *Basic Facts About Trademarks*, <http://www.uspto.gov/go/tac/doc/basic/> (last modified Nov. 8, 2004). This is not to imply, however, that all trademark claims are straightforward or necessarily resolved in favor of the claimant. See, e.g., *Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, 340 F. Supp. 415 (S.D.N.Y. 2004) (denying injunction to plaintiff on the grounds that allegedly infringing handbags were not likely to cause consumer confusion or trademark dilution).

38. Kate Betts, *The Height of Luxury*, *Time*, May 1, 2006, 67. In the case of Bottega Veneta, the *intrecciato* style also arguably serves as a trademark surrogate or a form of trade dress.

39. Interview with Gabi Asfour (Sept. 27, 2005). Asfour is one of the designers for the label ThreeAsFour (formerly AsFour).

40. *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000).

41. *Id.* at 209–215.

42. U.S. Patent No. 7,089,995 (issued Aug. 15, 2006) (space suit); U.S. Patent No. 7,062,786 (issued June 20, 2006) (Hazmat suit); U.S. Patent No. 6,473,908 (issued Nov. 5, 2002) (garment having a buttocks cleavage revealing feature); U.S. Patent No. 3,819,587 (issued June 25, 1974) (Kevlar); U.S. Patent No. 2,717,437 (issued Sept. 13, 1955) (Velcro); U.S. Patent No. 2,692,874 (issued Oct. 26, 1954) (LYCRA); U.S. Patent No. 50,4038 (issued Aug. 29, 1893) (zipper clasp locker or unlocker for shoes).

43. 35 U.S.C. §§ 101, 103 (2004).

44. For 2005, the average total pendency for a patent application was 29.1 months. USPTO, *Performance and Accountability Report for Fiscal Year 2005*, at 2 (2005), <http://www.uspto.gov/web/offices/com/annual/2005/2005annualreport.pdf>.

45. See 35 U.S.C. § 171.

46. Joanne B. Eicher, *Clothing, Costume and Dress*, in 1 *Encyclopedia, supra* note 3, at 270; Valerie Steele, *Fashion*, in 2 *Encyclopedia, supra* note 3, at 12.

47. *H. Rep. No. 94–1476*, at 55.

48. *Chosun Int'l., Inc. v. Chrisha Creations, Ltd.*, 413 F.3d 324 (2d Cir. 2005).

49. See *Eve of Milady v. Impression Bridal, Inc.*, 957 F. Supp. 484 (S.D.N.Y. 1997) (bridal dress lace designs qualify for copyright protection); *Folio Impressions, Inc. v. Byer Cal.*, 937 F.2d 759 (2d Cir. 1991) (textile design protected as writing); *Peter Pan Fabrics v. Candy Frocks, Inc.*, 187 F. Supp. 334 (S.D.N.Y. 1960) (finding copyright infringement of floral pattern textile design).

50. Cathy Horyn, *Is Copying Really a Part of the Creative Process?*, *N.Y. Times*, Apr. 9, 2002, at B10; Miles Socha, *The Luxury Hangover: Designers Struggling with Harsher Reality*, *Women's Wear Daily*, July 1, 2002, at 1.

51. Cathy Horyn, *How Nicolas Got His Groove Back*, *Women's Fashion Mag.*, Aug. 28, 2005, at 261.

52. *Société Yves Saint Laurent Couture S.A. v. Société Louis Dreyfus Retail Mgmt. S.A.*, [1994] E.C.C. 512 (Trib. Comm. (Paris)). It is interesting to note that the eventual settlement of the case resulted in a lower fine and elimination of the publication requirement altogether. Agins, *supra* note 14, at 43–44.

53. Adam Jones & Elizabeth Rigby, *A Good Fit? Designers and Mass-Market Chains Try to Stitch Their Fortunes Together*, *Fin. Times*, Oct. 25, 2005.

54. Edmonde Charles-Roux, *Chanel and Her World: Friends, Fashion, and Fame* 377 (Daniel Wheeler trans., 2005).

55. Stewart, *supra* note 13, at, 129–130.

56. Bettye Kirke, *Madeline Vionnet* 223 (1998).

57. Christina Passariello, *Holograms Tell Fake from Fendi*, *Wall Street J.*, Feb. 22, 2006.

58. See, e.g., William Hazlitt, *On Fashion (1818)*, reprinted in William Hazlitt: *Selected Writings* 148 (Jon Cook ed., 1991).

59. Among the more innovative contributions to this line of scholarship are Paul H. Nystrom, *Economics of Fashion* 18–54 (1928); Georg Simmel, *The Philosophy of Fashion* (1905), reprinted in translation in Simmel on Culture: *Selected Writings* 187 (David Frisby & Mike Featherstone eds., 1997); Lawrence C. Lockley, *Styles in Fashion and Marketing Scholarship: A Cautionary Note*, *J. Marketing*, Oct. 1968, at 52; Wolfgang Pesendorfer, *Design Innovation and Fashion Cycles*, 85 *Am. Econ. Rev.* 771 (1995); and James M. Treece, *Copying Methods of Product Differentiation*, 38 *Notre Dame Law.* 244 (1962–1963).

60. Note that the term “fashion cycle” is also used more generally to describe the periodic return of certain style trends, such as short or long hemlines, to the forefront of fashion, as well as the length of time between such stylistic revivals.

61. See, e.g., World Intellectual Prop. Org., *WIPO-Italy International Symposium on Intellectual Property and the Competitiveness of Small and Medium-Sized Enterprises in the Textile and Clothing Sectors*, http://www.wipo.int/meetings/2005/smes_qtc/en/ (Nov. 30–Dec. 2, 2005); World Trade Org., *WTO Trade Topics: Textiles Monitor Body (TMB)*, http://www.wto.org/english/tratop_e/texti_e/textintro_e.htm (last visited Aug. 23, 2006).

62. See, e.g., *Project Runway* (Miramax Television 2004–present); *Seamless* (Douglas Keeve Studios 2005).

63. See 17 U.S.C. §§ 302–305 (2004).

64. For current French law, see *supra* note 16. Under the U.K. Copyright, Designs, and Patents Act of 1988, textiles and artistic works qualify for copyright protection, while clothing may qualify for a more limited term of protection as either an unregistered (three years) or registered (up to twenty-five years) design. See U.K. Copyright, Designs, and Patents Act, 1988, c. 48, §§ 4, 12, 51 (copyright); *id.* §§ 213, 216 (unregistered design right); *id.* § 269 (registered design right). For recent analyses of U.K. law regarding the protection of fashion design, see, for example, *Lambretta Clothing Co. Ltd. v. Teddy Smith (UK) Ltd.*, [2004] EWCA (Civ) 886; Ulla Vad Lane-Rowley, *Using Design Protection in the Fashion and Textile Industry* (1997).

65. Council Regulation 6/2002/EC, 2002 O.J. (L 003) 1.

66. *Id.*

67. See Design Piracy Prohibition Act, H.R. 5055, 109th Cong. (2006).

68. *Id.*

69. 17 U.S.C. § 1305(a) (2004).

70. Hollander, *supra* note 6, at 87.

tions are in Australian dollars. We must assume that the clause “may have figured centrally in the parties’ negotiations and may have affected how they set monetary and other contractual terms; it may, in fact, have been a critical factor in their agreement to do business together in the first place.” *Atl. Marine*, 571 U.S. at 66, 134 S.Ct. 568. Further, LMIC issued the insurance policies to TFC and EcoSmart in Australia under its Australian trade name. Thus, even if litigating in Australia will be more costly for the Lewis family, Australia is not so remote from this insurance dispute to justify a different outcome.

* * *

As the Lewis family has not demonstrated that they will be deprived of their day in court if this claim is transferred to Australia, we have no grounds to conclude that Australian courts are an inadequate forum. Accordingly, the district court did not abuse its discretion in dismissing this case.

IV. CONCLUSION

Although we sympathize with the Lewis family, we cannot undo a binding obligation simply because its application may prolong or exacerbate suffering. The law compels us to apply the forum-selection clause.

AFFIRMED.



VIP PRODUCTS LLC, an Arizona limited liability company, Plaintiff-Counter-Defendant-Appellant,

v.

JACK DANIEL’S PROPERTIES, INC., a Delaware corporation, Defendant-Counter-Plaintiff-Appellee.

No. 18-16012

United States Court of Appeals,
Ninth Circuit.

Argued and Submitted February 7, 2020
Arizona State University, Phoenix

Filed March 31, 2020

Background: Dog toy seller brought action seeking declaratory judgment that its “Bad Spaniels Silly Squeaker” toy did not infringe whiskey manufacturer’s “Jack Daniel’s” trademark or, in alternative, that manufacturer’s trade dress and bottle design were not entitled to trademark protection. Manufacturer filed counterclaim alleging trademark infringement and dilution. The United States District Court for the District of Arizona, Stephen M. McNamee, Senior District Judge, entered summary judgment in manufacturer’s favor on the issues of aesthetic functionality and distinctiveness, 2016 WL 5408313, and, following bench trial, entered judgment in manufacturer’s favor, 291 F.Supp.3d 891. Seller appealed.

Holdings: The Court of Appeals, Hurwitz, Circuit Judge, held that:

- (1) manufacturer’s trade dress and bottle design were entitled to trademark protection;
- (2) seller failed to establish nominative fair use defense;
- (3) dog toy was expressive work protected by First Amendment; and
- (4) dog toy did not dilute manufacturer’s mark by tarnishment.

Affirmed in part, reversed in part, vacated in part, and remanded.

1. Federal Courts ⇨3567, 3604(4)

Court of Appeals reviews grant of summary judgment and district court's conclusions of law following bench trial de novo.

2. Federal Courts ⇨3603(2)

District court's findings of fact following bench trial are reviewed for clear error.

3. Trademarks ⇨1065(2, 3)

Whiskey manufacturer's trade dress and bottle design, taken together, were distinctive and aesthetically nonfunctional, and thus were entitled to trademark protection, even though other whiskey companies used many individual elements employed by manufacturer on their bottles, where manufacturer's trade dress was combination of bottle and label elements, including embossed signature design and "Jack Daniel's" and "Old No. 7" word marks.

4. Trademarks ⇨1523(3)

Dog toy seller failed to establish nominative fair use defense to whiskey manufacturer's claim that its "Bad Spaniels Silly Squeaker" toy infringed manufacturer's "Jack Daniel's" trademark, even though toy resembled manufacturer's trade dress and bottle design, where there were significant differences between them, most notably image of spaniel and phrases on "Bad Spaniels" label.

5. Trademarks ⇨1080

Likelihood-of-confusion test requires that plaintiff asserting trademark infringement claim have valid, protectable trademark and that defendant's use of mark is likely to cause confusion.

6. Trademarks ⇨1524(1)

Lanham Act only applies to expressive works if plaintiff establishes that defen-

dant's use of mark is either (1) not artistically relevant to underlying work or (2) explicitly misleads consumers as to work's source or content. Lanham Trade-Mark Act §§ 32, 43, 15 U.S.C.A. §§ 1114(1), 1125(a)(1).

7. Constitutional Law ⇨1604

Trademarks ⇨1524(2)

"Bad Spaniels" dog toy was expressive work protected by First Amendment, as required for *Rogers*, 875 F.2d 994, balancing test to apply to whiskey manufacturer's Lanham Act trademark infringement claim against toy seller, where toy communicated humorous message, using word play to alter serious phrase that appears on whiskey bottle—"Old No. 7 Brand"—with silly message—"The Old No. 2." U.S. Const. Amend. 1; Lanham Trade-Mark Act §§ 32, 43, 15 U.S.C.A. §§ 1114(1), 1125(a)(1).

8. Trademarks ⇨1469, 1524(1)

Use of mark is noncommercial, and thus cannot dilute by tarnishment, if it does more than propose commercial transaction, and contains some protected expression. Lanham Trade-Mark Act § 43, 15 U.S.C.A. § 1125(c)(3)(C); Ariz. Rev. Stat. Ann. § 44-1448.01(C)(2).

9. Constitutional Law ⇨1604

Trademarks ⇨1524(2)

"Bad Spaniels" dog toy was expressive work protected by First Amendment, and thus did not dilute whiskey manufacturer's "Jack Daniel's" mark by tarnishment, even though toy used manufacturer's trade dress and bottle design to sell "Bad Spaniels," where they were also used to convey humorous message. U.S. Const. Amend. 1; Lanham Trade-Mark Act § 43, 15 U.S.C.A. § 1125(c)(3)(C); Ariz. Rev. Stat. Ann. § 44-1448.01(C)(2).

Trademarks ⇨1800

Jack Daniel's

Trademarks ⇄ 1800

Old No. 7

Appeal from the United States District Court for the District of Arizona, Stephen M. McNamee, District Judge, Presiding, D.C. No. 2:14-cv-02057-SMM

David G. Bray (argued), David N. Ferrucci, and Holly M. Zoe, Dickinson Wright PLLC, Phoenix, Arizona, for Plaintiff-Counter-Defendant-Appellant.

D. Peter Harvey (argued), Harvey & Company, San Francisco, California; Isaac S. Crum, Rusing Lopez & Lizardi PLLC, Tucson, Arizona; for Defendant-Counter-Plaintiff-Appellee.

Before: A. WALLACE TASHIMA, ANDREW D. HURWITZ, and ERIC D. MILLER, Circuit Judges.

OPINION

HURWITZ, Circuit Judge:

VIP Products sells the “Bad Spaniels Silly Squeaker” dog toy, which resembles a bottle of Jack Daniel’s Old No. 7 Black Label Tennessee Whiskey, but has light-hearted, dog-related alterations. For example, the name “Jack Daniel’s” is replaced with “Bad Spaniels,” “Old No. 7” with “Old No. 2,” and alcohol content descriptions with “43% POO BY VOL.” and “100% SMELLY.” After Jack Daniel’s Properties, Inc. (“JDPI”) demanded that VIP cease selling the toy, VIP filed this action, seeking a declaration that the toy did not infringe JDPI’s trademark rights or, in the alternative, that Jack Daniel’s trade dress and bottle design were not entitled to trademark protection. JDPI counterclaimed, asserting trademark infringement and dilution. After ruling on cross-motions for summary judgment and conducting a four-day bench trial, the district court found in favor of JDPI and issued a permanent injunction enjoining

VIP from manufacturing and selling the Bad Spaniels toy.

We affirm the district court’s summary judgment in favor of JDPI on the issues of aesthetic functionality and distinctiveness. However, because the Bad Spaniels dog toy is an expressive work entitled to First Amendment protection, we reverse the district court’s judgment on the dilution claim, vacate the judgment on trademark infringement, and remand for further proceedings.

I**A. Factual Background**

VIP designs, markets, and sells “Silly Squeakers,” rubber dog toys that resemble the bottles of various well-known beverages, but with dog-related twists. One Silly Squeaker, for example, resembles a Mountain Dew bottle, but is labeled “Mountain Drool.” VIP’s purported goal in creating Silly Squeakers was to “reflect” “on the humanization of the dog in our lives,” and to comment on “corporations [that] take themselves very seriously.” Over a million Silly Squeakers were sold from 2007 to 2017.

In July of 2013, VIP introduced the Bad Spaniels squeaker toy. The toy is roughly in the shape of a Jack Daniel’s bottle and has an image of a spaniel over the words “Bad Spaniels.” The Jack Daniel’s label says, “Old No. 7 Brand Tennessee Sour Mash Whiskey;” the label on the Bad Spaniels toy instead has the phrase “the Old No. 2, on your Tennessee Carpet.” A tag affixed to the Bad Spaniels toy states that the “product is not affiliated with Jack Daniel Distillery.”

B. Procedural History

In 2014, JDPI “demand[ed] that VIP cease all further sales of the Bad Spaniels toy.” VIP responded by filing this action,

seeking a declaration that the Bad Spaniels toy “does not infringe or dilute any claimed trademark rights” of JDPI and that Jack Daniel’s trade dress and bottle design are not entitled to trademark protection. The complaint also sought cancellation of the Patent and Trademark Office registration for Jack Daniel’s bottle design. JDPI counterclaimed, alleging state and federal claims for infringement of JDPI’s trademarks and trade dress, *see* 15 U.S.C. §§ 1114(1), 1125(a)(1); A.R.S. §§ 44-1451, *et seq.*, and dilution by tarnishment of the trademarks and trade dress, *see* 15 U.S.C. § 1125(c); A.R.S. § 44-1448.01.

VIP moved for summary judgment, and JDPI cross-moved for partial summary judgment. The district court denied VIP’s motion and granted JDPI’s. The district court held that VIP was not entitled to the defenses of nominative and First Amendment fair use. The district court rejected the nominative fair use defense because VIP “did not use JDPI’s identical marks or trade dress in its Bad Spaniels toy.” The district court rejected JDPI’s First Amendment defense because the trade dress and bottle design were used “to promote a somewhat non-expressive, commercial product.”

The district court also found as a matter of law that Jack Daniel’s trade dress and bottle design were distinctive, non-generic, and nonfunctional, and therefore entitled to trademark protection. This left for trial only JDPI’s dilution by tarnishment claims and whether JDPI could establish the likelihood of confusion for trademark infringement. *See Kendall-Jackson Winery, Ltd. v. E. & J. Gallo Winery*, 150 F.3d 1042, 1046–47 (9th Cir. 1998) (“To state an infringement claim . . . a plaintiff must meet three basic elements: (1) distinctiveness, (2) nonfunctionality, and (3) likelihood of confusion.”).

After a four-day bench trial, the district court found that JDPI had established di-

lution by tarnishment and infringement of JDPI’s trademarks and trade dress. The court permanently enjoined VIP “from sourcing, manufacturing, advertising, promoting, displaying, shipping, importing, offering for sale, selling or distributing the Bad Spaniels dog toy.”

II

[1, 2] We have jurisdiction of VIP’s appeal under 28 U.S.C. § 1291. We review the grant of summary judgment and the district court’s conclusions of law following a bench trial *de novo*. *See Lenz v. Universal Music Corp.*, 815 F.3d 1145, 1150 (9th Cir. 2016); *Dolman v. Agee*, 157 F.3d 708, 711 (9th Cir. 1998). The “district court’s findings of fact following a bench trial are reviewed for clear error.” *Id.* at 711.

A. Aesthetic Functionality and Distinctiveness

To obtain trademark protection, a product’s trade dress or design must be non-functional and distinctive. *See Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 210, 120 S.Ct. 1339, 146 L.Ed.2d 182 (2000); *Talking Rain Beverage Co., Inc. v. S. Beach Beverage Co.*, 349 F.3d 601, 603 (9th Cir. 2003). “[T]he proper inquiry is not whether individual features of a product are functional or nondistinctive but whether the whole collection of features taken together are functional or nondistinctive.” *Kendall-Jackson Winery*, 150 F.3d at 1050.

[3] The district court correctly found Jack Daniel’s trade dress and bottle design are distinctive and aesthetically nonfunctional. Although whiskey companies use many of the individual elements employed by JDPI on their bottles, the Jack Daniel’s trade dress “is a combination [of] bottle and label elements,” including “the Jack Daniel’s and Old No. 7 word marks,” and the district court correctly found that

these elements *taken together* are both nonfunctional and distinctive. See *Tie Tech, Inc. v. Kinedyne Corp.*, 296 F.3d 778, 785 (9th Cir. 2002) (stating that “‘an assurance that a particular entity made, sponsored, or endorsed a product,’ . . . if incorporated into the product’s design by virtue of arbitrary embellishment” is not functional (quoting *Vuitton Et Fils S.A. v. J. Young Enters., Inc.*, 644 F.2d 769, 774 (9th Cir. 1981))).

VIP also failed to rebut the presumption of nonfunctionality and distinctiveness of the Jack Daniel’s bottle design, which is covered by Trademark Registration No. 4,106,178. See *Tie Tech*, 296 F.3d at 783 (“[T]he plaintiff in an infringement action with a registered mark is given the prima facie or presumptive advantage on the issue of validity, thus shifting the burden of production to the defendant to prove otherwise.”). None of the evidence cited by VIP demonstrates that, “taken together,” the elements of the bottle design registration—including “an embossed signature design comprised of the word ‘JACK DANIEL’”—are functional or nondistinctive. The district court therefore correctly rejected VIP’s request for cancellation of the registered mark.

B. Nominative Fair Use Defense

[4] The district court also correctly rejected VIP’s nominative fair use defense. Although the Bad Spaniels toy resembles JDPI’s trade dress and bottle design, there are significant differences between them, most notably the image of a spaniel and the phrases on the Bad Spaniels label. These differences preclude a finding of nominative fair use. See *Playboy Enters., Inc. v. Welles*, 279 F.3d 796, 801 (9th Cir. 2002); *E.S.S. Entm’t 2000, Inc. v. Rock Star Videos, Inc.*, 547 F.3d 1095, 1099 (9th Cir. 2008) (finding nominative fair use defense did not apply where mark was “not identical to the plaintiff’s” mark).

C. First Amendment Defense

[5] “In general, claims of trademark infringement under the Lanham Act are governed by a likelihood-of-confusion test,” *Twentieth Century Fox Television v. Empire Distribution, Inc.*, 875 F.3d 1192, 1196 (9th Cir. 2017), which seeks to strike the appropriate balance between the First Amendment and trademark rights, see *Gordon v. Drape Creative, Inc.*, 909 F.3d 257, 264 (9th Cir. 2018). The likelihood-of-confusion test requires that the plaintiff have “a valid, protectable trademark” and defendant’s “use of the mark is likely to cause confusion.” *S. Cal. Darts Ass’n v. Zaffina*, 762 F.3d 921, 929 (9th Cir. 2014) (quoting *Applied Info. Scis. Corp. v. eBay, Inc.*, 511 F.3d 966, 969 (9th Cir. 2007)).

[6] When “artistic expression is at issue,” however, the general likelihood-of-confusion test “fails to account for the full weight of the public’s interest in free expression.” *Gordon*, 909 F.3d at 264 (quoting *Mattel, Inc. v. MCA Records*, 296 F.3d 894, 900 (9th Cir. 2002)). Accordingly, we have held that the Lanham Act only applies to expressive works if the plaintiff establishes one of the two requirements in the test set forth in *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989). See *MCA Records*, 296 F.3d at 902 (adopting *Rogers* test for use of a trademark in the title of an expressive work); see also *Gordon*, 909 F.3d at 267 (noting that after *MCA Records*, this Court “extended the *Rogers* test beyond a title”). *Rogers* requires the plaintiff to show that the defendant’s use of the mark is either (1) “not artistically relevant to the underlying work” or (2) “explicitly misleads consumers as to the source or content of the work.” *Gordon*, 909 F.3d at 265.

In determining whether a work is expressive, we analyze whether the work is “communicating ideas or expressing points of view.” *MCA Records*, 296 F.3d at 900

(quoting *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26, 29 (1st Cir. 1987)). A work need not be the “expressive equal of *Anna Karenina* or *Citizen Kane*” to satisfy this requirement, *Brown v. Elec. Arts, Inc.*, 724 F.3d 1235, 1241 (9th Cir. 2013), and is not rendered non-expressive simply because it is sold commercially, see *MCA Records*, 296 F.3d at 906–07.

We recently had “little difficulty” concluding that greeting cards, which combined the trademarked phrases “Honey Badger Don’t Care” and “Honey Badger Don’t Give a S - - -” alongside announcements of events such as Halloween and a birthday, were “expressive works” entitled to First Amendment protection. *Gordon*, 909 F.3d at 261–63, 268. Even if the cards did not show great “creative artistry,” they were protected under the First Amendment because the cards “convey[ed] a humorous message through the juxtaposition of an event of some significance—a birthday, Halloween, an election—with the honey badger’s aggressive assertion of apathy.” *Id.* at 268–69.

[7] Like the greeting cards in *Gordon*, the Bad Spaniels dog toy, although surely not the equivalent of the *Mona Lisa*, is an expressive work. See *Empire Distribution*, 875 F.3d at 1196 (“We decide this legal question de novo.”). The toy communicates a “humorous message,” see *Gordon*, 909 at 268–69,, using word play to alter the serious phrase that appears on a Jack Daniel’s bottle—“Old No. 7 Brand”—with a silly message—“The Old No. 2.” The effect is “a simple” message conveyed by “juxtaposing the irreverent representation of the trademark with the idealized image created by the mark’s owner.” *L.L. Bean, Inc.*, 811 F.2d at 34 (affording First Amendment protection to a message “that business and product images need not always

be taken too seriously”). Unlike the book in *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394 (9th Cir. 1997), which made “no effort to create a transformative work with ‘new expression, meaning, or message,’” Bad Spaniels comments humorously on precisely those elements that Jack Daniels seeks to enforce here. *Id.* at 1401 (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578, 580, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994)). The fact that VIP chose to convey this humorous message through a dog toy is irrelevant. See *Hurley v. Irish-Am. Gay, Lesbian & Bisexual Grp. of Bos.*, 515 U.S. 557, 569, 115 S.Ct. 2338, 132 L.Ed.2d 487 (1995) (“[T]he Constitution looks beyond written or spoken words as mediums of expression.”).

The Fourth Circuit’s decision in *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007), supports our conclusion. That opinion held that dog toys which “loosely resemble[d]” small Louis Vuitton handbags were “successful parodies of LVM handbags and the LVM marks and trade dress” and therefore did not infringe the LVM trademark.¹ *Id.* at 258, 260, 263. The Fourth Circuit reasoned that although “[t]he dog toy is shaped roughly like a handbag; its name ‘Chewy Vuiton’ sounds like and rhymes with LOUIS VUITTON; its monogram CV mimics LVM’s LV mark; the repetitious design clearly imitates the design on the LVM handbag; and the coloring is similar,” “no one can doubt . . . that the ‘Chewy Vuiton’ dog toy is not the ‘idealized image’ of the mark created by LVM.” *Id.* at 260. No different conclusion is possible here.

Because Bad Spaniels is an expressive work, the district court erred in finding

1. The Fourth Circuit decision was based on likelihood of confusion, not the First Amendment, see *id.* at 259–60, as it had not yet

adopted the *Rogers* test, see *Radiance Found., Inc. v. NAACP*, 786 F.3d 316, 329 (4th Cir. 2015) (later applying it).

trademark infringement without first requiring JDPI to satisfy at least one of the two *Rogers* prongs. See *Gordon*, 909 F.3d at 265; see also *E.S.S. Entm't 2000*, 547 F.3d at 1101 (stating that “the First Amendment defense applies equally to . . . state law claims as to [a] Lanham Act claim”). We therefore vacate the district court’s finding of infringement and remand for a determination by that court in the first instance of whether JDPI can satisfy a prong of the *Rogers* test.²

D. Trademark Dilution by Tarnishment

[8] When the use of a mark is “non-commercial,” there can be no dilution by tarnishment. 15 U.S.C. § 1125(e)(3)(C); see A.R.S. § 44-1448.01(C)(2). Speech is non-commercial “if it does more than propose a commercial transaction,” *Nissan Motor Co. v. Nissan Comput. Corp.*, 378 F.3d 1002, 1017 (9th Cir. 2004) (quoting *MCA Records*, 296 F.3d at 906), and contains some “protected expression,” *MCA Records*, 296 F.3d at 906. Thus, use of a mark may be “noncommercial” even if used to “sell” a product. See *Nissan Motor Co.*, 378 F.3d at 1017; *MCA Records*, 296 F.3d at 906.

[9] Although VIP used JDPI’s trade dress and bottle design to sell Bad Spaniels, they were also used to convey a humorous message. That message, as set forth in Part II.C above, is protected by the First Amendment. VIP therefore was entitled to judgment in its favor on the federal and state law dilution claims. See

2. If the plaintiff satisfies one of the *Rogers* elements, “it still must prove that its trademark has been infringed by showing that the defendant’s use of the mark is likely to cause confusion.” See *Gordon*, 909 F.3d at 265; see also *Louis Vuitton Malletier*, 507 F.3d at 260 (noting that the application of likelihood-of-confusion factors “depend[s] to a great extent on whether its products and marks are successful parodies”).

Nissan Motor Co., 378 F.3d at 1017; *MCA Records*, 296 F.3d at 906.

III

We affirm the district court’s summary judgment in favor of JDPI on the issues of aesthetic functionality and distinctiveness, affirm the judgment as to the validity of JDPI’s registered mark, reverse the judgment on the issue of dilution, vacate the judgment after trial on the issue of infringement, and remand for further proceedings. The permanent injunction is vacated.³

AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, AND REMANDED. Each party to bear its own costs.



Jose Angel BANUELOS-Galviz, Petitioner,

v.

William P. BARR, Attorney General, Respondent.

No. 19-9517

United States Court of Appeals,
Tenth Circuit.

FILED March 25, 2020

Background: Alien filed petition for review of the decision of the Board of Immi-

3. Because we hold that VIP was entitled to judgment in its favor on the trademark dilution claims and that the judgment in favor of VIP on the infringement claims must be vacated, we do not address VIP’s alternative challenges to these claims. And, because we vacate the permanent injunction, we do not address VIP’s argument that the district court erred in not limiting the scope of the permanent injunction.

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

AMERICAN BROADCASTING
COMPANIES, INC., DISNEY
ENTERPRISES, INC., TWENTIETH
CENTURY FOX FILM CORPORATION,
CBS BROADCASTING INC., CBS
STUDIOS INC., FOX TELEVISION
STATIONS, LLC, FOX BROADCASTING
COMPANY, LLC, NBCUNIVERSAL
MEDIA, LLC, UNIVERSAL TELEVISION
LLC, and OPEN 4 BUSINESS
PRODUCTIONS, LLC,

Plaintiffs,

v.

DAVID R. GOODFRIEND and SPORTS
FANS COALITION NY, INC.,

Defendants.

Case No. 19-cv-7136-LLS

JURY TRIAL DEMANDED

ANSWER AND COUNTERCLAIMS

Defendants David R. Goodfriend (“Mr. Goodfriend”) and Sports Fans Coalition NY, Inc. (“SFCNY”) (together, “Defendants”) hereby answer the Complaint for Damages and Injunctive Relief (“Complaint”) by Plaintiffs American Broadcasting Companies, Inc., Disney Enterprises, Inc., Twentieth Century Fox Film Corporation, CBS Broadcasting Inc., CBS Studios Inc., Fox Television Stations, LLC, Fox Broadcasting Company, LLC, NBCUniversal Media, LLC, Universal Television LLC, and Open 4 Business Productions, LLC (collectively, “Plaintiffs”).

Every American has the right to access broadcast television for free, and SFCNY is a 501(c)(3) non-profit organization that operates Locast, a public service that provides local broadcast signals over the internet to American consumers in thirteen cities.

Plaintiffs' claims against SFCNY and Mr. Goodfriend are objectively baseless and constitute an unlawful sham. This case involves the application of unambiguous statutory language. Specifically, the Copyright Act, 17 U.S.C. § 111(a)(5), provides that "it is not an infringement of copyright" when a "non-profit organization" makes a secondary transmission of a performance of a copyrighted work, "without any purpose of direct or indirect commercial advantage, and without charge to the recipients of the secondary transmission other than assessments necessary to defray the actual and reasonable costs of maintaining and operating the secondary transmission service." Locast fits squarely within this Congressionally-designated exception to infringement.

Additionally, Plaintiffs' claims against Mr. Goodfriend in his personal capacity are impermissible as a matter of law because he serves SFCNY without compensation. This personal immunity is set out clearly in New York Not-For-Profit Corporation Law § 720-a, which provides that no person serving without compensation as a director or officer of a 501(c)(3) non-profit shall be liable based solely on his conduct in the execution of such office unless the conduct constituted gross negligence or was intended to cause the resulting harm to the person asserting such liability. Mr. Goodfriend is an unpaid officer and director of SFCNY—a fact that is publicly available and of which Plaintiffs are fully aware. His conduct has been wholly lawful and in pursuit of the public interest. No litigant could reasonably believe that it would succeed on the merits in a case asserting these claims, given the clarity of the law.

Plaintiffs' litigation is meant to intimidate Defendants into shuttering the Locast service—and should that strategy not work, to bury Defendants under costly and needless litigation. Although the service was launched in January 2018, Plaintiffs delayed filing suit, or raising any legal concerns whatsoever, until July 2019. Plaintiffs have colluded to limit the reasonable public

access to the over-the-air signals that they are statutorily required to make available for free, and have opted instead to use their copyrights improperly to construct and protect a pay-TV model that forces consumers to forgo over-the-air programming or to pay cable, satellite, and online providers for access to programming that was intended to be free. A large portion of the fees paid by the public is then handed over to Plaintiffs in the form of retransmission consent fees.

This is classic copyright abuse. By limiting access to the over-the-air signals that Plaintiffs have committed to make freely available, and simultaneously using the copyrights in their programming to drive revenue for the local programming that consumers cannot now effectively receive over the air through their pay-TV model, Plaintiffs have colluded and misused copyrights to expand their market power beyond what those copyrights were intended to protect. The pay-TV providers get rich. Plaintiffs get rich. The public gets fleeced.

Locast is *lawfully* providing better and cheaper service to consumers who cannot receive quality broadcast signals and, in the process, threatening the dominance of ABC, CBS, FOX, and NBC in a market that generated nearly \$11 billion in revenue last year (up sharply from roughly \$215 million in 2006). Plaintiffs have admitted as much in their Complaint, where they argue that they have sued SFCNY because Locast's service is devaluing their consent rights. Compl. ¶ 8.

Plaintiffs' bad faith litigation is part of a broader coordinated campaign to undermine Defendants' business dealings and chill financial support among potential donors, including with direct threats of retaliation or baseless litigation against them. These threats have harmed competition and will continue to do so until stopped by this Court. They have also injured Defendants, as several current and prospective SFCNY donors and business partners have put their relationships on hold after commencement of this litigation. This litigation also has injured and threatens to continue injury to Mr. Goodfriend, personally, in at least the loss of reputation.