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ARTICLES

“CAN I PROFIT FROM MY OWN NAME AND LIKENESS AS A COLLEGE ATHLETE?”

THE PREDICTIVE LEGAL ANALYTICS OF A COLLEGE PLAYER’S PUBLICITY RIGHTS VS. FIRST AMENDMENT RIGHTS OF OTHERS

ROGER M. GROVES*

A seven-minute rap music video by Sir Mix-A-Lot called “Baby Got Back” was mixed with music by the Seattle Symphony.¹ The atypical concoction went viral on YouTube. There were more than 1.5 million views in five days in June 2014.² Imagine if a college athlete on scholarship created such a video, incorporating his musical talent with his own end-zone dance, or spin move on the basketball court. Would he be able to profit from that video and retain his eligibility in the sport that brought him fame? Would he be able to keep others from profiting from his video without his permission? Those are the unresolved issues explored in this Article.

INTRODUCTION

In 2013, the law experienced something that had not happened in all of prior legal history. In that year, two federal cases provided a blueprint for whether collegiate athletes have rights in their name, image, and likeness (“NIL” also termed “publicity rights”) that is superior to the First Amendment rights of those who use the NIL without their permission.³

The cases established legal tests for determining if a celebrity, athlete, or entertainer can make claims under his or her publicity rights to enjoin an unauthorized producer of a work and claim damages for profits derived from that work.⁴

* Roger M. Groves is a Professor of Law and Director of the Business Law Certificate Program at Florida Coastal School of Law. He is a former tax judge and equity partner in Howard & Howard Attorneys, P.C. and weekly contributor to *Forbes’ SportsMoney*.

1. See Michael Cooper, *A Symphony’s Viral Video, Debating Seattle Orchestra’s Foray with Sir Mix-A-Lot*, N.Y. TIMES, June 11, 2014, at C1.

2. See *id.*

3. See *infra* Part III (discussing a more detailed definition of “publicity rights”).

4. See generally *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268 (9th Cir. 2013); *Hart v. Electr.*

But those cases still leave many untested applications to new facts—facts that the courts have not faced. Particularly intriguing is how twenty-first century technology will apply to this area in future litigation. No publicity right, case, or article to date has explored the application of predictive analytics, computer programs, algorithms, and the discovery issues of electronically stored information.⁵ This Article does just that—explores the substance of the tests, the implications of those tests for future cases, and how algorithms may become an integral and important part of those controversies. This is one of the future battlegrounds for this rather unique and emerging body of law.

The above referenced cases are *Hart v. Electronic Arts, Inc.*, and *Keller v. Electronic Arts, Inc.*⁶ Both cases involve quarterbacks for universities whose football teams and players are regulated in large part by the National Collegiate Athletic Association (“NCAA”).⁷

A third case with larger public name recognition is *O’Bannon v. NCAA*.⁸ The trial in this case concluded on June 27, 2014.⁹ *O’Bannon* also involves the NIL of former college athletes, and current college athletes.¹⁰ Due to the pretrial

Arts, Inc., 717 F.3d 141 (3d Cir. 2013).

5. Predictive Analytics has been defined as follows: “The use of statistics and modeling to determine future performance based on current and historical data. Predictive analytics look at patterns in data to determine if those patterns are likely to emerge again, which allows businesses and investors to adjust where they use their resources in order to take advantage of possible future events.” *Predictive Analytics*, INVESTOPEDIA.COM, <http://www.investopedia.com/terms/p/predictive-analytics.asp> (last visited June 1, 2014), *archived at* <http://perma.cc/HAN4-GCAH>.

6. See *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141. Both cases had not reached final rulings in these reported cases but ultimately settled.

7. Ryan Hart was a quarterback for Rutgers University for the 2002 through 2005 seasons. *Hart*, 717 F.3d at 145-146. Sam Keller was a quarterback for Arizona State University and Nebraska. *Keller*, 724 F.3d at 1271. The NCAA is a private and voluntary yet regulatory association of colleges and universities. The schools have agreed to abide by certain rules that are uniform within each of three divisions. MATTHEW MITTEN ET AL., *SPORTS LAW AND REGULATION* 99 (Wolters Kluwer, 3d ed. 2013).

8. The first published opinion in this five-year litany was *O’Bannon v. NCAA*, No. C 09-3329 CW, 2009 U.S. Dist. LEXIS 122205 (N.D. Cal. Dec. 11, 2009).

9. The trial lasted fifteen days after five years of preliminary sparring among the parties. See Steve Berkowitz, *Closing Briefs Are In; O’Bannon Case in Hands of Judge*, USA TODAY (July 11, 2014, 10:21 AM), <http://www.usatoday.com/story/sports/college/2014/07/10/ed-obannon-antitrust-case-against-ncaa-closing-judge-claudia-wilken/12510271/>, *archived at* <http://perma.cc/7SSC-BNEE>.

10. See Steve Berkowitz, *Judge will Allow Player to Join O’Bannon Suit*, USA TODAY (July 5, 2013, 6:24 PM), <http://www.usatoday.com/story/sports/college/2013/07/05/ed-obannon-ncaa-likeness-lawsuit/2492981/>, *archived at* <http://perma.cc/T3FB-BMQG>; see also Roger Groves, *Little Known Federal Court Ruling Hints At NCAA Showdown With Current Student Athletes*, FORBES (July 10, 2013, 10:04 PM), <http://www.forbes.com/sites/rogergroves/2013/07/10/little-known-federal-court-ruling-hints-at-ncaa-showdown-with-current-student-athletes/>, *archived at* <http://perma.cc/8ZKK-JJT2> (noting the inclusion of current players in lawsuit).

settlement of publicity rights issues, the only issue was whether the defendants violated antitrust laws.¹¹ On August 8, 2014, Judge Claudia Wilken issued a ninety-nine page opinion holding that the NCAA cannot form agreements with its member institutions to prohibit players from receiving *any* money from their NILs while playing for the school.¹² In antitrust terms, this is an unreasonable restraint of trade.¹³ Judge Wilken held that NCAA rules that prevent college players from sharing at all in the revenue unlawfully restrains price competition among FBS football and Division 1 basketball schools.¹⁴

The publicity rights portion of *O'Bannon* was resolved through a negotiated settlement of \$20 million to the plaintiffs.¹⁵ *Hart* and *Keller* had been consolidated with *O'Bannon* in anticipation of trial, but a settlement was reached with the non-NCAA defendants, video game manufacturer Electronic Arts, Inc., and the NCAA licensing partner, CLC.¹⁶ The NCAA was the last defendant to settle on the publicity rights claims.¹⁷

This Article is focused entirely on the battle between athlete's NIL/publicity rights and the First Amendment rights of those who use those rights in their own works or products. The aforementioned publicity rights settlements predictably do not provide any admission of liability or wrongdoing by the NCAA or any other defendants. Therefore, the primary source of legal authority and precedent on the publicity rights issues reside in the *Hart* and *Keller* opinions discussed in this Article.

In all three cases, the athletes abided by the NCAA rules that required that they refrain from taking advantage of their relative fame through licensing their NILs or otherwise being paid in any form, directly or indirectly from the sport.¹⁸ In all three cases, the NCAA and its licensee partners gained substantial revenue

11. The plaintiffs claim the NCAA and its venture partners in video games engaged in price fixing, inter alia, in violation of Section 1 of the Sherman Act. *O'Bannon*, 2009 U.S. Dist. LEXIS 122205, at *3.

12. *O'Bannon v. Nat'l Collegiate Athletic Assoc.*, No. C 09-3329 CW (N.D. Cal. Aug. 8, 2014), available at <http://i.usatoday.net/sports/Investigations-and-enterprise/OBANNONRULING.pdf>, archived at <http://perma.cc/HA63-PKYE>.

13. See *O'Bannon*, 2009 U.S. Dist. LEXIS 122205, at *3-4.

14. See *id.*

15. The settlement may have been reached in dramatic fashion reminiscent of old television scripts at the steps of the courthouse the day of trial. In fact, the settlement was not announced until the opening minutes of the first day of trial: June 9, 2014. See Sharon Terlep, *NCAA to Pay Ex-Athletes \$20 Million To Settle Suit*, WALL ST. J., June 11, 2014, at B-1.

16. See Sharon Terlep, *NCAA reaches \$20 Million settlement with Ex-Players Over videogames*, WALL ST. J. (June 9, 2014), <http://online.wsj.com/articles/ncaa-unveils-20-million-settlement-with-ex-players-over-videogames-1402330931>, archived at <http://perma.cc/2TZ5-QDUL>.

17. *Id.*

18. *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268 (9th Cir. 2013); *Hart v. Electr. Arts, Inc.*, 717 F.3d 141 (3d Cir. 2013).

using the NILs of the athletes.¹⁹ Furthermore, in all three cases the athletes did not receive proceeds from the licensing or use of their NILs from the NCAA or its partners before or after the collegiate eligibility expired.²⁰

O'Bannon is particularly relevant to this Article because it is the landmark holding of the fundamental point that the NCAA cannot form agreements to deny collegiate athletes (current and former) all proceeds from the players' own NILs.²¹ That quite clearly means that these athletes have a legal right to share the revenue generated from the use of their NILs.²²

Yet it is important to distinguish *O'Bannon* on other grounds. The antitrust issues faced in that case have separate legal standards designed to achieve a different legal result—to determine whether anticompetitive aspects of NCAA rules are an unlawful restraint of trade.²³ *Hart* and *Keller* involve standard publicity right claims that are dependent on misappropriation of intellectual property, as discussed in detail below.²⁴ So while *O'Bannon* authorizes the NCAA and its member schools to share licensed revenue from players' NILs, form rules to cap amounts received, and provide only equal amounts to players from licensed NIL revenue, those allowances were only designed to meet antitrust standards.²⁵ The court was not facing the misappropriation of NIL claims existing in *Hart* and *Keller*.²⁶ In fact, individualized damages were no longer before Judge Wilken in *O'Bannon*.²⁷

This Article will examine in detail the historic underpinnings for the relationship between athlete and NCAA (Part I), the legal precedents giving rise to publicity rights for athletes (Parts II-III), and the most recent standards used to decide whether athletes' publicity rights trump the First Amendment rights of the users of their NILs (Parts IV-VI). The discussion then turns to the implications of the theories and practical application, including opportunities for predictive analytics to be part of the sophisticated handling of such cases (Section VIII). The question of whether antitrust laws prohibit the NCAA and related party use of the NILs is outside the scope of this Article.²⁸

19. See *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141; *O'Bannon*, 2009 U.S. Dist. LEXIS 122205.

20. See *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141; *O'Bannon*, 2009 U.S. Dist. LEXIS 122205.

21. See *O'Bannon v. Nat'l Collegiate Athletic Assoc.*, No. C 09-3329 CW, 2010 WL 445190, at *98 (N.D. Cal. Aug. 8, 2014), available at <http://i.usatoday.net/sports/Investigations-and-enterprise/OBANNONRULING.pdf>, archived at <http://perma.cc/TF7A-3S57>.

22. *Id.*

23. *Id.*

24. See *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141.

25. See *O'Bannon*, 2010 WL 445190, at *95-97.

26. See *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141.

27. Judge Wilken noted the plaintiffs were “only seeking to enjoin restrictions on the sharing of group licensing revenue,” not traditional damages to recoup profits from the unauthorized use of player NIL. See *O'Bannon*, 2010 WL 445190, at *97.

28. *O'Bannon v. NCAA* is the lead case on whether the NCAA violated antitrust law in

I. THE NCAA RELATIONSHIP WITH THE ATHLETE'S PUBLICITY RIGHTS

The NCAA has a contractual relationship with colleges and universities, both termed "member institutions."²⁹ Both the NCAA and its member institutions secure a contractual obligation from the athlete to refuse the commercial exploitation of his own NIL while performing as an "amateur" at the institution.³⁰ The most pertinent provisions of the NCAA bylaws state that an athlete loses his amateur status and scholarship opportunity to play college sports if the athlete either "uses his . . . athletics skill (directly or indirectly) for pay in any form in that sport,"³¹ or "accepts any remuneration or permits the use of his . . . name or picture to advertise, recommend or promote directly the sale or use of a commercial product or service of any kind."³²

The scholarship athlete performing in NCAA-sanctioned sports, like football or basketball, therefore cannot profit from, and more literally, receive *any* money from his own name or picture for commercial products or services.³³ This means he cannot license his name, for example, to promote Gatorade or some other sports drink, or Nike shoes.

Importantly, neither of those provisions expressly prohibits any other entity from using and deriving revenue from the athlete's name or likeness.³⁴ That ambiguity is part of what gives rise to the litigation in *Hart* and *Keller*.³⁵ Those cases center not on the actual attempts by the quarterbacks to profit from their own names,³⁶ but whether New Age Athletes can prohibit the NCAA, its licensing partners, and video game manufacturers from profiting from their NILs.³⁷

denying the plaintiff athletes their use of their NILs. The parties are awaiting a final decision and order.

29. See *Who We Are*, NCAA, <http://www.ncaa.org/about/who-we-are/membership> (last visited July 14, 2014), archived at <http://perma.cc/N9DA-RRH5>.

30. Article 12 of the NCAA bylaws codifies its rules of amateurism that the athlete must agree to be so governed. NCAA, 2011-12 NCAA DIVISION I MANUAL § 12.01.1 (2011), available at <http://saas.usc.edu/files/2012/08/NCAA-2011-12-Manual.pdf>, archived at <http://perma.cc/RM99-B6V7>.

31. *Id.* § 12.1.2(a).

32. *Id.* § 12.5.2.1.

33. *Id.*

34. *Id.* §§ 12.1.2, 12.5.2.1.

35. See *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268 (9th Cir. 2013); *Hart v. Electr. Arts, Inc.*, 717 F.3d 141 (3d Cir. 2013).

36. See *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141.

37. This Author's symbiotic term for these plaintiffs as "New Age Athletes" reflects the growing entrepreneurial enlightenment of professional athletes, who in this context seek to exploit their own name and likeness rather than acquiesce to exploitation by others. A broader definition, including social entrepreneurial acumen is contained in Roger M. Groves, *New Age Athletes as Social Entrepreneurs: Proposing A Philanthropic Paradigm Shift And Creative Use of Limited*

II. THE ATHLETE'S PUBLICITY RIGHTS DEFINED

While this Article is confined to publicity rights of college athletes, perhaps the most comprehensive and binding definition of publicity rights is found in professional sports—the National Football League (“NFL”). A collective bargaining agreement is executed between the NFL and the players through their collective bargaining agent, the NFL Players Association (“NFLPA”).³⁸

The description of those rights is most succinctly stated in the following provision:

Player hereby grants to Club and League . . . the right and authority to use . . . his name, nickname, initials, likeness, image, picture, photograph, animation, persona, autograph/signature (including facsimiles thereof), voice, biographical information and/or any and all other identifying characteristics (collectively, ‘Publicity Rights’)³⁹

There are no apparent loopholes or gaps in what comprises publicity rights.⁴⁰ In *Hart*, the defendants acknowledged that the athletes had those rights without attempting to carve out exceptions.⁴¹ Rather, the defendants argued that those rights were unenforceable because the defendants’ First Amendment rights override the athletes’ publicity rights.⁴²

Celebrities, including athletes, have publicity rights as a matter of common law and statutory law in some states.⁴³ Such rights however are subject to limitations.⁴⁴ Courts have recognized that in the public interest, people may lawfully appropriate and publish the image of another so long as the publication reports factual information, newsworthy items, or subjects within the public’s interest.⁴⁵ Such limitations affect collegiate and professional athlete’s rights to publicity as they are typically the subject of newsworthy items and factual information contained in the statistics of the player or team.⁴⁶

This Article, however, involves far more than factual news items. In *Keller*,

Liability Company Joint Ventures, 11 WAKE FOREST J. BUS. & INTELL. PROP. L. 213 (2011).

38. NATIONAL FOOTBALL LEAGUE, COLLECTIVE BARGAINING AGREEMENT 5 (2011), available at <https://nflabor.files.wordpress.com/2010/01/collective-bargaining-agreement-2011-2020.pdf>, archived at <http://perma.cc/K4KN-7EQV>.

39. *Id.* at 256.

40. *See id.*

41. *Hart v. Electr. Arts, Inc.*, 717 F.3d 141, 148 (3d Cir. 2013).

42. *Id.* at 148-49. The Court in *Keller* stated the publicity claims in both cases were “materially identical” and that *Keller* is merely “incarnated in California” as opposed to the Third Circuit battle of *Hart* in New Jersey. *See Keller v. Electr. Arts, Inc.*, 724 F.3d 1268, 1277 (9th Cir. 2013).

43. *See Hart*, 717 F.3d at 150.

44. *Id.*

45. *See Keller*, 724 F.3d at 1283.

46. *Id.*

the court resoundingly rejected the newsworthy exception defense by the defendant users of the athlete's NIL.⁴⁷ Rather than a means of reporting "factual data" about a real event, the court characterized the work as merely a means of glorifying its own virtual games.⁴⁸ The break with factual reporting of reality was most evident from the video game's omission of Keller's name.⁴⁹ In the court's words:

EA can hardly be considered to be "reporting" on *Keller's* career at Arizona State and Nebraska when it is not even using *Keller's* name in connection with his avatar in the game. Put simply, EA's interactive game is not a publication of facts about college football; it is a game, not a reference source. These state law defenses, therefore, do not apply.⁵⁰

The foregoing leads this author to conclude that publicity rights as applied to collegiate athletes includes the broad based definition already used in the NFL. Similarly, the athletes' rights are limited by the newsworthy carve out in the public interest.

III. FOUNDATIONAL UNDERPINNING FOR ATHLETIC IP PROTECTIONS

A. Right of Privacy

The legal authority of one person to prevent others from using his or her NIL dates back to at least 1905.⁵¹ The issue concerned unauthorized advertisements.⁵² The legal theory was based on a right of privacy.⁵³ The privacy right is intuitively difficult for athletes since they voluntarily seek publicity, not privacy, and profit from the very public celebrity status. So when the college football program of Texas Christian University, in 1939, included the picture of All-American quarterback Davey O'Brien, the Court was not sympathetic to his attempt to enjoin the defendant from using his NIL for profit.⁵⁴ The Court noted that O'Brien had given prior authorizations of his picture to many other media and individuals.⁵⁵ In the Court's view, that left him with no independent legal right to the commercial value of his name and likeness.⁵⁶ In particular, O'Brien

47. *Id.* at 1283-84.

48. *See id.* at 1283.

49. *Id.*

50. *Id.*

51. *Pavesich v. New England Life Ins.*, 50 S.E. 68, 68 (Ga. 1905).

52. *See id.* at 68.

53. *Id.* at 69.

54. *O'Brien v. Pabst Sales*, 124 F.2d 167, 169 (1941).

55. *Id.* at 169-70.

56. *Id.* at 170; *see also* *Hanna Mfg. v. Hillerich & Bradsby*, 78 F.2d 763, 768 (1935) (holding a manufacturer's patent invalid because it violated a competitor's property rights by using the names of athletes who contracted with the competitor).

objected to his picture alongside a glass of Pabst Blue Ribbon beer.⁵⁷

O'Brien is instructive in understanding the detrimental legal effect of having the publicity right grounded in the right of privacy rather than a property right. If the publicity rights emanate from “privacy,” that right is more easily defeated by a voluntary exposure to others. Obviously, the privacy is eliminated on the celebrity’s own volition. That was the predictable result in *O'Brien*.

But a right based on property rights should not hinge on exposure to the public any more than letting the public know you are a homeowner. The exposure to the public of that property does not authorize the public or anyone else to use it without your permission.⁵⁸ Thus, the publicity rights asserted by the athletes in *Hart* and *Keller* have grounded their claims in their property interests.⁵⁹ The economic value of those rights include preventing the unauthorized use and appropriation of those NIL rights. In theory, one has the exclusive right to the fruits of his image for they are the result of his own efforts.⁶⁰ Tort law seeks to protect one’s economic interest in his image by recognizing that one has the right in his own publicity, which provides a remedy for misappropriation of one’s image.⁶¹ The plaintiff athletes therefore have a stronger basis to prevail over First Amendment advocates with the property rights basis than the privacy basis noted in prior iterations of publicity rights.

B. Publicity Rights as a Property Interest

Several cases have now established that a right of publicity is available to celebrities, including athletes, quite apart from a right of privacy.⁶² The court in *Hart* relied upon the Restatement (Second) of Torts, particularly the comment that “the right created by the rule [liability for appropriating the name or likeness of another] is in the nature of a property right.”⁶³ In doing so, the court reached back to a 1907 case, where a New Jersey court enjoined a company from using the name and likeness of Thomas Edison to promote its products.⁶⁴ The court rhetorically asked why the “peculiar cast of one’s features is not one’s property . . . rather than to the person seeking to make an unauthorized use of it.”⁶⁵ The court in *Hart* took that implicitly to mean the *Edison* court recognized that “an individual enjoyed a property interest in his or her identity.”⁶⁶

The distinction between basing publicity rights in property rather than

57. *O'Brien*, 124 F.2d at 168.

58. *Hart v. Electr. Arts, Inc.*, 717 F.3d 141, 150 (3d Cir. 2013).

59. *See id.* at 150-51; *see also Keller v. Electr. Arts, Inc.*, 724 F.3d 1268, 1283 (9th Cir. 2013).

60. *Hart*, 717 F.3d at 151.

61. *Id.*

62. *See id.* at 150 (providing a history of the right to privacy).

63. *Id.* at 151 (citing RESTATEMENT SECOND OF TORTS § 652C (1977)).

64. *Edison v. Edison Polyform Mfg. Co.*, 73 N.J. Eq. 136, 140 (N.J. Ch. 1907).

65. *Id.* at 141.

66. *Hart*, 717 F.3d at 150.

privacy is important because as discussed above, a privacy right can easily give way to other types of protected interests when the privacy claimant thrusts himself or herself into the public eye. As stated in *Hart*, “a man in public life may not claim the same immunity from publicity that a private citizen may.”⁶⁷ A property interest, in this author’s view, has a greater sense of permanence since it does not change when it is exposed to the public. For example, a house does not lose its character as property just because it is exposed to the public voluntarily by its owner.

The court in *Hart* cited a seminal case by the highest court in New Jersey for this same proposition—that the right to one name and reputation has immutable characteristics, and those characteristics are not altered just because they are publicized.⁶⁸ “It is unfair that one should be permitted to commercialize or exploit or capitalize upon another’s name, reputation or accomplishments merely because the owner’s accomplishments have been highly publicized.”⁶⁹ The casting of the publicity right as a property interest is corroborated by the *Hart* court’s use of the term “misappropriation” of the right of publicity, much like misappropriation of other forms of real and personal property, or the misappropriation of corporate assets, which is comprised of both tangible and intangible property.⁷⁰

The property right underpinning is also valuable because it is a more direct tie to economic rights. The United States Supreme Court highlighted that point in the case discussed immediately below.

C. Case Law and Implications for Future Cases

The cornerstone case for establishing the right of publicity was the United States Supreme Court decision in *Zacchini v. Scripps-Howard Broadcasting*.⁷¹ After nearly four decades, this case is still the only occasion where the nation’s highest court has directly addressed the First Amendment juxtaposed against the right of publicity.⁷² The purported owner of the publicity rights was not an athlete, but an entertainer.⁷³ Hugo Zacchini was a “human cannonball” that was shot from a cannon into a net some 200 feet away at an Ohio state fair.⁷⁴ A television reporter filmed the fifteen-second performance in its entirety.⁷⁵ The

67. *Id.* (citing *Edison*, 73 N.J. Eq. at 140).

68. *Id.* at 151 (citing *Palmer v. Schonhorn Enters.*, 232 A.2d 458, 462 (N.J. Super. Ct. Ch. Div. 1967)).

69. *Palmer*, 232 A.2d at 462.

70. *Hart*, 717 F.3d at 150.

71. *See generally* *Zacchini v. Scripps-Howard Broad.*, 433 U.S. 562 (1977) (discussing the establishment of the right of publicity).

72. *Id.* at 567-68.

73. *Id.* at 563.

74. *Id.*

75. *Id.* at 564.

show then aired on the local television station.⁷⁶ The station claimed the airing was protected from publicity rights claims by its First Amendment rights.⁷⁷

The Court held the entertainer's right of publicity outweighed the broadcaster's First Amendment rights.⁷⁸ A key passage of the rationale is: "The broadcast of a film of petitioner's entire act poses a substantial threat to the *economic value* of that performance . . . [T]his act is the product of [Zacchini's] own talents and energy, the end result of much *time, effort, and expense*."⁷⁹

As will be discussed in greater detail below, federal courts have recently declared that college and former college athletes also have rights of publicity.⁸⁰ They too have claimed that unauthorized users—the NCAA and video game manufacturers—have created near-identical usage of their performances.⁸¹

The other noteworthy component of *Zacchini* is the recognized importance of the publicity rights claimant's "time, effort, and expense."⁸² As the facts in *Hart* and *Keller* will reveal, the video game depiction of the athletes highlighted their skills, which like *Zacchini*, was a culmination of time and effort, and shared expense.⁸³ The video games, like the television broadcast, are arguably a "substantial threat" to the "economic value" of the athletes' performance, although not a complete airing of a game.⁸⁴

The extent of the time, effort and expense has been recently exposed when Northwestern University football players asserted they were "employees" with a right to collectively bargain for their working conditions under the National Labor Relations Act.⁸⁵ The players prevailed before the administrative law judge.⁸⁶ The ALJ's findings included the following facts:

1. The players spent 50-60 hours a week on their "football duties" during the one month training camp before the school year even started.
2. The players spent an additional 40-50 hours a week on football duties

76. *Id.*

77. *Id.*

78. *Id.* at 575.

79. *Id.* (emphasis added).

80. *See Keller v. Electr. Arts, Inc.*, 724 F.3d 1268, 1273 (9th Cir. 2013); *Hart v. Electr. Arts, Inc.*, 717 F.3d 141, 149 (3d Cir. 2013).

81. *See Keller*, 724 F.3d at 1272.

82. *See Zacchini*, 433 U.S. at 562 (discussing the establishment of the right of publicity).

83. *Id.*

84. Obviously the institution that provides a scholarship has an expense to help hone the skills of the athlete. There are no cases suggesting that the cost of a scholarship, however, nullifies the NIL of the athlete, or the fame that the fans bestow on that athlete. *See id.* (discussing that the broadcasting of a film poses a substantial threat to economic value).

85. Northwestern Univ. and Coll. Athletes Players Ass'n (CAPA), 13-RC-121359 N.L.R.B. 2 (2014), available at <http://www.nlr.gov/sites/default/files/attachments/basic-page/node-1727/stylemanual.pdf>, archived at <http://perma.cc/VVW5-6F87>.

86. The administrative law judge was Peter Sung Ohr, regional director of the National Labor Relations Board Region 13, in Chicago, Illinois.

during the 4-5 month football season.

3. The football hour commitments were “more hours than many undisputed full-time employees work at their jobs.”

4. The football duties involved “*many* more hours than the players spend on their studies.”⁸⁷

During the training camp, for example, the student athletes did not attend classes.⁸⁸ Even during the academic school year, players spent twenty hours a week in class, and over twice as much time engaging in football duties.⁸⁹ Even incorporating study time for class, the administrative law judge was not convinced that academics were “primary.”⁹⁰

The amount of time and training spent by college football players provides a compelling argument that they develop a skill level that brings great praise from the sports fan and fame to the athlete. Indeed, since the United States is the primary venue for this version of football, a reasonable contention is that these eighteen- to twenty-one-year-olds are the most skilled on the planet at their age.

The uniqueness and scarcity of supply leads to the economic and rational conclusion that they are in high demand, with significant economic value associated with their evolved skill. This supports the notion that these college football and basketball players can reach celebrity status and valuable publicity rights on par or beyond those of the human cannonball in *Zacchini*.

Conversely, a distinction can be made between an individual who is solely responsible for the entire performance, as was the human cannonball in *Zacchini*, and the college players in a *team* sport like football or basketball. A team sport involves a synergy among players. They all contribute to a product that is greater than the sum of the individual parts, much like the combined connectivity of electronics and cabling exceeds the value of those same items individually for a cable company.

While there is compelling logic to that point, the distinction is more a matter of degree, not of kind. In both team sports and an individualized entertainer’s performance, the acts are still uniquely associated with talent and skill capable of being separated from the First Amendment rights of users of the celebrity. The litmus test really emanates from the public. Sports fans decide by their actions whether to single out someone for fanatical praise. They vote by their purchase of things such as jerseys with the name or number of a particular jersey. They vote by paying to attend or send their children to attend camps featuring that player. But for the NCAA rule, there could be many other occasions where the collegiate athlete uses his NIL for public consumption. The market for his celebrity then would decide individualized economic value from the publicity

87. Northwestern Univ. and Coll. Athletes Players Ass’n (CAPA), 13-RC-121359 N.L.R.B. 15-16 (2014), available at <http://www.nlr.gov/sites/default/files/attachments/basic-page/node-1727/stylemanual.pdf>, archived at <http://perma.cc/VVW5-6F87>.

88. *Id.* at 18.

89. *Id.*

90. *Id.*

rights of that particular athlete. This would be the case regardless of whether the athlete had performed in the sport alone or with other athletes.

Additionally, other difficult allocations are made in the professional world. It is now commonplace that highly paid executives and board members of major corporations develop formulas to determine bonuses for individuals based upon a rather nebulous, tenuous, and unscientific attribution of that individual's value based on the synergistic contribution of the entire company workforce.⁹¹ There is more commonality than dissimilarity between a company workforce working together and a college team working together. They both depend on each other to reach a common goal unachievable alone. If allocations can be made for executives who are removed from the actual on-the-ground activity that generates the revenue, then allocations can be made for football and basketball athletes who are literally on the ground making the plays that generate the revenue.

In any event, whether there is one actor or several to be parsed or allocated, there is sufficient sophistication to develop an appropriate model. The failure to have such a method currently in place is not a valid basis for completely eliminating a right of publicity, or subrogating it to the First Amendment rights of the user. Therefore, *Zacchini* has continuing applicability to current collegiate athlete's rights, laying the foundation for the current cases discussed below.

IV. CURRENT RIGHT OF PUBLICITY CASES INVOLVING COLLEGE ATHLETES

The most recent articulation of this right of publicity test is stated in *Keller*.⁹² The stated elements are noted below:

1. the defendant's use of the plaintiff's identity;
2. the appropriation of plaintiff's name or likeness to defendant's advantage, commercially or otherwise;
3. lack of consent; and
4. a resultant injury.⁹³

While there are now several federal cases and a few state statutes delineating publicity rights, there are several open questions regarding the application of this test. Each element in fact has issues that each attorney for opposing parties

91. Bonus or stock options often provide millions of dollars to executives based on stock options granted even though the executive was not directly responsible for generating the revenue. In many such cases, the sums were guaranteed even if there was no correlation with increased profitability. Indeed, stock options are defined as the receipt of stock "regardless of shifts in market value" of the stock price. BLACK'S LAW DICTIONARY 1459 (8th ed. 2004).

92. *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268, 1273 n.4 (9th Cir. 2013) (citing *Stewart v. Rolling Stone LLC*, 105 Cal. Rptr. 3d 98, 111 (Ct. App. 2010), *as modified on denial of reh'g* (Feb. 24, 2010)). Such an important rule was probably relegated to a footnote because *Hart* was decided months before on the same issue, already provided the preliminary groundwork, and was decided and reviewed prior to publishing the opinion in *Keller*. *See id.* As noted *infra*, footnote 20, the majority in *Keller* viewed the publicity rights claims to be materially identical. *See id.* at 1273.

93. *Stewart*, 105 Cal. Rptr. 3d at 111.

should view as potentially contentious and still unresolved from the case law to date. Those issues include the following in the order of element presentation:

1. Use. Is there a “use” of the plaintiffs NIL when a trait of the celebrity is a relatively insignificant part of a larger collage, montage, movie, comic strip or other media presentation? As discussed below, the judges in both *Hart* and *Keller* were divided on the fundamental issue of whether other elements of creativity outside of the celebrity’s depiction should matter.⁹⁴ The dissent in both cases viewed the other items of the work as a whole to be relevant.⁹⁵ Those judges would have held that First Amendment rights of expression of the authors of the video games prevailed over the publicity rights of the athletes.⁹⁶ That issue is a question not of fact but as a matter of law.⁹⁷ Future claimants will undoubtedly renew that debate.
2. Commercial Exploitation or ‘Otherwise’. While in most cases it should be clear whether the creator of a work gained a commercial advantage, there is no case to date that explores the meaning of “or otherwise.” Could the creator of the work still be subject to an injunction against further production even if the project was used for nonprofit purposes? That too is an open question.
3. Consent. As of the writing of this Article, the *O’Bannon* opinion rejects the notion that the plaintiff college athletes impliedly consented to allowing NCAA member institutions to use their NILs.⁹⁸ The *O’Bannon* complaint alleges that the NCAA, its licensing agent and video manufacturer Electronic Arts, Inc. have conspired to profit from the image of athletes without the consent of those athletes.⁹⁹ Assuming the NCAA appeals the ruling, the NCAA is playing defense in more ways than one. Scholars on this precise issue have cautioned, “The scope of such consent is necessarily determined on a case-by-case basis and requires careful contract drafting to delineate which rights are conferred.”¹⁰⁰
4. Injury. Reported cases to date have not provided a plethora of guidance on damages, the methodology or calculations, or the parameters for the types of injury on which those calculations are made. To the extent misappropriation of a publicity right is found, defendant’s counsel

94. See *Keller*, 724 F.3d at 1285; *Hart v. Electr. Arts, Inc.*, 717 F.3d 141, 171 (3d Cir. 2013).

95. *Keller*, 724 F.3d at 1285; *Hart*, 717 F.3d at 171.

96. *Keller*, 724 F.3d at 1289; *Hart*, 717 F.3d at 176.

97. *Keller*, 724 F.3d at 1274; *Hart*, 717 F.3d at 170.

98. *O’Bannon v. Nat’l Collegiate Athletic Ass’n*, C 09-1967 CW, 2010 WL 445190, at *2 (N.D. Cal. Feb. 8, 2010).

99. See *id.* at *4.

100. See MATTHEW J. MITTEN ET AL, SPORTS LAW AND REGULATION, CASES, MATERIALS, AND PROBLEMS 1036 (Wolters Kluwer, 3d ed. 2013); see also *O’Brien v. Pabst Sales*, 124 F.2d 167, 167 (1941).

will no doubt explore the typical tort-based damage issues, e.g., whether the plaintiff's quantification is speculative, missing important components, or lacking in causal connection to the work. A related open question is whether the courts will create a de minimis rule, where an injury below that is of a certain monetary threshold will be subrogated to the holder of First Amendment rights in a work using the NIL.

Those unresolved questions aside, there is significant guidance "as a matter of law" from the above-noted 2013 cases of *Hart* and *Keller*.

A. *The Hart-Keller Factual Background*

In *Hart*, quarterback Ryan Hart became publicly recognizable for leading the Rutgers football team to rare levels of success, including its first Bowl game in seventeen years.¹⁰¹ He was also widely considered the most prolific on-field performer in school history holding many career records at Rutgers.¹⁰²

Hart abided by his contractual obligation not to profit or take any direct or indirect remuneration from his own name.¹⁰³ Yet Electronic Arts, Inc. ("EA") produced a profitable video game entitled, *NCAA Football*.¹⁰⁴ The video has annual editions.¹⁰⁵ The 2006 edition included Hart as the high profile Rutgers quarterback in that rare Bowl game ending the prior season.¹⁰⁶

There were several elements of the video game that included the NIL of Hart.¹⁰⁷ The similarities between the video game Rutgers quarterback and the real Ryan Hart are noted below:

1. The video used the same jersey number (13) that Hart actually used at Rutgers.
2. The video player had the same height and weight as Hart (6' 2", 197 pounds).
3. Hart's home state and town, and class year were identical on the video.
4. Hart had a characteristic left wristband and helmet visor. Both were used in the video, though a game user ("gamer") could change those items.
5. The video included Hart throwing a pass in the bowl game that was from actual game film footage.¹⁰⁸

101. *Hart*, 717 F.3d at 145-46.

102. *Id.* Hart led the Rutgers Scarlet Knights to the Insight Bowl. At the time the case was written, Hart held the records for career passing attempts and completions. *Id.* at 146 n.4.

103. *Id.* at 145.

104. *Id.* at 146. EA was noted by the court to be "one of the world's leading interactive entertainment software companies." *Id.*

105. *Id.*

106. *Id.* at 147.

107. *Id.* at 146.

108. *Id.*

The court described some of the above as “immutable” characteristics of Hart, e.g., physical characteristics, hometown, and class year.¹⁰⁹

In *Keller*, plaintiff Samuel Keller was also a quarterback, albeit from Arizona State University and then Nebraska.¹¹⁰ He too was included in EA’s video game, *NCAA Football*.¹¹¹ The factual similarities between the video game and the actual athlete parallel *Hart*.¹¹² In that regard, the court made the following factual observation about the *NCAA Football* video game:

EA seeks to replicate each school’s entire team as accurately as possible. Every real football player on each team . . . has a corresponding avatar in the game with the player’s actual jersey number and virtually identical height, weight, build, skin tone, hair color, and home state.¹¹³

As in *Hart*, EA’s video game allows the gamers to manipulate various aspects of the athletes in the game.¹¹⁴ But the court’s point of emphasis was about *context*.¹¹⁵ The focus was on the near identical replication in the video games of the way in which the athletes gained fame.¹¹⁶ The court in *Keller* summarized those points as follows:

EA attempts to match any unique, highly identifiable playing behaviors by sending detailed questionnaires to team equipment managers. Additionally, EA creates realistic virtual versions of actual stadiums; populates them with the virtual athletes, coaches, cheerleaders, and fans realistically rendered by EA’s graphic artists; and incorporates realistic sounds such as the crunch of the players’ pads and the roar of the crowd.¹¹⁷

To be more precise, the court noted that the game’s 2005 version included Keller’s same “jersey number, height, weight, skin tone, hair color, hair style, handedness, home state, play style (pocket passer) visor preference, facial features, and school year.”¹¹⁸

Thus, both *Hart* and *Keller* involved EA video games that practically replicated both the plaintiff quarterbacks *and the environment* that brought them a relative level of notoriety.¹¹⁹ Having noted the factual similarities of the two

109. *Id.*

110. *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268, 1271 (9th Cir. 2013).

111. *Id.* at 1272.

112. *Id.* at 1278 (citing *Hart*, 717 F.3d at 163 n.28).

113. *Id.* at 1271.

114. *Id.*

115. *Id.* at 1275 (citing *No Doubt v. Activision Publ’g, Inc.*, 122 Cal. Rptr. 3d 397, 411 (Cal. Ct. App. 2011)).

116. *Id.* at 1271.

117. *Id.*

118. *Id.* at 1272.

119. *Id.* at 1271-72; *Hart v. Electr. Arts, Inc.*, 717 F.3d 141, 146, 166 (3d Cir. 2013).

cases and the focus on how the video games in both cases replicated the actual athletes, the question then turns to what legal tests are appropriate to determine whether the athletes' publicity rights trump the First Amendment rights of those who used the athletes' NILs.¹²⁰ The courts in both cases waged that war of principalities and discussed appropriate tests.¹²¹ This author analyzes those tests below.

*B. The Battle of Tests to Determine the Superiority of Publicity Rights
vs. First Amendment Rights*

The *Hart-Keller* cases examined several tests to determine whether the publicity rights of athletes prevailed over the First Amendment rights of expression by users of the athletes' names and likenesses.¹²² In *Hart*, the court followed prior case law and articulated three tests to be potentially used to decide the case: (1) the Predominant Use Test, (2) the *Rogers* Test, and (3) the Transformative Use Test ("TUT").¹²³ In *Keller*, the court mentioned four tests.¹²⁴ But both courts found only two tests to be most fundamentally at odds and most relevant for decision making purposes—the *Rogers* Test and the TUT.¹²⁵ The courts in both instances decided to use the TUT.¹²⁶

While both courts rejected the *Rogers* Test,¹²⁷ its consideration is still important. These are only two cases from the very recent lineage of the still burgeoning publicity rights jurisprudence as applied to collegiate athletes. There will most certainly be another examination of these tests. On review, the test selection may change. This Article will therefore examine the *Rogers* Test for substantive differences and the implications and impact if it is indeed selected instead of the TUT.

1. The Rogers Test.—Among the secondary tests (i.e., those other than the

120. *Keller*, 724 F.3d at 1273; *Hart*, 717 F.3d at 149.

121. *Keller*, 724 F.3d at 1273; *Hart*, 717 F.3d at 149.

122. In *Keller*, these tests were offered by the defendant user of the athletes' likeness. *Keller*, 724 F.3d at 1273. The defendant's burden was to establish that the athlete would not have a reasonable probability of success on the merits of his publicity rights claim. *Id.* The probability of success was an element of proof under California's anti-SLAPP statute, which the defendant used as the legal basis for its motion to strike the complaint. *Id.* at 1272. Ironically, the Strategic Lawsuit Against Public Participation ("SLAPP") statute is designed to protect the smaller, often public interest, entities against oppressive tactics by large companies. *Id.* In *Keller*, the anti-SLAPP statute was used by the Goliath entity against the individual of meager means, a former college quarterback, Samuel Keller. *Id.*

123. *Hart*, 717 F.3d at 153.

124. The tests as articulated in *Keller* were (1) the transformative use, (2) *Rogers* Test, (3) the "public interest" test, and (4) the "public affairs" exemption. *Keller*, 724 F.3d at 1273.

125. *See id.*; *Hart*, 717 F.3d at 153.

126. *Hart*, 717 F.3d at 164.

127. *Keller*, 724 F.3d at 1282; *Hart*, 717 F.3d at 155.

TUT), the *Rogers* Test was most discussed in both *Hart* and *Keller*.¹²⁸ Between the two cases, *Hart* provided the more detailed analysis of this test.¹²⁹ The reason is likely due to the fact that *Hart* was decided first.¹³⁰ The *Keller* court made more of a summary reference to its secondary tests since it too chose the TUT.¹³¹ *Keller* therefore could afford the luxury of dismissing redundant discussion of the secondary tests, and focus or build upon the primary test, TUT.¹³²

The *Rogers* Test primarily examines the relationship between the athlete's NIL and the work "as a whole."¹³³ As will be discussed below, the court in *Hart* rejected that approach because it was overbroad.¹³⁴ It would "immunize" the defendant users of an athlete's NIL from a "broad swath of tortious activity."¹³⁵ The tortious activity is the misappropriation of an athlete's NIL by those who use the NIL without the athlete's authorization.¹³⁶

The test is named after the case *Rogers v. Grimaldi*, where famous actress Ginger Rogers sued the producers of a film.¹³⁷ The film was titled, *Ginger and Fred*.¹³⁸ The plaintiff claimed the film's title was an obvious reference and attempt to profit from the names and images of the famous performances of her on-screen dancing with Fred Astaire.¹³⁹

The *Rogers* court's rule was essentially that the celebrity can only prevail if he or she establishes that the use of the NIL was "wholly unrelated" to the movie or was "simply a disguised commercial advertisement for the sale of goods or services."¹⁴⁰ The court's application of the rule resulted in a dismissal of the publicity rights claim.¹⁴¹ The court found the title was clearly related to the content of the movie and was not a veiled commercial advertisement for the sale of goods or services apart from the movie content.¹⁴²

In *Hart*, the court observed that the defendant sought to expand the *Rogers* Test beyond the use of the NIL in its title.¹⁴³ The defendant sought to compare the athlete's NIL to the entire movie.¹⁴⁴ In other words, *Hart* would have to

128. See *Keller*, 724 F.3d at 1279-82; *Hart*, 717 F.3d at 154-58.

129. See *Hart*, 717 F.3d at 154-58.

130. Both opinions were filed in 2013. The *Hart* opinion was filed in May 2013, while the *Keller* opinion was filed in July 2013. See *Keller*, 724 F.3d 1268; *Hart*, 717 F.3d 141.

131. See *Keller*, 724 F.3d at 1279-83.

132. *Id.* at 1274-76.

133. *Hart*, 717 F.3d at 154.

134. *Id.* at 155.

135. *Id.*

136. *Id.* at 157.

137. *Rogers v. Grimaldi*, 875 F.2d 994, 1004 (2d Cir. 1989).

138. *Id.* at 996.

139. *Id.* at 997.

140. *Id.* at 1004.

141. *Id.* at 996.

142. *Id.* at 1001.

143. *Hart v. Electr. Arts, Inc.*, 717 F.3d 141, 155 (3d Cir. 2013).

144. *Id.* at 156.

establish that his NIL was unrelated to *any* part of the work, not just the title.¹⁴⁵ The defendant asserted then that since the video game was about college football it was related to the use of Hart's NIL.¹⁴⁶ Upon showing that relationship, the First Amendment rights prevail.¹⁴⁷

The *Hart* court considered this rule extension a counterintuitive “blunt instrument” that was “unfit for widespread application.”¹⁴⁸ In the court's words, “It cannot be that the very activity by which Appellant achieved his renown now prevents him from protecting his hard-won celebrity. We decline to endorse such a conclusion and therefore reject the *Rogers* test as inapplicable.”¹⁴⁹

Thus, *Hart* rejects a rule that only requires some level of relatedness between the NIL and any part of the work that appropriates the NIL.¹⁵⁰ The *Hart* court stated that adopting that rule “threatens to turn the right of publicity on its head.”¹⁵¹ This author's translation is that the rule would have the opposite of its intended effect. Instead of providing a basis for a celebrity to protect his or her own NIL, it would be used as a weapon (“blunt instrument”) to destroy the publicity rights sought to be protected.¹⁵² The defendant, as an unauthorized user of the NIL, would have too little to prove—i.e., only some relatedness within any part of the work.¹⁵³ Therefore, the *Rogers* Test would do more to protect the defendant, the unintended beneficiary of publicity rights, than the plaintiff, the intended beneficiary of those rights.¹⁵⁴

In this author's view, the adoption of this rule would likely have a profound effect on the outcome of future cases. If a court need only find some level of relatedness between the celebrity's NIL and the work, then the creator of the work would likely prevail in almost every instance. A maker of a video game, for example, would prevail whenever the game depicted the same sport as played by the athlete.¹⁵⁵ Any actor would fail in court as did the graceful Ginger Rogers if the movie contained dancing scenes reminiscent of, or even imitations of Ms. Rogers.¹⁵⁶

This author agrees with the *Hart* majority not only because of the overbreadth of the *Rogers* Test, but also because of the established notion that the battle between the publicity rights and First Amendment rights is inherently a “balancing test.”¹⁵⁷ As stated in *Hart*, the court's duty is to “balance the interests

145. *Id.*

146. *Id.* at 157.

147. *Id.* at 158.

148. *Id.* at 157.

149. *Id.* at 158.

150. *See id.* at 157-58.

151. *Id.* at 157.

152. *Id.*

153. *Id.*

154. *Id.*

155. *See generally id.*

156. *See id.* at 155.

157. *See id.* at 149, 152-53; *see also* *Zacchini v. Scripps-Howard Broad. Co.*, 433 U.S. 562,

in protecting the relevant property right against the interest in free expression.”¹⁵⁸ This was an issue of first impression in *Hart*, so the Court was well aware of the magnitude of its ruling.¹⁵⁹ Simply put, the *Rogers* Test is too heavily weighted in favor of First Amendment claimants to be capable of a fair balancing of the interests,¹⁶⁰ and defendants can too easily immunize themselves from publicity rights claimants.¹⁶¹ Accordingly, *Hart* correctly rejected the test.¹⁶² In *Keller*, the defendants recast the argument but it was fundamentally the same.¹⁶³

2. *The Work-as-a-Whole Defense*.—Importantly, the common contention of the defendants in both cases is that even if the TUT is used, the work as a whole should be examined to determine the extent of creative predominance by the author of the work.¹⁶⁴ In *Keller*, for example, the defendants and dissenting Judge Thomas claimed that the majority wrongly cast the issue.¹⁶⁵ In the view of Judge Thomas, the court must view the work in a holistic sense—the entire work—not just the more narrow view of how the particular celebrity was depicted.¹⁶⁶ In the words of Judge Thomas,

The majority confines its inquiry to how a single athlete’s likeness is represented in the video game, rather than examining the transformative and creative elements in the video game *as a whole* The salient question is whether the *entire* work is transformative, and whether the transformative elements predominate, rather than whether an individual persona or image has been altered.¹⁶⁷

This author interprets the above passage to essentially mean this: The defendant’s work would be sufficiently transformative by simply creating other actions or depictions surrounding the athlete. A work would therefore be protected against publicity claims even if the exact likeness of the athlete was used. Judge Thomas emphatically noted that the video game in question had “thousands of virtual actors,” not just Sam Keller the quarterback.¹⁶⁸ The work also included the “lifelike roar of the crowd” and the “crunch” of shoulder pads.¹⁶⁹ Judge Thomas and the defendant game maker viewed these features as creative elements that should be taken into account in determining whether the

574-75 (1977).

158. *Hart*, 717 F.3d at 155.

159. *See id.* at 151-52.

160. *See id.* at 157-58.

161. *See id.*

162. *Id.*

163. *See generally* *Keller v. Elec. Arts, Inc.*, 724 F.3d 1268 (9th Cir. 2013) (Thomas, J., dissenting).

164. *See id.* at 1276; *Hart*, 717 F.3d at 156-57.

165. *See Keller*, 724 F.3d at 1285.

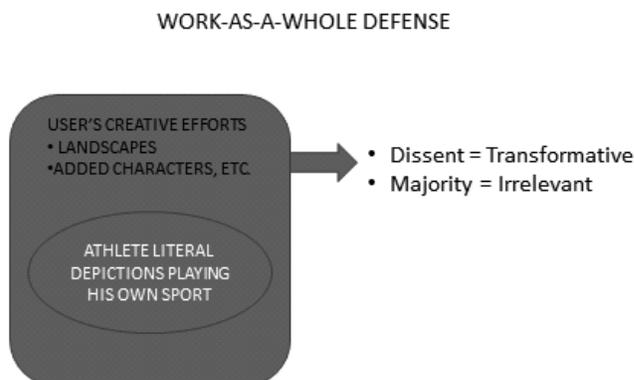
166. *See id.*

167. *Id.* (emphasis added).

168. *Id.* at 1287.

169. *Id.*

work was transformative.¹⁷⁰ The majority ignored such elements as irrelevant to the central inquiry of whether there was a literal depiction of the athlete, regardless of the surrounding creative elements.¹⁷¹ A graphic illustration of this critical difference is depicted below.



The *Keller* majority was only concerned with the narrow question of whether there was a literal depiction of the athlete.¹⁷² The dissent and the defendants claim the court should focus on the other creative elements within the entire work.¹⁷³ Once described in this fashion, it is readily apparent that the framing of the issue is likely to foretell the legal conclusion. The work is far more likely to be transformative if the applicable rule allows various aspects of a video game to be included in the determination. A game maker could easily add scenery, actors, and scripts that go beyond the athlete's name, image and likeness.

In this author's view, the difficulty of the dissent in *Keller* is no different than the majority discussed in *Hart*—the standard is so broad that a game maker would almost always prevail without a meritorious balancing of interests. Every video game or comic book can contain pictures, words, and sounds that have little to do with the athlete. If that were the only requirement for a transformative work, every work would qualify and the now time-honored right of publicity would become nearly a nullity. None of the recent publicity rights cases were willing to be responsible for the implicit death of such a right.

This author considers *Keller* to be rightly decided. The issue was correctly cast as the narrow examination of the depiction of the athlete, not the ancillary elements of the work. Yet there is another element of the First Amendment claims that is only noticed on close examination of the cases. That element involves interactivity, discussed below.

170. *Id.* at 1285-87.

171. *See id.* at 1268 (Thomas, J., dissenting).

172. *Id.*

173. *See id.* at 1284-90.

3. *The Related Element of Interactivity.*—The dissent in *Keller* highlights the fact that the disputed video game allows consumers (gamers) the ability to manipulate the game.¹⁷⁴ The descriptive phrase used by Circuit Judge Thomas is that the game is a “work of interactive historical fiction.”¹⁷⁵ Gamers therefore can create their own game situations from a common base.¹⁷⁶ The gamer can create a “virtual image” of himself and role play himself as a high school athlete trying out for a team, perhaps making the team, and participating under changing circumstances of his choosing for a college team in a position of his or her choosing.¹⁷⁷ The gamer can also select to role-play as a coach of the college team.¹⁷⁸

Judge Thomas then applied those facts to what he called the “proper holistic context.”¹⁷⁹ That context is the very crux of the controversy between the majority and the dissent.¹⁸⁰ The dissent is referencing what this author has termed the “As-A-Whole rule.” Judge Thomas viewed the game as containing many creative and transformative elements.¹⁸¹ One comes to that conclusion, however, only if the creative and transformative elements are not focused on the plaintiff, but on the entire work. According to the majority, the only relevant comparison is between the name and likeness of the real athlete and the way he is depicted in the game, not how anyone or anything else is depicted.¹⁸²

The fallacy of the gamer involvement justification for defeating publicity rights can also be exposed from a different perspective. Assuming all the above interactive opportunities, the question can be posed: How marketable would the work be without a strong athlete depiction? If sales are unaffected by the lack of the athlete, then the work’s creative elements were transformative because the market did not recognize the athlete’s NIL as the dominant cause for purchasing the work. If, on the other hand, sales would be virtually nonexistent without the athlete, then athlete’s NIL is dominant in the work. The work would not be transformative because the NIL was retained as primary. There would be no evidence of the work transforming into something else from a value standpoint. The question of whether a transformation occurred is a precursor to the discussion of the TUT, which follows in the next section of this Article.

The question may then arise: How can we know whether a purchase of a video game was motivated primarily by the athlete depicted, or rather the creative elements of the video? This author’s response is that we can certainly tap into the substantial social science use of focus groups and surveys to provide empirical

174. *See id.*

175. *Id.* at 1285.

176. *Id.*

177. *Id.*

178. *Id.* at 1286.

179. *Id.*

180. *Id.*

181. *Id.* at 1284-87.

182. *See id.* at 1276.

support for why consumers purchase a product.¹⁸³ Predictive analytics is also an emerging area giving rise to increasingly admissible evidence in court proceedings.¹⁸⁴ One possibility, then, is for a group of consumers to first view the work with the athlete as sold at retail. The same group can be shown a simulation of the same video but without the athlete or any of his or her NIL. Any variance would then be measured and quantified. Future courts may have to determine the admissibility of such proffered evidence which makes for an interesting component of publicity rights litigation going forward.

4. *The Transformative Use Test.*—The TUT was first articulated by the Supreme Court of California in *Comedy III Productions, Inc. v. Gary Saderup, Inc.* (“*Comedy III*”).¹⁸⁵ The oft-quoted definition is below:

. . . the central purpose of the inquiry . . . is to see . . . whether the new work merely ‘supercede[s] the objects’ of the original creation, or instead adds something new, with a further purpose or different meaning, or message; it asks, in other words, whether and to what extent the new work is ‘transformative.’”¹⁸⁶

The rationale for the overall superiority of TUT was most cogently stated in *Hart*:

In our view, the [TUT] appears to strike the best balance because it provides a flexible—yet uniformly applicable—analytical framework . . . Unlike the *Rogers* Test, the [TUT] maintains a singular focus on whether the work sufficiently transforms the celebrity’s identity or likeness, thereby allowing courts to account for the fact that misappropriation can occur in any market segment, including those related to the celebrity.¹⁸⁷

This passage articulates a strong basis for the selection of the TUT in this author’s view. The court quite obviously has a legitimate interest in selecting a rule that can be flexible enough to apply to varying fact patterns, while still having practical workability as a test. There have been various contexts where the court did not select a test because it did not see how it could practically be applied despite some theoretical favorability.¹⁸⁸

183. Focus groups typically involve carefully selected groups of between four to fifteen consumers or experts that interactively examine a topic through a moderator, typically either for market research or problem solving. The results are scientifically coalesced into findings that help analyze that topic. See *Focus Group*, BUSINESSDICTIONARY.COM, <http://www.businessdictionary.com/definition/focus-group.html> (last visited July 12, 2014), archived at <http://perma.cc/GW9K-DXGW>.

184. Predictive Analytics will be discussed *infra* Part VII.

185. *Comedy III Prod., Inc. v. Gary Saderup, Inc.*, 21 P.3d 797 (Cal. 2001).

186. *Id.* at 808 (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994)) (internal quotation marks omitted).

187. *Hart v. Electr. Arts, Inc.*, 717 F.3d 141, 163 (3d Cir. 2013).

188. One such example is where courts have faced various tests for allocating business income among taxing jurisdictions for companies that have multistate business activity. The tests that were

In both *Hart* and *Keller*, the Court adopted the TUT to determine whether the publicity rights of an athlete are prioritized over the First Amendment rights of the user of the athlete's NIL.¹⁸⁹ This test is simply focused on whether the work in question adds significant creative elements so as to be transformed into something more than a mere celebrity likeness or imitation.¹⁹⁰

Both cases held there was no transformative use and the First Amendment of the works' creators cannot shield the defendants from the privacy rights claims as a matter of law.¹⁹¹ The rationale for this conclusion was multi-layered, yet it relies upon a fundamental principle: The more transformative the creative elements of the user, the less likely there will be an interference with the athlete's publicity rights.¹⁹² The lack of a bright line difference is why this author views the TUT as a continuum. That discussion follows.

V. ELEMENTS AND CONTINUUM OF FACTORS IN THE TUT

As a point of emphasis, the TUT is a balancing act, juxtaposing the athlete's publicity rights and the creator's rights in a "work" (e.g., video game, comic book or movie) that uses the NIL of the athlete.¹⁹³ Accordingly, the gravamen of the court's analysis in *Keller* and *Hart* involves a comparison of those interests.¹⁹⁴

The TUT has several layers of complexity because of its various articulations of elements. We start anew with the fundamental question of whether the work adds significant creative elements so as to transform that work into something more than a mere recreation or imitation of the celebrity's likeness.¹⁹⁵ If a work, like the video games in *Hart* and *Keller*, was found to have those "significant creative elements," then it would be sufficiently transformative and the author could successfully assert the First Amendment defense.¹⁹⁶

If, however, there were insufficient creative elements so that there was nothing more than a "mere" likeness or imitation of the celebrity, then the celebrity would prevail, and the user would be liable for damages or an injunction

too difficult to apply were rejected. For example, a single factor formula using sales to determine a state tax liability gave way to the use of an apportionment formula that incorporated property, payroll, and sales as a more workable means of fairly reflecting the extent of income attributable to a state. See *Complete Auto Transit v. Brady*, 430 U.S. 274 (1977).

189. *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268, 1280 (9th Cir. 2013); *Hart*, 717 F.3d at 163-65. A companion article will separately examine the legal basis for determining the value of those publicity rights. That is to say, once it is firmly determined that the publicity rights can prevail, the next question is what value is ascribed to those rights. The next article is devoted to that yet under-explored cutting edge issue of publicity rights valuation.

190. See *Hart*, 717 F.3d at 159.

191. See generally *id.*; *Keller*, 724 F.3d at 1268.

192. See generally *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141.

193. See *Hart*, 717 F.3d at 159.

194. See generally *id.*; *Keller*, 724 F.3d at 1268.

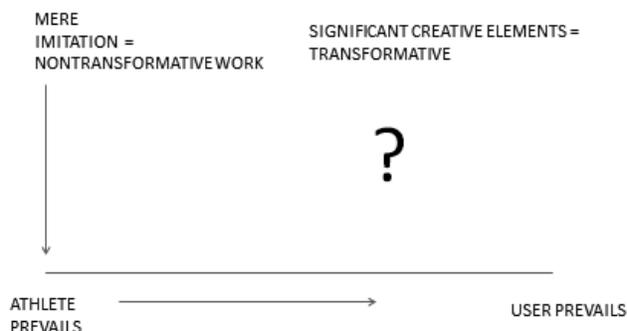
195. See *Hart*, 717 F.3d at 159.

196. See generally *id.*

preventing unauthorized profits or exploitation of the name and likeness of the celebrity.¹⁹⁷ As applied in *Hart* and *Keller*, the celebrity is an athlete whose NIL is used by the NCAA and its partner, EA, in producing video games that include depictions of those athletes.¹⁹⁸

That basic formulation of the TUT also reveals what could be considered the polar ends of a continuum. In this author's view, the above rule contemplates a continuum because a work may have a widely varying range of creative elements. Only when those elements reach a certain and seemingly indefinable level is there a transformation into "something more than the mere celebrity likeness or imitation."¹⁹⁹ One end of the continuum is clear—the celebrity prevails when the user creates a work that is a "mere" imitation or literal replica of the celebrity.

The circumstances under which the work's creator can prevail are far less clear. The TUT is satisfied when "something" more than the imitation is created by the user of the celebrity's name and likeness.²⁰⁰ No case to date has explained the beginning and end points. If the analysis incorporates only the rule statement, the continuum is depicted below:



The common sense underlying the continuum is that the more transformative the creative elements, the more something else is created and the less likely to be interference with the economic interests of the celebrity athlete.²⁰¹ In the attempt to make the TUT a truly workable test, the court in *Keller* incorporated the five-factor analysis endorsed by the California Supreme Court in *Comedy III*.²⁰² With that context and purpose, this author summarizes the five factors as follows:

197. See generally *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141.

198. See generally *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141.

199. See generally *Hart*, 717 F.3d at 159; *Keller*, 724 F.3d at 1268.

200. See *Hart*, 717 F.3d at 159.

201. See generally *id.*; *Keller*, 724 F.3d at 1268.

202. *Keller*, 724 F.3d at 1274 (citing *Comedy III Prod., Inc. v. Gary Saderup, Inc.*, 21 P.3d 797 (Cal. 2001)).

1. “Raw Materials” vs. “Sum and Substance”: If the work uses the celebrity’s name and likeness only as the raw materials of the work which is “synthesized” into something else, the work is more likely transformative and protected from the celebrity’s publicity claims. If, conversely, the name and likeness is the sum and substance of the work, the transformation is not present, and the celebrity would likely prevail.²⁰³
2. “Defendant’s Own Expression”: The work is transformative and protected from the celebrity’s publicity rights claims if it is primarily the defendant user’s own expression and “something other than the likeness of the celebrity.”²⁰⁴
3. Quantitative Dominance: The work is transformative and protected from the celebrity’s publicity rights claims if the creator’s own creative efforts quantitatively predominate in the work.²⁰⁵ The court cautioned that a qualitative judgment is inappropriate.²⁰⁶ Presumably then, the Court would not analyze whether a movie, music CD or video game depicted the celebrity athlete as the most memorable even if the appearance time was significantly less than other characters. A purely quantitative review would measure dominance based on actual time spent depicting the celebrity.
4. Marketability and Economic Value: The work is not transformative and not protected if the marketability and economic value of the work is predominately from the celebrity.²⁰⁷
5. Subrogation of User’s Skills: The work is not transformative and not protected if the “skill and talent” of the work’s author is subordinated to the “overall goal of creating a conventional portrait of a celebrity so as to commercially exploit his or her name.”²⁰⁸

It is readily apparent that these factors do not create a bright line test. Not surprisingly, the court did not expressly state that any one factor or factors are worthy of greater weight than other factors.²⁰⁹ The recurring question with most of these factors is whether some facts and circumstances “predominate” over competing facts.²¹⁰ The underlying inquiry is also clear: Are the immutable aspects of the celebrity the primary source for the work? The factors view the facts quantitatively, or in marketability or in the related economic value for the work.²¹¹ And to the same conclusion, if the characteristics of the celebrity are

203. *Id.*

204. *Id.*

205. *Id.*

206. *Id.*

207. *Id.*

208. *Id.*

209. *See generally id.*

210. *See id.*

211. *See id.*

subrogated to the creative efforts of the creator of the work, a transformation away from the name and likeness of the celebrity is likely to have occurred.

A. Unanswered Questions of Fact Finding, Intent and Burden

The intent of the work's author is also worth examination, albeit implicitly. Factor 5 requires analysis of the overall goal of the author of the work. If the goal was to prioritize the celebrity's NIL, to his or her subrogation of skill and talent, there is no resultant transformation. The celebrity's publicity rights claim would prevail.

Yet if traditional rules of civil litigation apply, the burden to establish the user's intent is on the plaintiff, the athlete or celebrity that claims infringement.²¹² *Hart* and *Keller* have not addressed intent and the related burden as a primary issue.²¹³ Thus the question is unresolved from these most recent cases.

Curiously, those same cases favor the athlete/celebrity.²¹⁴ So if the burden was on the athlete, the burden was apparently met. Nonetheless, intent is difficult to prove. The plaintiff is in a more difficult battle if he or she must establish that the user of his NIL intended to make a "conventional portrait" of him, and that the intent included a desire to "commercially exploit" his or her name.²¹⁵

The athlete's quite plausible rejoinder could be that intent is not required. Rather, one can ascertain whether the work was a conventional portrait from an objective analysis of the facts. That is fundamentally the same inquiry into whether the work was designed to commercially exploit the NIL. Indeed, the *Keller* court's analysis of factors indicates they had no problem making factual findings on their own without interposing an intermediate burden on the athlete to establish the intent of the defendant. Courts should also be more comfortable with a standard that relies more on objective factual analysis than the inherently amorphous task of ascertaining one's intent. We must leave this question for future litigants to argue and future courts to decide.

This author views greater judicial certainty from *Hart*'s rejection of an earlier and oft-overlooked case. In *Matthews v. Wozencraft*, the court accepted the First Amendment defense of the author of a fictional book that incorporated events of a narcotics officer.²¹⁶ The court held for the author because there was no actual malice.²¹⁷ *Hart* barely discussed the case but rejected it implicitly through its non-adoption.²¹⁸ If the plaintiff had to establish actual malice by the First Amendment claimant, the publicity rights claimant would have a significantly heavy burden. The lack of that element of proof may implicitly be used to state that no malice is required—a comforting argument for the publicity rights

212. See generally *Hart v. Electr. Arts, Inc.*, 717 F.3d 141 (3rd Cir. 2013).

213. See *Keller*, 724 F.3d at 1268; see also *Hart*, 717 F.3d at 141.

214. *Keller*, 724 F.3d at 1268; *Hart*, 717 F.3d at 141.

215. *Comedy III Prod., Inc. v. Gary Saderup, Inc.*, 21 P.3d 797, 810 (Cal. 2001).

216. *Matthews v. Wozencraft*, 15 F.3d 432, 439 (5th Cir. 1994).

217. *Id.* at 440.

218. *Hart*, 717 F.3d at 173.

claimant.

B. Application of the Five-Factor Test

The court in *Keller* adeptly and concisely reviewed four cases where California courts applied the TUT.²¹⁹ As noted above, none of the factors were explicitly declared to be primary over any of the other factors.²²⁰ It appears, rather, that in both *Hart* and *Keller* the facts are more critical to the holdings than the law of publicity rights or First Amendment rights.²²¹ Under the TUT, factual findings as to the extent to which the work mimics the celebrity or is a literal depiction of the celebrity resolves the matter.²²²

Comedy III is particularly relevant to the *Keller* court's analysis of Factor Five.²²³ This author entitled that factor: Subrogation of User's Skills. The "work" at issue in *Comedy III* was comprised of T-shirts and lithographs of the comedic Three Stooges.²²⁴ The court opined that the author's skill in creating the work was subordinated to the overall goal of creating "literal, conventional depictions" of the Three Stooges to "exploit their fame."²²⁵ Whether a work is a literal or conventional depiction is a factual finding.²²⁶

Whether an artist's skill is "subrogated" to those depictions is even more difficult to determine.²²⁷ The Quantitative Dominance factor cautions against using qualitative judgments about the skill or talent of the author (i.e., how effective or convincing or aesthetically pleasing or powerful the work).²²⁸ So the court must have the discipline to examine only the amount, the quantity, of creativity infused into the work compared to the extent of literal depictions of the celebrity.²²⁹ That too, this author opines, is a factual finding. If so, then the whole case can turn on the facts of a particular case. In *Comedy III*, the court must have been convinced that the creators of the T-shirts and lithographs added very little that could be considered artistic (regardless of whether it was "good" art).²³⁰ The work, therefore, was not transformed into anything beyond the literal

219. See *Keller*, 724 F.3d at 1268 (reviewing *No Doubt v. Activision Publ'g, Inc.*, 192 Cal. App. 4th 1018 (Cal. Ct. App. 2011); *Kirby v. Sega of America, Inc.*, 144 Cal. App. 4th 47 (Cal. Ct. App. 2006); *Winter v. DC Comics*, 69 P.3d 473 (Cal. 2003); *Comedy III Prods. v. Gary Saderup, Inc.*, 21 P.3d 797 (Cal. 2001)).

220. *Id.* at 1274.

221. See *id.* at 1268; see also *Hart*, 717 F.3d at 141.

222. *Comedy III Prod.*, 21 P.3d at 808 (citing *Zacchini v. Scripps-Howard Broad. Co.*, 433 U.S. 562 (1977)).

223. *Id.* at 811.

224. *Id.* at 800-01.

225. *Id.* at 811.

226. *Id.*

227. *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268, 1274 (9th Cir. 2013).

228. *Id.*

229. *Id.*

230. *Comedy III Prod.*, 21 P.3d at 810-11.

depiction of the Three Stooges.²³¹

The other cases analyzed in *Keller* also evidence fact-driven analysis and holdings.²³² Two of the cases held for the author of works that used the name and/or likeness of the celebrity.²³³ Those opinions too are fact driven and logically and legally consistent.²³⁴ More importantly, additional clarity can be gleaned from the cases about which facts lead to the holding. The two cases are analyzed below.

The first case is *Winter v. DC Comics* where the court found comic books to be transformative and thus protected from publicity rights claims.²³⁵ The court determined that the renditions of the celebrity rock stars, Johnny and Edgar Winter, were distortions of the celebrities, intending to “lampoon, parody, or caricature” those artists.²³⁶ The *Keller* court characterized the work as one made “for the purpose of parody.”²³⁷

Again, whether an item is a parody or caricature is a conclusion not based on a pure rule of law, but a factual finding or no less than a mixed question of law and fact. A declaration of the artist’s intent from the court is similarly a finding of the court. Future litigants will likely have extensive discovery on the question of intent. This seems to favor the user of the name and likeness. If the work appears to greatly exaggerate the features of the celebrity, the artist can easily corroborate the obvious depiction with a statement of intent to create a caricature and/or a parody of the artist.

The legal symmetry is that the more a depiction is exaggerated and differs from the literal depiction, the more likely the artist has independent creative input to transform the work into something else. The celebrity has fewer teeth to the claim of an appropriation of his likeness if the work is less like the celebrity. Accordingly, these two cases are legally consistent even if the holdings differ.

In *Winter*, the Court ruled in favor of the artists even though they used the same first names and only changed the last name “Winter” to “Autumn.”²³⁸ Appropriately, the court looked beyond the simple question of whether the name was used.²³⁹ So no athlete or celebrity should feel assured of prevailing by simply showing that someone else used his or her name without authority to do so.

The facts mattered most again in *Kirby v. Sega of America, Inc.*²⁴⁰ The court held that the video game was transformative, though it used a singer’s “signature”

231. *Id.* at 811.

232. *See Keller*, 724 F.3d at 1268 (reviewing *No Doubt v. Activision Publ’g, Inc.*, 192 Cal. App. 4th 1018 (Cal. Ct. App. 2011); *Kirby v. Sega of Am., Inc.*, 144 Cal. App. 4th 47 (Cal. Ct. App. 2006); *Winter v. DC Comics*, 69 P.3d 473 (Cal. 2003); *Comedy III Prods.*, 21 P.3d at 797).

233. *See Comedy III Prod.*, 21 P.3d at 797; *see also Winter*, 69 P.3d at 473.

234. *Id.*

235. *Winter*, 69 P.3d at 473.

236. *Id.* at 479.

237. *Keller*, 724 F.3d at 1275 (citing *Winter*, 69 P.3d at 473).

238. *Winter*, 69 P.3d at 476.

239. *Id.* at 479.

240. *Kirby v. Sega of Am., Inc.*, 144 Cal. App. 4th 47, 50-53 (Cal. Ct. App. 2006).

lyrical expression “ooh la la.”²⁴¹ The court found that the hairstyle, costume, dance moves and the principal character’s role as a “space-age reporter” were not literal depictions of the singer.²⁴² In fact, the court stated those creative elements were “unlike *any* public depiction” of the actual celebrity.²⁴³ The court characterized the primary character as “fanciful.”²⁴⁴

The question arises then, how is a court to determine whether a disputed character is sufficiently “fanciful” to be beyond the literal depiction of the athlete or celebrity?²⁴⁵ If *Kirby* is guidance, then the court should perform a comparative analysis. The elements of comparison include not only hairstyle, as noted in the case. All other elements of appearance should be equally fair game for analysis. The creator of the work who is attempting to avoid publicity claims should create significant variances in clothing, shoes, skin tones, nails, ears, eyelashes, and the like. Variances in movements, running style, and walking patterns also arguably evidence the requisite creativity.

C. The “Same Activity and Context” Test

The Court in *Keller* found one case to be most factually aligned with case at issue—*No Doubt v. Activision Publishing, Inc.*²⁴⁶ True to the fact-sensitive analysis of the other cases, the court found that case most persuasive in holding that Keller’s publicity rights were infringed.²⁴⁷ In *No Doubt*, the work in question was a video game that allowed customers to select avatars, including one entitled, *Band Hero*, depicting vocals by the rock band No Doubt.²⁴⁸ The Court held the use of the band was no more than “literal recreations of the band members” within the same activity for which they became famous.²⁴⁹

While there were various legal aspects to the *Keller* decision, the court appears most influenced by certain factual similarities between the instant case and *No Doubt*.²⁵⁰ The following passage best codifies the Court’s comparative analysis: “Here, as in [the video game], users manipulate the characters in the performance of the same activity for which they are known in real life—playing football in this case, and performing in a rock band in [the rock band video

241. *Id.* at 59.

242. *Id.*

243. *Id.* (emphasis added).

244. *Id.* at 61.

245. *Id.*

246. *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268, 1276-1277 (9th Cir. 2013).

247. *Id.* at 1287-89.

248. *No Doubt v. Activision Publ’g, Inc.*, 192 Cal. App. 4th 1018, 1023 (Cal. Ct. App. 2011); Kyle Kasper, *Virtual Reality Headset*, VIRTUALREALITYHEADSET.COM, available at <http://www.virtualrealityheadset.com> (last visited July 12, 2014), archived at <http://perma.cc/SKZ7-L3S6> (Avatars are essentially virtual reality headsets and goggles used to show an individual user a simulation or virtual reality presentation).

249. *No Doubt*, 192 Cal. App. 4th at 1034.

250. *Keller*, 724 F.3d at 1018.

game].”²⁵¹ The *Keller* court then immediately added a companion factor: “The context in which the activity occurs is also similarly realistic—real venues in [the rock band video game] and realistic depictions of actual football stadiums in [the video game in *Keller*].”²⁵² The court concluded: “As the district court found, Keller is represented as ‘what he was: the starting quarterback for Arizona State’ and Nebraska, and ‘the game’s setting is identical to where the public found [Keller] during his collegiate career: on the football field.’”²⁵³

This author views the above language as establishing a rule with duality. Both the same “activity” and the same “context” appear interrelated if not in fact required for the rule to have vitality and accomplish its intended purpose of clarifying when a literal depiction exists. It should now be clear, for example, that a video game manufacturer cannot claim protection under the First Amendment if it makes an unauthorized rendition of a college player that both replicates the actual person and also depicts him performing in the sport that provided his notoriety.

VI. FUTURE APPLICATIONS

Despite the existence of these various factors, unanswered questions remain. This rule would not seem to prevent the same video game manufacturer from using the likeness of an athlete performing some sport other than the one that he gained publicity—say trying his hand at baseball instead of football. What if the virtual game was performed in a baseball stadium? What if the venue was not a stadium at all, but the back yard of his parent’s home or a beach as part of a spring break fun-fest or on the planet Mars as selected by the video manufacturer?

In each of the above scenarios the ultimate issue is the same—what is the extent of causal connection between the athlete’s name and likeness with the activity and context that the work depicting that athlete. The answer to those questions turn then on the dual analysis of what the author terms as the same activity and the same context. Those elements are discussed below.

A. *The Same Activity Prong*

The “same activity” prong is based on a fundamental but flexible notion.²⁵⁴ The more remote the work’s activity from the activity that made the athlete noteworthy, the more likely the court will find that work transformative. If an athlete gained his public persona from tennis, a video of him playing cards or some other activity not tied to athleticism may cause a court to find the game transformative. The opposite result would flow if the activity was racquetball, a sport more closely aligned with tennis. If the activity is not literally the same, but related, the court would have to decide whether the rule becomes the “same or *substantially* the same” activity or commonly identifiable with the activity or

251. *Id.* at 1276.

252. *Id.*

253. *Id.*

254. *No Doubt*, 192 Cal. App. 4th at 1018.

sport that gave rise to his or her notoriety under *Keller*.²⁵⁵

Future courts may also decide to define “activity” with greater particularity.²⁵⁶ A narrow definition would favor the creator of the work because that would establish many other activities as outside of the realm of sameness. If same literally meant the exact same activity, then in the above hypothetical racquetball would be considered different than tennis. A broad definition favors the celebrity/athlete because it would broaden the scope of what he can call his own. He could claim the activity of tennis and racquetball is using much of the same skill sets (e.g., hand eye coordination and arm movements) as tennis. Accordingly, an appropriation of his tennis activity would be equally an appropriation when the similar sport is the prop for using his NIL.

B. The Same Context Prong

As to the “same context” prong, isn’t a court more likely to find a work transformative if the athlete performs on a barren Mars surface than if the game was in a stadium?²⁵⁷ The author posits a “Yes” answer. The alternate planet venue was the creative element of the maker of the work. The extent of connection between the work and what brought the celebrity fame—a typical earthly stadium—would then be too far removed from the context for the game. In essence, the court is more likely to find that the game maker demonstrated a sufficient amount of creativity because the context of the work was transformative, not a literal depiction of the athlete’s persona in the same context that brought him his relative fame.

If, however, the work uses a typical stadium, it is just a depiction of the preexisting context for the athlete’s performance. Even if the stadium was used for soccer instead of say football, they are substantially similar. There is little creativity demonstrated from the work’s author. Accordingly, context appears to be a potential factor in the court’s determination of whether there was a transformative work.

The chart below depicts future scenarios where the context prong may become a defense by users of an athlete’s NIL against publicity rights infringement claims of athletes. The illustrations are from least to most likely settings favorable to the NIL users.

255. *Keller*, 724 F.3d at 1276-78.

256. *No Doubt*, 192 Cal. App. 4th at 1018.

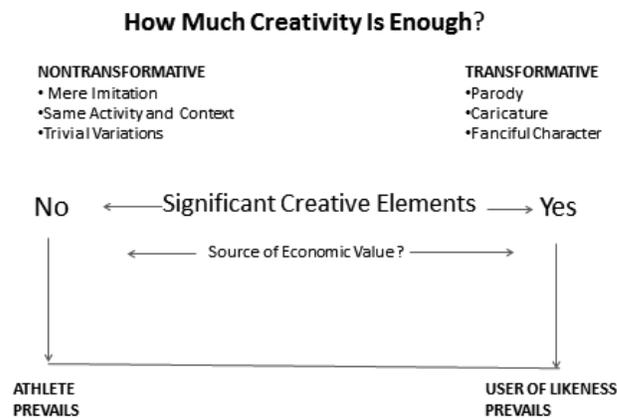
257. *Id.*

Divergent Activity and Context Justifying Transformative Work

- | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Athlete Activity <ul style="list-style-type: none"> – Tennis – Tennis • Athlete Context <ul style="list-style-type: none"> – In a Football Stadium | <ul style="list-style-type: none"> • NIL User Activity <ul style="list-style-type: none"> – Tennis = No – Racquetball = Maybe – Cards = More Likely • Athlete Context <ul style="list-style-type: none"> – In a Football Stadium = No – In a Soccer Stadium = Maybe – On Fictional Nonathletic Space = More Likely |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

The corroborating logic to these scenarios in relation to the publicity rights rules to date is that the situations listed as “more likely” are also the situations that evidence more creativity by the NIL user, and thus more transformative. As stated in *Keller*, the truly transformative work is “also less likely to interfere with the economic interest protected by the right of publicity.”²⁵⁸ The theory is that the athlete or celebrity has a lesser appropriation claim when the creativity of others is more dominant than his NIL.²⁵⁹

Upon comprehensive review of these factors and cases, we can now fill in the blanks of the above continuum.



258. *Keller*, 724 F.3d at 1285.

259. *Id.*

C. Sourcing the Economic Value

Another factor in deciding when the work has transformed the NIL to the level necessary for First Amendment protection is to determine the source of the economic value of that work. This is not separately identified as a factor in either *Hart* or *Keller*.²⁶⁰ But a careful reading of the cases reveals a subtle but important underpinning of how the courts make a finding about what is or is not a transformative work.

Both *Hart* and *Keller* courts identify *Comedy III* as the first case to articulate the TUT.²⁶¹ This was a precedent-setting case issued by the Supreme Court of California.²⁶² As noted above, the court held that an artist's T-shirts and prints of the Three Stooges were not transformative.²⁶³ The court defined transformative as requiring the artist to add something new, "with a further purpose or different character, altering the first with new expression, meaning, or message"²⁶⁴

The important nuanced point here is that part of *Comedy III*'s rationale noted a need to scrutinize whether the work's economic value was sourced primarily in the celebrity's NIL, or conversely in the author of the work.²⁶⁵ The Court in *Hart* incorporated that element, explaining, "Going further, the court [in *Comedy III*] explained that works containing 'significant transformative elements' are less likely to interfere with the *economic interests* implicated by the right of publicity."²⁶⁶

The *Hart* court then provided an example that reveals a further connection between economic interests and marketability of the work: "For example, 'works of parody or other distortions of the celebrity figure are not, from the celebrity fan's viewpoint, good substitutes for conventional depictions of the celebrity and therefore do not generally threaten markets for celebrity memorabilia that the right of publicity is designed to protect.'"²⁶⁷

The court in *Comedy III* also framed the issue to include both economic sourcing and marketability when it asked: "does the marketability *and* economic value of the challenged work derive primarily from the fame of the celebrity depicted?"²⁶⁸ If therefore a work sources its economic value primarily from the

260. See *id.*; see also *Hart v. Electr. Arts, Inc.*, 717 F.3d 141 (3d Cir. 2013).

261. See *Hart*, 717 F.3d at 158; see also *Keller*, 724 F.3d at 1273.

262. *Keller*, 724 F.3d at 1273.

263. *Comedy III Prod. v. Gary Saderup, Inc.*, 21 P.3d 797, 811 (Cal. 2001).

264. See *Hart*, 717 F.3d at 159 (citing *Comedy III Prod.*, which cited the above quoted language from *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994)).

265. *Comedy III Prod.*, 21 P.3d at 810.

266. *Hart*, 717 F.3d at 159. (emphasis added).

267. *Id.* (citing *Campbell*, 510 U.S. at 579).

268. *Comedy III Prod.*, 21 P.3d at 810 (emphasis added). The court in *Hart* described this as an "ancillary" question. This author examines the hypothetical as it becomes apparent additional rule refinements are necessary to address facts not present in either of those cases. Therefore, the author views the element of proximity as an appropriate additional factor.

celebrity's NIL, then the work is not sufficiently transformative to be protected from publicity rights claims of the celebrity. We would know that from analyzing whether the celebrity's "market" (i.e., where the celebrity's NIL is sold) is diminished. The example rings true to reality in that a parody is by definition a work so distorted from the real celebrity that the general public readily recognizes that the work is not an actual depiction of the celebrity. The example is designed to show that there is an apparent and obvious separation so that someone buying a product of the celebrity would not be duped into believing this is the genuine depiction of the celebrity.

There is no bright line articulated by any court for when the markets diverge or the economic interests of the celebrity are not interfered with by the work. An example may illustrate the difficulty in application. Consider a circumstance where an animated cartoon-like film is produced of a Heisman Trophy winner. The film makes a parody of the player's end zone dance, showing the dance in super-slow motion and accelerated motion at strategic times during the dance. The film also creates superhero actions where the athlete flies from the end zone to the press box, then into the stands to drink a Coke, and then back to the field. And assume the cartoon also grossly distorts his features with an extra-long nose, and elongated arms and legs. The film is then distributed and sold commercially in retail stores across the country.

The broadly stated issue is whether the video is so transformative that it is protected from the athlete's right of publicity claim. Applying the *Comedy III* economic sourcing rule, a court may reason that the source of *revenue* for the cartoon is transformative because of the significant creative elements of the animation and exaggerated features.²⁶⁹ If, however, the cartoon was an exact replica of the end zone dance, the court may find that the video is primarily sourced in the NIL of the athlete, even with exaggerated features and animation.

The Court would also necessarily apply a case-by-case approach to the parody issue because the extent of exaggeration or distortion matters in the analysis. In my above hypothetical, a court would likely examine the extent of the elongation of limbs and exaggeration of features. That is because the greater the exaggeration the more likely a transformation would occur since the parody or distortions are judged by whether those items are something other than "good substitutes for conventional depictions" of the celebrity.²⁷⁰ The court necessarily then will have to examine the cartoon to compare the distortions with the actual celebrity. That is why, in the author's view, the test must be a continuum. No one description of the rule applies to all facts. And no one fact dismisses all other facts in making such a determination.

A second prong of the *Comedy III* economic analysis is therefore required—market interference. There would be an interference with the economic rights of the celebrity if the work generally threatens markets for the celebrity.²⁷¹ This author asserts there is a need for a refining factor to carefully

269. *Id.*

270. *Id.* at 808.

271. *See Hart*, 717 F.3d at 159-60 (citing *Comedy III Prod.*, 21 P.3d at 808, which cited

analyze whether the work threatens a celebrity's market. The author terms that factor the Marketing Proximity Factor, discussed below.

D. Marketing Proximity Factor

Neither *Hart* nor *Keller* directly faced the question of whether the economic sourcing analysis should include proximity, i.e., whether the athlete and the work are placed in settings close enough to each other to affect the market for either.²⁷²

In my above hypothetical, if the same actual Heisman winner made appearances on location where the cartoon was shown, akin to a book signing or promotional tour, would the physical proximity of the athlete lead the court to conclude that the cartoon derived its economic value from the NIL of the athlete?²⁷³ Probably yes according to this author. Would the promotional activity of the athlete also lead the court to conclude that the cartoon interfered with the athlete's market for his NIL? If so, then the cartoon was not transformative to something other than the NIL of the athlete and the cartoon's creator would have no protection from publicity rights claims.

If, however, a cartoon was being marketed in Arizona and the Heisman winner only made appearances in the state of Connecticut, the more likely finding is that the cartoon did not interfere with the market of the athlete. The critical fact in making that distinction was the lack of physical proximity of the athlete with the film.

A second type of proximity is more directly economic in nature. Assume the Heisman hypothetical has this added fact: Although the athlete was not sharing physical space, the work was nonetheless marketed through the same retail outlets that were already under contract with the athlete. This author suspects that a court would consider that fact of decisional significance. The economic sourcing rule includes the implicit prohibition against the work threatening the market of the celebrity.²⁷⁴ That notion is endorsed by *Campbell*, then *Comedy III*, and then *Hart*.²⁷⁵ The Heisman athlete that has an existing retail distributor would likely prevail if the work is then sold through the same distributor. That would clearly be interference as contemplated in this context. Thus, apart from occupying the same physical space, the use of the same retail chain is a type of market commonality that would predictably favor a publicity rights claimant. The work is not transformative apart from the athlete's NIL if the source of economic return for the work is tied so directly to the celebrity. The result would be the same regardless of whether the proximity is from physical proximity or economic proximity.

Campbell, 510 U.S. at 569).

272. *See id.* at 141; *see also* *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268 (9th Cir. 2013).

273. This hypothetical cartoon does not implicitly include an assumption that athletes are parodied.

274. *Comedy III Prod.*, 21 P.3d at 797.

275. *See Campbell*, 510 U.S. at 569; *see also Comedy III Prod.*, 21 P.3d at 797; *Hart*, 717 F.3d at 141.

The base logic of this economic sourcing factor is noteworthy. If a work is a mere substitute for the NIL of the celebrity, the work is not sufficiently transformative to have First Amendment protection against a right of publicity claimant. The logical consistency is that if the work interferes with the economic interests of the celebrity so that the celebrity's existing markets are threatened, then an insufficient degree of transformation occurred because the economic value of the work is still too closely derived from the celebrity's NIL.

Conversely if the work is primarily the author's own expression relative to the actual celebrity, there should be less economic overlap. The new independent expression by the creator of the work would have its own economic market and would not therefore interfere with the celebrity's NIL.

These rules therefore have interrelated symmetry and consistency in both theory and application, albeit in hypotheticals at this time. Yet, as the Heisman hypothetical illustrates, there are many unanswered questions when facts are introduced beyond those scrutinized in *Hart* and *Keller*.²⁷⁶

VII. PREDICTIVE ANALYTICS AND ESI

A. *The Economic Value Fracture in TUT Determinations*

It is now well established that publicity rights are property rights that can give rise to damage claims for an unauthorized appropriation of an athlete's NIL.²⁷⁷ The author asserts that the damages should be measured based on the economic value to the celebrity, not the value to the consumers of the product. In *Keller*, the court made the same celebrity-consumer distinction but in the broader context of publicity rights claims in total: "The right of publicity protects the *celebrity*, not the *consumer*."²⁷⁸

The determination of damages is likely to not only look for prior unauthorized uses but also reasonably anticipated profits for the celebrity. In this section, the author asserts that predictive analytics may be a significant tool in that determination.

The starting legal point, as a matter of law, is that the relevant economic value is the value to the celebrity.²⁷⁹ That point was made in *Zacchini v. Scripps-Howard Broadcasting Co.*²⁸⁰ The Court described the economic value of the publicity right of the entertainer who shot himself out of a cannon:

Much of [the] economic value [of the performance] lies in the 'right of exclusive control over the publicity given to his performance'; . . . [T]he broadcast of petitioner's entire performance, unlike the unauthorized use of another's name for purposes of trade . . . goes to the heart of

276. *See id.*; *see also Keller*, 724 F.3d at 1268 (These open questions were introduced in the initial discussion of the elements of the TUT).

277. *Hart*, 717 F.3d at 151.

278. *Keller*, 724 F.3d at 1281.

279. *Zacchini v. Scripps-Howard Broad. Co.*, 433 U.S. 562, 575 (1977).

280. *Id.*

petitioner's ability to earn a living as an entertainer . . . [and was] the appropriation of the very activity by which the entertainer acquired his reputation in the first place.²⁸¹

At first blush, the above quote appears to cut against a college athlete's right of publicity. Mr. Zacchini, the human cannonball, appears to be in a trade that freely allows him to profit from his performance.²⁸² The collegiate athletes are not engaged in a for-profit performance since NCAA rules expressly prohibit profiteering by amateur athletes.²⁸³ This author does not view that fact as a basis to wholly distinguish *Zacchini*.²⁸⁴ The *Zacchini* court did not face a claim by college athletes that they have publicity rights.²⁸⁵ Nothing in the balancing of publicity rights and First Amendment rights hinges on whether the athlete or celebrity had a profit motive.²⁸⁶

What remains relevant from *Zacchini* is the underlying focus on the economic value to the performer and publicity rights as a means of protecting one's economic value.²⁸⁷ Future cases are therefore likely to describe damages in economic terms—measuring the extent of economic gain by the unauthorized user and/or loss by the publicity rights claimant. The damages claim should, in turn, include a projection of a work's future economic gains and losses which requires some predictions of future revenue from the use of the celebrity's NIL. Hence, a discussion of predictive analytics is relevant and discussed below.

B. Application of Predictive Analytics

Predictive analytics involve creating large data sets that are sorted and analyzed by computer programs and algorithms to predict future behaviors.²⁸⁸ As applied to the subject of this Article, the same methods can be used to collect and analyze data associated with both parties to the litigation, an athlete's NIL, and then the author or creator of the work.

Algorithms are typically created through computer programs to quickly analyze large sets of data.²⁸⁹ This is part of data mining, which has been

281. *Id.* at 575-76.

282. *Id.* at 574.

283. Article 12 of the NCAA bylaws codifies its rules of amateurism that the athlete must agree to be so governed. NCAA, 2011-12 NCAA DIVISION I MANUAL § 12.01.1 (2011), available at <http://saas.usc.edu/files/2012/08/NCAA-2011-12-Manual.pdf>, archived at <http://perma.cc/U7QD-4J6V>.

284. *Zacchini*, 433 U.S. at 562.

285. *See generally id.*

286. *See generally id.*

287. *Id.* at 575.

288. *See* Julie E. Cohen, *What is Privacy For*, 126 HARV. L. REV. 1904, 1920-22 (2013) (where predictive analytics is described as a method of converting data flows into patterns, including the enhancement of climatologists' understanding of weather patterns and improvement of epidemiologists' insight regarding public health problems).

289. Roger M. Groves, *The Implications of A Jeopardy! Computer Named Watson: Beating*

described in the complex field of antitrust litigation:

This is precisely the value of data mining: with large quantities of diverse data, mathematical algorithms can be applied to identify useful but unintuitive correlations between inexpensively observed characteristics that can be exploited to make significantly more accurate predictions.²⁹⁰

These techniques are already being used to predict the highest interest rate a person is likely to accept when taking out a loan or the “pain point” for the upper limit of what a borrower would pay in a transaction.²⁹¹ Such predictive data can be invaluable to a lender in both circumstances.²⁹²

The same techniques can have considerable utility in publicity rights cases. If a Court finds the work is not transformative, there is an appropriation of the athlete’s publicity rights. The question then is what is the economic value of those rights? Algorithms could be created to track any common elements of sale, marketing, purchasers, and selling brokers.²⁹³

Similarly, the court may use analytics when determining if the creative elements of the work’s author were primary. The analytics could assess motivations of the consumers who purchase the work that contained the athlete’s images. Indeed, this author envisions a time when a court will direct the defendant creator of a work to itemize all the “significant transformative elements” or “creative contributions” in all forms.²⁹⁴ Instead of a “pain point,” the question will likely be, “What is the ‘pleasure point’ for consumer/gamer usage or purchase?” A related question could be, “What was the source of that pleasure point: the athlete’s NIL or something else creatively supplied by the maker of the work?”

Due to economic sourcing discussed above, it may not be sufficient to simply state each element of creativity as was done in *Hart* and *Keller*.²⁹⁵ In those cases, the work creators noted mechanisms that allowed game users to manipulate images, add themselves in tryouts with the team, and change the jersey colors or hair styles of the celebrity.²⁹⁶ Those items do not address the economic

Corporate Boards of Directors at Fiduciary Duties?, 45 CREIGHTON L. REV. 377, 390 (2012).

290. Douglas M. Kochelek, *Data Mining and Antitrust*, 22 HARV. J. L. & TECH. 515, 519 (2009).

291. *Id.* at 518-19.

292. *Id.* at 519.

293. Algorithms are mathematical formulas that analyze large data sets, including data that can be arranged to make correlations to future behaviors. *See id.* at 519; *see also* Groves, *supra* note 289, at 415-16.

294. The California Supreme Court stated that the transformative elements and creative contributions can take many forms. *Comedy III Prod. v. Gary Saderup, Inc.*, 21 P.3d 797, 809 (Cal. 2001).

295. *See Hart v. Electr. Arts, Inc.*, 717 F.3d 141 (3rd Cir. 2013); *see also Keller v. Electr. Arts, Inc.*, 724 F.3d 1268 (9th Cir. 2013).

296. *See Hart*, 717 F.3d at 167-69; *see also Keller*, 724 F.3d at 1276-77.

interference issues. The defendant should be prepared to offer proofs to demonstrate separation between the work's economic base and the celebrity's economic base. To accomplish that factual evidence, the defendant can have a computer program that isolates all sales, purchases, and marketing efforts to remove the work's economic sourcing from the celebrity. The program can provide a comparative analysis showing the lack of economic intersection between the work and the athlete.

C. Sentiment Analysis

Sentiment analysis is an established field that examines opinions, sentiments, evaluations, attitudes, and emotions through written language.²⁹⁷ For example, one study was designed to analyze emotions and the way words are used to convey them.²⁹⁸ The components of emotions included "valence (the pleasantness of a stimulus), arousal (the intensity of emotion provoked by a stimulus), and dominance (the degree of control exerted by a stimulus)."²⁹⁹ Similarly, a study examined 7362 tobacco-related Twitter posts to ascertain sentiments about tobacco.³⁰⁰

If words and Twitter posts can be analyzed for emotion and be accepted by a court as relevant evidence, then written surveys can be evidence of consumers' emotions about an athlete. The words may quite possibly be categorized or stratified to measure the relative positive and negative emotions associated with the athlete compared to other aspects of the work. If the court is convinced that there was a high level intensity of emotion for the athlete in purchasing the work, the court may more likely conclude that the work was not transformative since the athlete's depiction was primary in the purchase.

Another application involves the part of the TUT associated with the market. As discussed above, the TUT attempts to assess whether the "market" is predominantly using or buying the work because of the independent creativity of the work or, conversely, because of the NIL of the athlete.³⁰¹ If there are sufficient transformative creative elements, the First Amendment rights of the creator of the work protect that creator against publicity rights attacks.³⁰² As applied to calculating the plaintiff's damages, a court may include a work sold in another venue (in the calculation). This is consistent with the marketing proximity factor previously discussed.

This author's view is that computer programs and algorithms will be

297. See LIU BING, SENTIMENT ANALYSIS AND OPINION MINING (Morgan & Claypool Publ'rs May 2012); see also Amy Beth Warriner, et al, *Norms of Valence, Arousal, and Dominance for 13,915 English Lemmas*, 45 BEHAV RES METHODS 1191-207. (2013).

298. See *id.*

299. *Id.*

300. See Mark Myslin et al, *Using Twitter to Examine Smoking Behavior and Perceptions of Emerging Tobacco Products* 15, J. MED. INTERNET RES. 1 (2013).

301. *Comedy III Prod. v. Gary Saderup, Inc.*, 21 P.3d 797, 808 (Cal. 2001).

302. *Id.*

employed in future publicity rights cases to ascertain whether the public feels more strongly aligned with some aspects of a work compared to the NIL of the athlete. This is the very type of evidence a sentiment analysis is designed to produce. That is a likely future battleground in publicity rights cases, because the essential question is whether the public buys an item more because of the celebrity or, conversely, the work that used the NIL of that celebrity.

Another future use of the sentiment analysis relates to the “trivial variation” rule.³⁰³ As noted above, a transformative use is not allowed for “merely trivial variation[s]” in a work.³⁰⁴ However, none of the recent publicity rights cases have attempted to define the term “trivial variations.” Thus, no case yet provides parameters as to cut the line for when a trivial variation ends and something termed a “significant” transformative element begins.

There are mathematical constructs to measure the extent of variation and correlation between one item and another. The plaintiff publicity rights claimant is likely to assert that certain creative elements by the creator of the work are trivial. One potential method of proving triviality is surveying customers to determine if they even noticed the disputed elements of the work. In one of the above hypotheticals, the consumer would be asked if he noticed the use of racquetball instead of tennis or the extent of elongation in the athlete’s nose, and then, what level of intensity of like or dislike did the consumer feel. If the assessment was that items were barely noticed or lacked intensity for the work, the court is more likely to find the work’s elements trivial. Similarly, analytics may be employed to show that individual consumers were surveyed about what most influenced their buying decision—the other elements of the work or the actual celebrity. Market analytics are already being performed to also assess if people are more committed or influenced by some items over other items based on written or verbal responses.³⁰⁵

The evolution of these cases may then proffer evidence and expert testimony that attempts to digitize elements of creativity and weight the variances among those elements of the work. The variances would be weighted quantitatively, not qualitatively per the five-factors noted in *Hart*.³⁰⁶ This author envisions sophisticated formulas to measure those quantitative differences. For example, the extent of distortion of an athlete’s features can be measured quantitatively. A survey of consumers of the work can have their intensity of emotion or loyalty for the athlete versus the other aspects of the work measured quantitatively. Pitched battle is also anticipated regarding the admissibility of such programs and resulting data sets.

The sourcing of economic value for a work is another future application of predictive analytics and sentiment analysis. Documents may be produced by defendants, for example, to establish that only 1.5% of the market sales of the work were sold in the markets already maintained or marketed by the celebrity.

303. See *Winter v. DC Comics*, 69 P.3d 473, 478-79 (2003).

304. *Id.*

305. See *Groves*, *supra* note 289, at 413.

306. *Hart v. Electr. Arts, Inc.*, 717 F.3d 141, 163 (3d Cir. 2013).

The purpose of the offering would be to show the lack of market interference between the work and the athlete's NIL.

D. Illustration of Predictive Analytics—Market Penetration Analysis

As noted above, part of the TUT endorsed in *Hart* requires an examination of whether the work is a substitute for the celebrity's NIL that interferes with the celebrity's "markets."³⁰⁷ That question necessarily involves a finding of just what is the celebrity's "market."³⁰⁸ Once the market is defined, what is the penetration of the work in that market?

There are cases that provide illustrations of the value of predictive analytics when faced with large data sets to determine economic value and market competition. The theory of substitution was also used in *Hart*.³⁰⁹ In *FTC v. CCC Holdings Inc.*, the dispute involved the Federal Trade Commission's attempt to enjoin a merger of two companies that provide valuation software used to estimate auto insurance company losses.³¹⁰ As described by the court:

[There are] twenty-five million automobile insurance claims each year and insurers, in turn, spend an estimated \$100 billion annually to cover those claims. Most insurers and automotive repair shops use specialized computer software to estimate the cost of repair or the value of replacement in the event of a total loss. These software systems play a critical role in the automotive repair industry.³¹¹

Critical expert witness testimony and other evidence involved whether one party was competing in the market of another party.³¹² The court's findings on that issue are noted below:

[T]he real-world evidence shows that Books and TLV are not part of the same product market. *See Arch Coal*, 329 F. Supp. 2d at 116 ("[A]ntitrust theory and speculation cannot trump facts."). The Book vendors do not consider themselves to be in competition with CCC, Mitchell, and Audatex. [citations omitted] . . . Most insurance companies do not view the Book as an *adequate substitute* for TLV products. *See* PX 664-005 (Mitchell); *Brown Dep.* at 90-90 (Erie).³¹³

The court relied on deposition testimony of experts who collected large data sets.³¹⁴ The experts then used predictive analytics to define the market and

307. *Id.* at 168.

308. *Id.*

309. *Id.*

310. *FTC v. CCC Holdings, Inc.*, 605 F. Supp. 2d 26 (D.D.C. 2009).

311. *Id.* at 30.

312. *Id.* at 40-42.

313. *Id.* at 41 (emphasis added).

314. *See id.* at 70.

determine if one party is providing a substitute within that market.³¹⁵ The court relied on deposition testimony.³¹⁶ Future litigation in publicity rights cases is likely to have the same dynamics: (1) a determination of a relevant market based on computer-generated analytics; and (2) a determination of whether there has been market penetration and competition from an analysis of large data sets. The parties should likewise prepare for depositions to stage a battle of experts. The court addressed predictive analytics in the following passage:

Predictive analytics, an internal method of calculating future estimates based on an insurance company's own empirical data, Marushka Dep. at 14-15 (CCC), may supplant the Estimatics software sold by CCC, Mitchell and Audatex one day, and the Defendants hint that it may be sooner rather than later when they suggest that the merger of two outdated platforms cannot hurt anyone.³¹⁷

Thus, the court admitted testimony and evidence of future estimates based on current data.³¹⁸ Therefore, may litigants in publicity rights cases project income and the market based on current sales, marketing, and sentiment analysis of consumers in those markets?

The court rejected the particular estimates in *CCC Holdings* because: (1) the methods were too speculative since not used in the affected industry; (2) there were subjective aspects of a party's predictive methodologies (also termed protocols) that caused the analysis to be unreliable; and (3) the pool of data sets used by that party omitted certain relevant information.³¹⁹

Attorneys for defendants in publicity rights litigation should also consider similar claims of speculation, subjectivity, and material omissions that reveal a lack of relevance or probative value. In any event, we should expect increasing sophistication of both software programmers and the attorneys who use them when the issues involve the intersection of human behaviors and the economic value of the work they purchase. This Article presents issues and rule statements that indicate publicity rights cases are ripe for that type of analysis. And when millions of dollars are at stake, I suspect there is not going to be a law firm that is going to volunteer to be out-sophisticated, out-strategized, and defeated due to the lack of technology in court. The publicity rights cases to date involve plaintiffs that request class action status. A large pool of plaintiffs gives rise to claims in the hundreds of millions of dollars. The cases will necessarily involve millions of bits of data and revenue to be tracked nationally, if not internationally. Accordingly, this author opines that predictive analytics will be increasingly used

315. *See id.* at 41.

316. *See generally id.*

317. *Id.* at 59-60.

318. *Id.*

319. The court noted that predictive analytics was not currently a staple in the insurance industry. "It is acknowledged by CCC, however, that . . . no insurance company currently uses predictive analytics to calculate partial loss estimates and he does not know whether predictive analytics are allowed under insurance regulations." *Id.* at 60.

as part of the evolution of publicity rights litigation.

E. Electronically Stored Information (ESI)

Based on the recent *Hart*, *Keller*, and *O'Bannon* cases filed to date, plaintiffs in publicity rights cases are likely to have millions of bits of emails, text messages, and other electronically stored information (ESI).³²⁰ That information is discoverable and analyzed as part of multi-million dollar damage claims, along with requests for permanent injunctions.³²¹ There are now numerous cases, albeit with different substantive law issues, that nonetheless have similar ESI issues.³²² Indeed an entire body of e-discovery law has developed concerning these mega-data cases.³²³

Publicity rights litigants can therefore expect the type of Case Management Order that managed the discovery in one such case that involved predictive analytics and high volume ESI.³²⁴ In the case of *In re Actos (Pioglitazone) Products Liability Litigation*, the court provides insight as to various aspects of e-discovery case management when predictive analytics is pursued.³²⁵ The court's overall goal is for the parties to agree on the methodologies or protocol to be used in discovery.³²⁶ First, the parties were pushed to agree on the following:

1. The party that will provide the software program to search and review ESI, and develop predictive coding (or if they will jointly select such a program or programmer);
2. The party that will collect the ESI and create a "sample collection population";
3. The joint execution of a Nondisclosure and Confidentiality Agreement and drafting of a Protective Order that binds all counsel, the parties, and their respective experts;
4. Training on the software used for predictive coding for both parties;
5. Privilege and redaction opportunities for affected parties;
6. Mandatory meetings to resolve any predictive coding disputes;
7. An agreed number of random samples from the sample collection population;
8. The party(s) that will be the custodian of the ESI and documents

320. See *Hart v. Electr. Arts, Inc.*, 717 F.3d 141 (3rd Cir. 2013); see also *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268 (9th Cir. 2013); *O'Bannon v. Nat'l Collegiate Athletic Ass'n*, No. C 09-3329 CW, 2010 WL 445190 (N.D. Cal. Feb. 8, 2010).

321. ESI includes, but is not limited to, emails, text messages, voice mails, computer programs, and documents stored in electronic files. See *Groves*, *supra* note 289, at 377.

322. See generally *id.*

323. See generally *id.*

324. *In re Actos (Pioglitazone) Prods. Liab. Litig.*, No. 6:11-md-2299, 2012 WL 7861249 (W.D. La. 2012).

325. *Id.*

326. *Id.*

produced from the predictive coding.³²⁷

This Article is designed in part to sensitize parties with publicity rights disputes to the distinct possibility that the case will involve voluminous ESI associated with tracking revenue streams, sales at universities, sales from licensed merchandise, and particularly projection of future revenue from the use of NIL. There may also then be a case management order similar to *In re Actos*.³²⁸ One or both parties will look to examine the ESI and correlate past, current, and future revenue streams of the defendant users to the plaintiff athlete's NIL. Skilled plaintiff attorneys should aggressively identify markets where defendants have profited from athletes' NILs.

Wise plaintiff counsel would therefore contemplate the various discovery challenges in advance of filing. The *In re Actos* order provides guidance in various areas.³²⁹ If the court is likely to request stipulations on the software program for collecting, sorting and predictive coding, a primary strategy is to interview top software programmers. The selected programmer should then be instructed to prepare a coding plan in advance. The party with the most prepared programmer at the early stages of litigation improves the odds of convincing the court to use that party's expert.

Such a strategy may be worth the expense. Understandably, plaintiff firms that take a case on a contingency basis are necessarily concerned with the costs, since they are essentially funding the litigation. But if class action status is achieved, the more prepared expert programmer may convince the court that plaintiff's coding plan should be selected. The defendant, who is already playing defense, has the opportunity to vet plaintiff's expert but the coding plan presumably favors the party who prepared it. The coding may result in millions of dollars of difference in damages. The potential of such awards can far exceed the expert fees, especially when the fee structure is carefully structured.³³⁰

The anticipation of such a discovery order should also allow both parties to contemplate in advance the ESI that is most advantageous in the sample collection population. It is obviously a greater benefit to the defendant creator of a video game to include a wealth of evidence showing penetration of sales that do not interfere with the celebrity's markets. The plaintiff would rather weigh the collected ESI with evidence that the defendant's sales were within his or her markets. Additionally the plaintiff would prefer the population to show that an increase in the defendant's product sales caused a decrease in plaintiff's sales from his use of his own NIL. This would be consistent with the economic sourcing rule, particularly the implicit prohibition of defendant creating a

327. *Id.*

328. *Id.*

329. *Id.*

330. Fee management includes structuring the fee schedule in stages, with itemization per task. This helps prevent billing without justification. The staging also forces the discipline and clarity that assures the witness is only paid for services to a certain point (e.g., preliminary analysis prior to discovery) followed a stage that responds to discovery requests.

substitute for plaintiff's NIL.³³¹ Such a finding leads to a conclusion that the work is not transformative and, therefore, not protected from the publicity rights claims.

Finally, there is an advantage of pre-thinking the discovery issues to aid in developing initial cost estimates. Those estimates should assist both parties in evaluating settlement options or in the plaintiff's case, even whether to file the case.

This author views these questions as a future legal battleground. The spokespersons will not be attorneys spouting theories. The key players will be the computer programs that have scientifically valid methods of measuring the degree of interrelatedness of a work's creative elements with the NIL of the celebrity.

CONCLUSION

Hart and *Keller* have affirmed for college athletes what prior case law already established for professional athletes and entertainers—that they too have publicity rights that can trump First Amendment rights of those who use their names, images, and likenesses without authorization.³³²

Existing case precedent already provides illustrations of what will be considered an athlete's NIL. A particular professional football player named Elroy Hirsch became known as "Crazy legs" because his running style was reminiscent of an egg-beater.³³³ A shaving gel for women under the same name was found to violate Mr. Hirsch's publicity rights.³³⁴ Similarly, an established race car driver used a particular color scheme for his car.³³⁵ Cigarette maker, R.J. Reynolds Tobacco, created a commercial stating, "Winston tastes good, like a cigarette should."³³⁶ The picture of the driver's car was prominent in the commercial.³³⁷ Relief was provided to the driver on the unauthorized use of his color scheme even though the numbers on the car were changed in the commercial from eleven to seventy-one.³³⁸

Assuming there is no judicially declared waiver by college athletes of their publicity rights, the types of NIL claims are easily imagined. Here are just a few examples of an athlete's protectable intellectual property that could be protected under his or her NIL: (1) a player with a unique jump shot; (2) a signature spin move to elude defenders in basketball or football; (3) a unique dunk displayed in a dunk contest; (4) a newly effective free throw shooting technique; (5) a

331. *Comedy III Prod. v. Gary Saderup, Inc.*, 21 P.3d 797, 810 (Cal. 2001).

332. *See Hart v. Electr. Arts, Inc.*, 717 F.3d 141 (3d Cir. 2013); *see also Keller v. Electr. Arts, Inc.*, 724 F.3d 1268 (9th Cir. 2013).

333. *Hirsch v. S.C. Johnson*, 280 N.W.2d 129, 141-42 (Wis. 1979).

334. *Id.*

335. *Motschenbacher v. R.J. Reynolds Tobacco*, 498 F.2d 821, 822 (9th Cir. 1974).

336. *Id.*

337. *Id.*

338. *Id.* at 827.

particular hair style or beard; (6) an offensive lineman's new blocking move; (7) a defensive end or linebacker with a signature hand techniques and body pivots that evade blockers to reach the quarterback; (8) a tattoo prominently displayed; (9) color schemes on a uniform, jersey, helmet, facemask, socks or shoes to the extent permitted under NCAA rules; and (10) apparel during camps or other non-regulated events to the extent permitted under NCAA rules. If a current college or former college player who is not performing in the professional ranks asserts those same rights, the legal environment appears more favorable now than in prior decades to allow those plaintiffs to prevail, notwithstanding their status as "amateurs" by the NCAA.³³⁹

This Article also attempts to highlight the evolving use of sophisticated technology, including, but not limited to, predictive analytics and sentiment analysis. Computer programs with algorithms designed to statistically reveal relationships between the work and NIL of the athlete may be offered as evidence. These techniques could favor either party in publicity rights litigation. A plaintiff's purpose will be to establish that the work is not transformative, because it is either: (1) a mere trivial aspect to an otherwise identical depiction of the athlete; or (2) interfering with the economic value sourced in the athlete. Such a finding is likely to affirm a prioritization of publicity rights over the First Amendment defenses of the work's creator.

A defendant, on the other hand, may establish that the work transforms the NIL into a primary creative effort of the author of the work. In such a case, the First Amendment rights of the author would prevail. The defendant will also claim that consumers of the work have more intense sentiment for the work because of significant creative elements apart from the athlete, thus allowing the work to pass the TUT.

Finally, this Article seeks to more directly expose the crux of the legal dispute. A careful analysis of *Hart* and *Keller* reveals that the most fundamental disagreement of the majority from the dissent and basis for the opposite conclusions involves the scope of the inquiry.³⁴⁰ The majority's view that only the work's depiction of the athlete is at issue differs sharply from the dissenters' view that the court should examine the work as a whole to determine if there are sufficient creative elements to make the work transformative.³⁴¹

The open questions presented in this Article should fuel future litigation, and all of the above issues may be in play, performed on a far different court than what the athletes are accustomed.

339. See *Hart v. Electr. Arts, Inc.*, 717 F.3d 141 (3d Cir. 2013); see also *Keller v. Electr. Arts, Inc.*, 724 F.3d 1268 (9th Cir. 2013).

340. See *Hart*, 717 F.3d at 141; see also *Keller*, 724 F.3d at 1268.

341. See *Hart*, 717 F.3d at 141; see also *Keller*, 724 F.3d at 1268.

ALL TOGETHER NOW: USING PRINCIPLES OF GROUP DYNAMICS TO TRAIN BETTER JURORS

SARA GORDON*

ABSTRACT

We ask juries to make important decisions that have a profound impact on people's lives. We leave these decisions in the hands of groups of laypeople because we hope that the diverse range of experiences and knowledge in the group will lead to more thoughtful and informed decisionmaking.¹ Studies suggest that diverse groups of jurors have different perspectives on evidence, engage in more thorough debate, and more closely evaluate facts.² At the same time, there are a variety of problems associated with group decisionmaking, from the loss of individual motivation in group settings, to the vulnerability of groups, to various cognitive biases and errors.³ Moreover, jurors are often at a disadvantage because most of them have never served on a jury and many of them have never worked with a group to reach a decision about a complex problem.⁴ Compounding these issues, jurors are not typically given instructions or training on working in a group or on effective decisionmaking strategies.

Although there is extensive literature examining juries and jury deliberations, this Article is the first to consider all of the major scientific studies that examine training in group decisionmaking and apply them to jury decisionmaking. Many studies have examined group processes and group deliberations in the fields of social psychology, organizational psychology, business administration, advertising, and a variety of related areas.⁵ Moreover, countless studies examine group decisionmaking and recommend the use of training to improve group performance.⁶ Yet almost none of this interdisciplinary knowledge of group

* Associate Professor of Law, William S. Boyd School of Law, University of Nevada, Las Vegas. Thank you to Linda Berger, Linda Edwards, Michael Higdon, Elizabeth Pollman, and Kathy Stanchi for their helpful comments and suggestions. Thanks also to the editors of the *Indiana Law Review* for their valuable editorial suggestions and to Chad Schatzle for his excellent research assistance.

1. David D. Henningsen et al., *Role of Social Loafing in Predeliberation Decision Making*, 4 GROUP DYNAMICS: THEORY, RES., & PRACTICE 168 (2000).

2. NEIL VIDMAR & VALERIE P. HANS, AMERICAN JURIES 74 (2007).

3. Norbert L. Kerr et al., *Bias in Judgment: Comparing Individuals and Groups*, 103 PSYCHOL. REV. 687, 713 (1996).

4. Henningsen et al., *supra* note 1.

5. J. Richard Hackman, *Learning More By Crossing Levels: Evidence From Airplanes, Hospitals, and Orchestras*, 24 J. ORG. BEHAV. 905 (2003); Steven A. Murphy & Michael L. McIntyre, *Board of Director Performance: A Group Dynamics Perspective*, 7 CORP. GOVERNANCE 209, 213 (2007); Gwen M. Wittenbaum & Richard L. Moreland, *Small-Group Research in Social Psychology: Topics and Trends over Time*, 2 SOC. & PERSONALITY PSYCHOL. COMPASS 187, 187 (2008).

6. Herman Aguinis & Kurt Kraiger, *Benefits of Training and Development for Individuals*

dynamics and the efficacy of training on group performance has been applied to one of the most fundamental group decisionmaking bodies—the jury. We can use this literature to create effective juror training procedures and give jurors strategies to more effectively deliberate and reach better group decisions.

“*Gettin’ good players is easy. Gettin’ ‘em to play together is the hard part.*”
—Casey Stengel⁷

INTRODUCTION

On a college campus, student volunteers were interviewed to discuss “some of the problems involved in life at an urban university.”⁸ Some of the volunteers completed the written interview questions alone in a room, while others completed the questions in groups of three.⁹ As they were answering questions, smoke started to drift through a wall vent.¹⁰ When alone in the room, it took an average of two minutes for the volunteers to stop answering questions and report the smoke and seventy-five percent of them reported the smoke before six minutes had elapsed.¹¹ When in groups, only one of the twenty-four volunteers reported the smoke within the first four minutes “before the room got noticeably unpleasant,” and only three reported the smoke before the six-minute experimental period elapsed.¹² The other volunteers “stayed in the waiting room as it filled up with smoke, doggedly working on their questionnaires and waving the fumes away from their faces.¹³ They coughed, rubbed their eyes, and opened the window—but they did not report the smoke.”¹⁴

When asked about the smoke later on, those who had reported the smoke recalled that they thought the smoke was “strange,” and while they were not sure if it was dangerous, they generally thought it was “a good idea to check it out.”¹⁵

and Teams, Organizations, and Society, 60 ANN. REV. PSYCHOL. 451, 452-53 (2009).

7. RONALD ADLER ET AL., COMMUNICATING AT WORK: PRINCIPLES AND PRACTICES FOR BUSINESS AND THE PROFESSIONS 235 (10th ed. 2009).

8. Bibb Latané & John M. Darley, *Group Inhibition of Bystander Intervention in Emergencies*, 10 J. PERSONALITY & SOC. PSYCHOL. 215, 217 (1960).

9. *Id.*

10. *Id.* The smoke was produced by passing air through a container of titanium tetrachloride, which created a “clearly visible stream of whitish smoke.” *Id.*

11. *Id.* “Soon, most subjects would get up from their chairs, walk over to the vent, and investigate it closely, sniffing the smoke, waving their hands in it, feeling its temperature, etc. The usual alone subject would hesitate again, but finally walk out of the room, look around outside, and finding somebody there, calmly report the presence of smoke.” *Id.*

12. *Id.* at 218. In another condition consisting of one participant and two confederates, only one of ten people reported the smoke; the other nine stayed in the smoky room until the six-minute experimental period ended. *Id.*

13. *Id.*

14. *Id.*

15. *Id.* at 219. Specifically, the authors describe the experimental procedure this way: After

In contrast, those who had not reported the smoke had a variety of explanations, none of which involved anything dangerous—some thought it was steam or air-conditioning vapors, some thought it was smog, and some thought it might be a “truth gas” designed to elicit honest responses to the questionnaire.¹⁶ Almost all of the subjects denied that the presence of others in the room influenced their decision not to report the smoke.¹⁷

Like the groups of students in the smoky room, jurors must work in groups, and what happens when jurors deliberate can be hard to know. Most of the information we have about what happens when juries deliberate in groups comes from post-verdict interviews with jurors and accounts published by former jurors.¹⁸ Most studies of jury communication rely on mock juries, which may or may not provide an accurate representation of the actual deliberative process.¹⁹ What we do know is that as many as thirty-three percent of jurors do not actively participate in the deliberation process, and that twenty-five percent of mock jurors do not speak at all during deliberations.²⁰ If almost a third of jurors are not actively contributing to group deliberations, the ideal of a representative jury has not been realized.²¹ Furthermore, we know from studies of group processes and group deliberations that all groups—including juries—are prone to a variety of shortcomings, from loss of individual motivation in groups,²² to various cognitive biases,²³ to the profound influence other members of the group have on individual

six minutes, whether or not the subjects had reported the smoke, the interviewer stuck his head in the waiting room and asked the subject to come with him to the interview. After seating the subject in his office, the interviewer made some general apologies about keeping the subject waiting for so long, hoped the subject hadn't become too bored and asked if he “had experienced any difficulty while filling out the questionnaire.” By this point most subjects mentioned the smoke. The interviewer expressed mild surprise and asked the subject to tell him what had happened. Thus each subject gave an account of what had gone through his mind during the smoke infusion.

16. *Id.*

17. *Id.* at 220.

18. *See, e.g.,* Victoria Hekkers, *Exorcising A Ghost: My Experience as a Jury Foreperson*, 13 CASE MANAGER 78 (2002).

19. For an excellent summary of various jury studies, see Dennis J. Devine et al., *Jury Decision Making: 45 Years of Empirical Research on Deliberating Groups*, 7 PSYCHOL. PUB. POL'Y & L. 622 (2001).

20. Donna Shestowsky & Leonard M. Horowitz, *How the Need for Cognition Scale Predicts Behavior in Mock Jury Deliberations*, 28 L. HUMAN BEHAVIOR 305, 305 (2004).

21. Of course, a “representative jury pool” and a “seated jury” are not necessarily the same thing. Many citizens are called for jury service but are not selected. *See, e.g.,* Sean Michaels, *Madonna Dismissed from Jury Duty Without Hearing a Case*, GUARDIAN (July 8, 2014, 2:31 PM), <http://alturl.com/3bxe8>, archived at <http://perma.cc/D6EG-P2ER>. Others actively attempt to avoid service. *See, e.g.,* Jennifer Waters, *Psst! You Want to Duck Jury Duty?*, WALL ST. J. (May 8, 2011, 12:01 AM), <http://alturl.com/e9rhg>, archived at <http://perma.cc/G4B6-AERK>.

22. *See, e.g.,* Henningsen et al., *supra* note 1; *see also infra* Part III.B.

23. *See, e.g.,* Kerr et al., *supra* note 3, at 713 (noting that “all other things being equal, different group processes can produce dramatically different relative biases”); *see also infra* notes

jurors' cognition and behavior.²⁴ Finally, jurors, to whom the process of group work and jury service is mostly new, are given almost no training or instruction in effective group work or decisionmaking strategies.²⁵

So while it can be difficult to understand the inner-workings of a jury, many studies have examined group processes and group dynamics in the fields of social psychology,²⁶ organizational psychology,²⁷ business administration,²⁸ and a variety of related areas.²⁹ Studies of group performance are mixed: some studies suggest that groups generally perform better than individuals, while others do not support this finding.³⁰ Of course, many domains, like the workplace or the military, require groups of individuals to work together and countless studies recommend the use of training to improve group performance.³¹ Yet very little

321-22.

24. SUSAN T. FISKE, *SOCIAL BEINGS: CORE MOTIVES IN SOCIAL PSYCHOLOGY* 461 (John Wiley & Sons eds., 1st ed. 2004); *see also infra* Part III.A.

25. *See, e.g.*, 1.1 DUTY OF JURY NINTH CIRCUIT MODEL CIVIL JURY INSTRUCTIONS (2007) (giving instruction on the law, but not on effective group work or decisionmaking strategies).

26. *See, e.g.*, Wittenbaum & Moreland, *supra* note 5, at 187 (noting that “research on small groups has a long history within social psychology”).

27. *See, e.g.*, Hackman, *supra* note 5 (advocating for a robust understanding of social and organizational dynamics when studying group behavior because “it makes sense to strip away the context to see how things really work only when the context is not itself a key part of how things do work—which, in group and organizational studies, it usually is”); *see also* Richard T. Mowday, *Organizational Behavior: Linking Individuals and Groups to Organizational Contexts*, 44 ANN. REV. PSYCHOL. 195 (1993).

28. *See, e.g.*, Murphy & McIntyre, *supra* note 5, at 213 (2007) (noting that “internal group dynamics within a board [have] been neglected in traditional studies linking single boards of directors characteristics to firm performance.”).

29. One of the earliest definitions of the study of group dynamics described it as a “field of inquiry dedicated to advancing knowledge about the nature of groups, the laws of their development, and their interrelations with individuals, other groups, and larger institutions.” DORWIN CARTWRIGHT & ALVIN ZANDER, EDS., *GROUP DYNAMICS: RESEARCH AND THEORY* 7 (3d ed. 1968).

30. *See* Bernard A. Nijstad & Silvia C. Kaps, *Taking the Easy Way Out: Preference Diversity, Decision Strategies, and Decision Refusal in Groups*, 94 J. PERSONALITY & SOC. PSYCHOL. 860, 860 (2008) (noting that “groups have the potential to outperform individuals when it comes to the quality of decisions”); *but see* Kerr et al., *supra* note 3, at 713 (noting that “there was no simple empirical answer to this question”).

31. It is worth noting that while much of the research on training has been done in the context of the workplace and job performance, these findings can and should be applied to juries. One could draw many analogies between an employee and a juror; both are paid for their time, are instructed to obtain particular results, have a “supervisor,” and are expected to work with others in groups. As Aguinis and Kraiger note, “we take a point of view that training in work organizations produces clear benefits for individuals and teams, organizations, and society. We believe that training in work organizations is an area of applied psychological research that is particularly well suited for making a clear contribution to the enhancement of human well-being and performance

of this interdisciplinary knowledge of training in effective group decisionmaking has been applied to one of the most fundamental group decisionmaking bodies—the jury. And while many empirical studies have found that jurors are competent decisionmakers,³² often reaching the same or similar decisions as judges, some additional training could be enormously helpful in assisting jurors to overcome many of the challenges all groups face in coming to decisions. We can and should use this literature to inform our understanding of the optimal functioning of the jury, to provide jurors with strategies for working in groups, and to improve jury deliberation and decisionmaking.

Specifically, jurors would benefit tremendously from additional training in group decisionmaking strategies and effective group collaboration. Jury instructions that simply tell jurors to “reach an agreement” on the evidence³³ do not provide jurors with the tools and strategies they need to thoughtfully and efficiently analyze the facts and law they learn during the trial. Specific decisionmaking strategies would allow jurors to spend more time analyzing the information and law they have heard about in a trial and less time simply figuring out how to approach the information. Additionally, jurors should be trained in information sharing, which will ensure that the group discusses all relevant evidence. This can also help reduce group conformity and encourage individual jurors to mention and discuss minority views. This information sharing will help further achieve the goal of a truly diverse decisionmaking body. Finally, jurors should be trained in effective decisionmaking procedure, including the selection of the foreperson. This will help encourage more thoughtful evaluation of the evidence and help reduce the impact of status hierarchies and social conformity on group decisionmaking.

Part I of this Article discusses the development of the American jury system and specifically the development of the modern jury as a group decisionmaking body. Part II of this Article explores the concept of a “group,” a term with various definitions, but a profound impact on the behavior and decisionmaking of its members. This part also explores the development and life-cycles of a group, including status hierarchies, group cohesion, group norms, and roles. Part III discusses the profound influence groups have over their members, including the individual tendency to conform to the group, as well as various motivation losses that occur within a group, like social loafing and free-riding. Part IV recommends more intensive training in decisionmaking, information-sharing, and jury procedure as a way to improve group decisionmaking and encourage jurors to make more careful and accurate evaluations of the law and evidence before reaching a verdict.

in organizational and work settings as well as in society in general.” Aguinis & Kraiger, *supra* note 6, at 452-53.

32. See Jennifer K. Robbennolt, *Evaluating Juries by Comparison to Judges: A Benchmark for Judging?*, 32 FLA. ST. U. L. REV. 470, 470 (2005).

33. 3.1 DUTY TO DELIBERATE, NINTH CIRCUIT MODEL CIVIL JURY INSTRUCTIONS (2007).

I. A JURY OF PEERS: FROM TRIAL BY ORDEAL TO GROUP DECISIONMAKING

As a society, we must have a way to handle crimes, disagreements, and disputes, and while the jury system has a long history dating back to the Magna Carta,³⁴ it is in fact predated by many other dispute resolution processes. During the Middle Ages, disputes were settled by methods like trial by wager of battle, in which “the two disputing parties engaged in a formal duel under the assumption that God would determine which party was in the right and should prevail,”³⁵ and trial by ordeal, in which people were submerged in cold water (those who sunk to the bottom were innocent, while those who rose to the top were guilty) or burned with hot irons (“festering after three days was a sign of guilt”).³⁶ In 1215, Catholic priests, who had played a large part in these various trial procedures, were forbidden from participating, and these and similar procedures came to an end.³⁷ In their place, we began to see the slow and uneven development of decisions by groups of jurors throughout the British Empire and in all of the American colonies.³⁸

Early American jury trials similarly bore little resemblance to the process we see today.³⁹ English Puritans in the colonies instructed jurors to “Feare God and Keepe his Commandments,” and individual colonies created jury systems based in part on their individual cultural and religious beliefs.⁴⁰ Moreover, these early juries were composed entirely of men, and jury service was typically limited to landowners.⁴¹ But as the country continued to change, the jury system also

34. The Magna Carta required that charges against barons should be heard by other barons, their “peers,” rather than by the king. VIDMAR & HANS, *supra* note 2, at 66.

35. *Id.* at 22; *see also* GEORGE R.R. MARTIN, A GAME OF THRONES 421 (1996) (Tyrion Lannister noted, “The gods know the truth of my innocence. I will have their verdict, not the judgment of men. I demand trial by combat.”). Tyrion found himself in this unenviable position more than once: “I am innocent, but I will get no justice here. You leave me no choice but to appeal to the gods. I demand trial by battle.” GEORGE R.R. MARTIN, A STORM OF SWORDS 963 (2000).

36. VIDMAR & HANS, *supra* note 2, at 22.

37. *Id.* at 23. As Vidmar & Hans note, even at the time of its use, the inadequacies of trial by ordeal “as a method of proof were apparent to many members of the Church.” *Id.*

38. *Id.* at 24, 36 (noting that the 1606 charter to the Virginia Company provided for jury trial, and by 1624 juries were available for all civil and criminal cases. In 1623, the right to a jury trial was recognized in New Plymouth. The Massachusetts Bay Colony introduced jury trials in 1628. The Colony of West New Jersey formally recognized them in 1677, as did Pennsylvania in 1682. In fact, juries were probably in use before their formal recognition. Rhode Island had jury trials even before the establishment of the colony’s government and set of laws in 1647.).

39. *Id.* at 47. “The seeds of the jury system may have been in existence in the form of proof by witnesses before William the Conqueror defeated King Harold’s army in 1066, but the Norman conquest of England set the stage for a more formal use of sworn testimony.” *Id.* at 23.

40. *Id.* at 48.

41. JAMES C. OLDHAM, TRIAL BY JURY: THE SEVENTH AMENDMENT AND ANGLO-AMERICAN SPECIAL JURIES 176 (2006).

evolved. In the second half of the nineteenth century, defendants were given the right to testify, lawyers began to have a bigger role in the process, and court systems began to take form, with separate courts of appeals.⁴² At the same time, trials were almost always short and not overly concerned with procedure.⁴³ Trials often took less than half an hour, and juries sometimes heard as many as six cases in a day.⁴⁴ Nevertheless, the jury of peers—composed of groups of people from an accused’s community—began to take shape and the group decisionmaking body became seen as a democratic ideal, one that promoted accurate fact-finding and provided a check on the powers of the government.⁴⁵

While rates of jury trials have declined in both criminal and civil cases in the United States, the jury still plays an important role in the American justice system.⁴⁶ And despite all of this change, one thing about the American jury system that has remained relatively constant since its inception is the ideal of a representative jury with dual goals—a jury of peers that is composed of a “reasonable cross-section” of the community.⁴⁷ The jury of peers is intended to give defendants a fair trial by including in the jury a representative number of people who share his “cultural, linguistic, ethnic, or, possibly, socioeconomic circumstances.”⁴⁸ Conversely, the reasonable cross-section requirement ensures that members of the jury are drawn from all segments of the community in which the trial occurs.⁴⁹ As the United States Supreme Court has noted, “[p]roviding an accused with the right to be tried by a jury of his peers gave him an inestimable safeguard against the corrupt or overzealous prosecutor and against the compliant, biased, or eccentric judge.”⁵⁰

42. For an excellent summary of the development of the modern jury system in the United States, see VIDMAR & HANS, *supra* note 2, at 41-64.

43. *Id.* at 59.

44. *Id.* at 60.

45. RANDOLPH N. JONAKIT, *THE AMERICAN JURY SYSTEM* 36 (2003).

46. VIDMAR & HANS, *supra* note 2, at 60-61. This decline can be attributed to a number of factors, from the increasing use of dispute resolution, which has moved disputes from courts and juries to mediators and negotiators, to plea bargaining, once unusual in the criminal system, which reduces the number of criminal cases that go to trial. *Id.* at 63.

47. *Thiel v. S. Pac. Co.*, 328 U.S. 217, 220 (1946).

48. OLDHAM, *supra* note 41, at 176-77.

49. *Thiel*, 328 U.S. at 220.

50. *Duncan v. Louisiana*, 391 U.S. 145, 156 (1968). The term “American jury system” includes many discrete systems. Each state, the federal government, and the District of Columbia has its own courts, laws, and practices, with multiple jury systems. Moreover, jury systems differ in criminal cases and civil matters. All of these systems do share some important characteristics. The Sixth Amendment to the Constitution provides that “[i]n all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed[.]” U.S. CONST. amend. VI. The United States Supreme Court has limited this right by holding that the Sixth Amendment does not guarantee jury trials for “petty” offenses, or those carrying a potential punishment of less than six months’ imprisonment. *See Baldwin v. New York*, 399 U.S. 66, 68 (1970). Since 1968, this constitutional

Of course, the representative jury is based on the premise that while individual jurors may view the evidence through the lens of their past experiences,⁵¹ they must agree as a group on the legal implications of the evidence they have heard in order to reach a verdict. They must reconcile their individual perspectives and arrive at a group decision.⁵² The process by which jurors reach a group decision and the characteristics of the deliberation process began receiving attention in the legal literature starting in 1950 with the Chicago Jury Project.⁵³ Since then, hundreds of studies have further explored juries and jury decisionmaking in mock jury experiments, as well as in interviews with real jurors.⁵⁴ And there have been significant improvements in the process by which

right to a jury trial has applied to both state and federal criminal trials. *Duncan*, 391 U.S. at 155-56. In civil cases in federal court, the right to a jury trial is governed by the Seventh Amendment, which provides that “[i]n Suits at Common Law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved.” U.S. CONST. amend. VII. This constitutional right to a jury trial in civil cases only applies to federal cases, but most states do afford jury trials in civil matters for cases above the level of the small claims court. See AMERICAN JUDICATURE SOCIETY, RIGHT TO JURY TRIAL (2013), available at <http://alturl.com/vmmgu>, archived at <http://perma.cc/7863-LEFP>.

51. The story model is the most prevalent theory on how individual jurors view and interpret the facts they see in a trial. In this model, jurors use instructions to derive lists of the features of individual crimes or claims; if the story they have constructed shares enough features with the instructions, they will find the defendant guilty, and if it is missing too many requirements, they will find the defendant innocent. REID HASTIE ET AL., INSIDE THE JURY 22-23 (1983); see also Peter W. English & Bruce D. Sales, *A Ceiling or Consistency Effect for the Comprehension of Jury Instructions*, 3 PSYCHOL. PUB. POL’Y & L. 381, 382 (1997).

52. In federal courts, juries must consist of at least six and no more than twelve members in civil trials, and are normally composed of twelve jurors in criminal trials. FED. R. CIV. P. 48(a); FED. R. CIV. P. 23(b). In civil cases in state court, size and unanimity requirements vary considerably. See THOMAS COHEN & RON MALEGA, BUREAU OF JUSTICE STATISTIC’S SURVEY OF STATE COURT ORGANIZATIONS (2011), available at <http://alturl.com/cxfxi>, archived at <http://perma.cc/H5LL-CCQ6>. About half of states allow non-unanimous verdicts in civil cases, and fewer than half require twelve-person juries. *Id.* For a recent report on size and unanimity requirements in all jurisdictions. *Id.* In both civil and criminal cases in federal courts, the jury must reach a unanimous verdict. FED. R. CRIM. P. 31(a); FED. R. CIV. P. 48(b). In 1972, the United States Supreme Court held that the Sixth Amendment requires a unanimous verdict in criminal cases, but that this Sixth Amendment guarantee does not apply to state criminal courts by virtue of the Due Process Clause of the Fourteenth Amendment. *Apodaca v. Oregon*, 406 U.S. 404, 406 (1972). Today in state courts, only Louisiana and Oregon allow non-unanimous jury verdicts in criminal cases and the United States Supreme Court recently denied certiorari in *Jackson v. Louisiana*, a case that challenged the constitutionality of Louisiana’s law. *Jackson v. Louisiana*, 134 S. Ct. 1950 (2014).

53. For an excellent review of the University of Chicago Jury Project, see Valerie P. Hans & Neil Vidmar, *The American Jury at Twenty-Five Years*, 16 LAW & SOC. INQUIRY 323, 324-26 (1991).

54. See Devine et al., *supra* note 19, at 622.

jurors are asked to make decisions: many courts have begun to pre-instruct jurors on the applicable law before the introduction of evidence, and some courts allow the jury to take notes, to submit questions to witnesses, and to consult written copies of jury instructions during deliberations.⁵⁵

At the same time, there has been extensive research on group decisionmaking in the social sciences.⁵⁶ Much of this research supports the idea that groups can be effective decisionmakers, often reaching equivalent or better decisions than individuals could have on their own.⁵⁷ Some research suggests that representative juries composed of people with different backgrounds and experiences promote accurate fact-finding because such a group is likely to hold diverse perspectives on the evidence, engage in more thorough debate, and more closely evaluate the facts.⁵⁸ On the other hand, there are also a variety of problems associated with group decisionmaking, from loss of motivation in groups due to social loafing and the free-rider effect, to the vulnerability of groups, to various cognitive biases and errors.⁵⁹ Group dynamics also play a role; it can be difficult for an individual to stand up to the group when her opinion is in the minority.⁶⁰ But despite this extensive literature, almost none of the insights gained from studies of group dynamics and training in group decisionmaking has been applied to juries to improve the process by which this important group deliberates and makes decisions.

While judges and lawyers instruct jurors to decide only the facts, this instruction assumes a clear division between the law and the facts, or that all individual jurors will view the facts as they are.⁶¹ But in fact, application of law to facts involves certain value judgments and “the deliberation provides an excellent opportunity for the jury members to influence one another on the

55. See HON. GREGORY E. MIZE (RET.) ET AL., THE STATE-OF-THE-STATES SURVEY OF JURY IMPROVEMENT EFFORTS: A COMPENDIUM REPORT 36 (2007), available at <http://alturl.com/egwby>, archived at <http://perma.cc/A9HF-WZRB>.

56. For a recent review of studies related to group decisionmaking, see Norbert L. Kerr & Scott Tindale, *Group Performance And Decisionmaking*, 55 ANN. REV. PSYCHOL. 623 (2004).

57. Nijstad & Kaps, *supra* note 30, at 860; see also Gregory S. Berns et al., *Neurobiological Correlates of Social Conformity and Independence During Mental Rotation*, 58 BIOLOGICAL PSYCHIATRY 245, 245 (2005). For a discussion of the advantages of group decisionmaking in corporate governance, see Stephen M. Bainbridge, *Why A Board? Group Decisionmaking in Corporate Governance*, 55 VAND. L. REV. 1 (2002).

58. VIDMAR & HANS, *supra* note 2, at 74. As Vidmar and Hans note, the “idea of a representative jury is a compelling one. A jury of people with a wide range of backgrounds, life experiences, and world knowledge will promote accurate fact-finding.” *Id.*

59. Tatsuya Kameda et al., *Democracy Under Uncertainty: The Wisdom of Crowds and the Free-Rider Problem in Group Decision Making*, 118 PSYCHOL. REV. 76, 76-77 (2011).

60. Robert B. Cialdini & Noah J. Goldstein, *Social Influence: Compliance and Conformity*, 55 ANN. REV. PSYCHOL. 591, 612 (2004) (noting that “the extent to which one identifies with a message source—be it a majority or a minority—is a significant factor in determining the information processing strategies one employs as well as the outcome of an influence attempt”).

61. VIDMAR & HANS, *supra* note 2, at 144.

meaning of facts and the value judgments implicit within them.”⁶² And as a group of individuals attempting to reach a collective decision, juries—like all other human groups—are subject to common drawbacks of group decisionmaking. So while the representative jury is an improvement from the time of trial by combat, studies of group dynamics and training in group decisionmaking can inform that process and we should draw from the conclusions of those studies to give individual jurors more guidance about how to avoid the vulnerabilities associated with group decisionmaking and reach better decisions.

II. WE ARE A SORT OF THEY: HOW TO DEFINE A “GROUP”

*“Father, Mother, and Me, Sister and Auntie say
All the people like us are We, and every one else is They.
And They live over the sea, While We live over the way,
But—would you believe it?—they look upon We
As only a sort of They!”*
—Rudyard Kipling⁶³

When fish swim together they are a “school.” When lions hunt collectively, it is a “pride.” When chimpanzees cooperate to defend fruit trees, they are a “troop.” And when two or more human beings “are connected by and within social relationships,” they are a “group.”⁶⁴ To understand how groups make decisions and how we can train them to make better decisions, we first need to understand what groups are and how they evolve, but the term “group” can be difficult to define.⁶⁵ For some, the critical factor in defining a group is the experience of a common fate.⁶⁶ For others, group members must have some perception of themselves as members of the same social category.⁶⁷ What these varying descriptions all have in common is a collection of individuals who “*perceive themselves* in terms of their group membership.”⁶⁸

62. *Id.*

63. RUDYARD KIPLING, *WE AND THEY* (1926).

64. DONELSON R. FORSYTH, *GROUP DYNAMICS* 3 (5th ed. 2010).

65. *Id.* (observing that theorists are not of one mind when it comes to defining the word *group*.)

66. See, e.g., Chester A. Insko et al., *Interindividual-Intergroup Discontinuity in the Prisoner’s Dilemma Game: How Common Fate, Proximity, and Similarity Affect Intergroup Competition*, 120 *ORG. BEHAV. & HUM. DECISION PROCESSES* 163, 169 (2013) (some examples of groups with a “common fate” include “a migrating flock of birds, a moving herd of buffalo, parading soldiers, [and] a marching band . . .”).

67. Colin Wayne Leach, *Group-Level Self-Definition and Self-Investment: A Hierarchical (Multicomponent) Model of In-Group Identification*, 95 *J. PERSONALITY & SOC. PSYCHOL.* 144, 146 (2008) (noting that “in-group identification is indicated by a ‘depersonalized’ self-perception, whereby individuals come to ‘self-stereotype’ themselves as similar to other members of their in-group”).

68. *Id.* (emphasis in original).

We can think of “groupness” as fitting along a continuum; whether a collection of people becomes a group depends on whether they possess entitativity, the perception of being a coherent whole or an entity.⁶⁹ Whether and to what extent individuals become a group depends on their similarity, common fate, proximity, and ongoing interaction.⁷⁰ For example, people standing in line together are proximate to one another, but do not possess any other characteristics of a group and probably do not consider themselves a group. Conversely, a group of people brought together to serve on a jury are similar to the extent they are all jurors, share the common fate of reaching a verdict, are proximate to one another in the courtroom and during deliberations, and have ongoing interaction for the duration of the trial. All of these factors encourage cohesion and social integration, which in turn gives the individual jurors a sense of group membership.⁷¹

Like other groups of people, jurors are motivated to belong to social groups; they want to have strong and stable relationships with other people and form these bonds easily.⁷² In a famous study testing this idea, researchers at a summer camp in Robbers Cove, Oklahoma divided young campers into two groups.⁷³ The boys were previously unacquainted, but after a week of living with their assigned group—the Rattlers or the Eagles—the groups formed intense team loyalties.⁷⁴ Membership in social groups can also have profound impacts on an individual’s well being—both psychological and physical.⁷⁵ For example, in a study of stroke sufferers, the ability to maintain existing group memberships was as important to

69. Namkje Koudenburg et al., *Conversational Flow and Entitativity: The Role of Status*, 53 BRIT. J. SOC. PSYCHOL. 350, 351 (2014) (noting that “[t]he concept of entitativity is an important determinant of processes within and between groups”).

70. FISKE, *supra* note 24, at 461.

71. *Id.* Of course, “groupness” also depends on context. For example, people who live in the United States would identify themselves as “Americans” when compared to a group of people who live in a different country, but in many other contexts would not see themselves as similar to others in that “group.” Moreover, all of those people would further self-identify as a member of many different ethnic, social, and cultural groups.

72. *Id.*; see also Donald F. Sacco et al., *Reactions to Social Inclusion and Ostracism as a Function of Perceived In-Group Similarity*, 18 GROUP DYNAMICS: THEORY, RES., & PRAC. 129, 130 (2014) (observing that “unfulfilled belongingness needs have a decidedly negative impact on well-being”).

73. MUZAFAER SHERIF ET AL., THE ROBBERS CAVE EXPERIMENT, INTERGROUP CONFLICT AND COOPERATION 94-95 (1988).

74. *Id.*

75. S. Alexander Haslam et al., *Social Identity, Health and Well-Being: An Emerging Agenda for Applied Psychology*, 58 APPLIED PSYCHOL. 1, 2-3 (2009) (explaining that “[g]roups are not simply external features of the world that provide a setting for our behaviour. Instead they shape our psychology through their capacity to be internalised and contribute to our sense of self. Thus, far from being ‘just another’ factor that impinges upon the health of individuals, social identities—and the notions of ‘us-ness’ that they both embody and help create—are central to health and well-being.”).

recovery as the ability to overcome cognitive difficulties with memory and language.⁷⁶ Similarly, a study of nursing home residents found that a strong sense of identity associated with perceived membership in social groups was a much better predictor of the residents' well-being than their level of dementia.⁷⁷

Once people are part of a group, they are powerfully influenced by other group members. In the smoke study, for example, the lack of reaction from others in the room influenced the participants to believe that the smoke was not serious and they therefore did not need to report it.⁷⁸ As the researchers noted, individuals were "likely to look at the reactions of people around [themselves] and be powerfully influenced by them."⁷⁹ Other researchers put forth different theories to explain this "bystander effect."⁸⁰ For example, studies of diffusion of responsibility suggest that as the number of people in a group increases, each individual member will be less responsible for helping because others will take responsibility.⁸¹ Both of these theories focus on the situation and how the presence of others in a situation motivates individual behavior.

Furthermore, belonging to a group has such a strong impact on individual cognition and behavior that even people who only *imagine* being in a group have concepts of unaccountability triggered. These feelings of unaccountability can cause group members to decide the situation does not call for their individual assistance.⁸² This sense of unaccountability occurs because "part of the concept of being in a group is the notion of being lost in a crowd, being deindividuated, and having a lowered sense of personal accountability."⁸³ For example, people who were asked to imagine that they won a dinner for themselves and thirty friends subsequently pledged less to charity than those who imagined winning a dinner for a group of ten people, while those who imagined a dinner with only one friend pledged more than either of the larger groups.⁸⁴ Similarly, when people were asked to imagine being with a friend in a crowded movie theater, or to imagine being with a friend in an empty movie theater, those who imagined a crowded theater pledged significantly less to an annual giving campaign (on

76. Catherine Haslam et al., *Maintaining Group Memberships: Social Identity Continuity Predicts Well-Being After Stroke*, 18 NEUROPSYCHOL. REHABILITATION 671, 684 (2008).

77. Catherine Haslam et al., *The Social Treatment: The Benefits of Group Interventions in Residential Care Settings*, 25 PSYCHOL. & AGING 157, 163 (2010).

78. Latané & Darley, *supra* note 8, at 220.

79. *Id.*

80. *Id.*

81. *Id.* at 215 (noting "[i]f an individual is alone when he notices an emergency, he is solely responsible for coping with it. If he believes others are also present, he may feel that his own responsibility for taking action is lessened, making him less likely to help").

82. Stephen M. Garcia et al., *Crowded Minds: The Implicit Bystander Effect*, 83 J. PERSONALITY & SOC. PSYCHOL. 843, 851 (2002).

83. *Id.* at 845.

84. *Id.* at 846. Subjects who imagined groups of thirty pledged an average of 3.6% of their after-tax earnings, subjects who imagined groups of ten pledged an average of 3.9%, and subjects who imagined dinner with one friend pledged an average of 4.2%. *Id.*

average between \$100 and \$249) than those who imagined being in an empty theater (on average between \$500 and \$999).⁸⁵ It seems that simply imagining the presence of others influences behavior and can lead to lessened levels of responsibility.⁸⁶

Being a member of a group can therefore have a profound impact on an individual's cognition and behavior. But the process of *becoming* a group takes place in stages. Just as individuals grow and develop through predictable stages, so do groups of jurors. As one author noted, “[g]roups are not static; nor do they emerge, like the mythical Athena, fully formed in an act of divine creation.”⁸⁷ Throughout the life cycle of the group, individual jurors must establish and maintain relationships with other members of the jury.⁸⁸ Various changes occur within the jury from the time it is empanelled to the time it reaches a verdict, including the evolution of status hierarchies, group cohesion, group norms, and group roles. We can examine these stages to get a better sense of how group membership influences individual jurors' decisionmaking and the decisionmaking of the jury as a whole.

A. Status

Many species, from humans to birds, fish, and insects quickly form status hierarchies when placed in a group setting.⁸⁹ In humans, the status level of various group members can be seen in both non-verbal and verbal behavior.

85. *Id.* at 846-47. Specifically, subjects in the “crowded theatre” condition were told: “Imagine that you and a friend are sitting in a crowded movie theater. There are people in front of you, behind you, and to your sides. Although there are some children, the audience is mostly adults, and you are just watching the movie previews.” Those in the “empty theatre condition” were told: “Imagine that you and a friend are sitting alone in a movie theater. You and your friend have the entire theater to yourself, and you are just watching the movie previews.” *Id.* at 846 (internal quotations omitted).

86. *Id.* at 848. In the same study, subjects who were asked to think about a crowded movie theatre and then asked to respond to real words or nonsense words on a computer screen responded more quickly to real words regarding unaccountability (*unaccountable*, *innocent*, and *exempt*) than they did to other neutral words (*whimsical* and *impenetrable*); in other words, because they were thinking about being in a large group of people, they were more responsive to words related to the unaccountability that occurs in groups. Specifically, those in the “crowded theatre” condition responded to words regarding unaccountability in an average of 517 milliseconds, while those in the “empty theatre” condition responded to the same words took an average of 587 milliseconds to respond. *Id.* at 849.

87. Erik K. Stern, *Probing the Plausibility of Newgroup Syndrome: Kennedy and the Bay of Pigs*, in *BEYOND GROUPTHINK: POLITICAL GROUP DYNAMICS AND FOREIGN POLICY-MAKING* at 155 (Paul ‘t Hart et al. eds., 1997).

88. John M. Levine & Richard L. Moreland, *Progress In Small Group Research*, 41 ANN. REV. PSYCHOL. 585, 598 (1990).

89. Cameron Anderson & Gavin J. Kilduff, *The Pursuit of Status in Social Groups*, 18 CURRENT DIRECTIONS PSYCHOL. SCI. 295, 295 (2009).

High-status members tend to make more eye contact with other members of the group, speak more firmly and with fewer hesitations, and have better posture.⁹⁰ Similarly, high-status members speak and are spoken to more often, and are more likely to criticize and interrupt other members of the group.⁹¹ Moreover, in groups, the status of the speaker can be more important than the content of her contribution. One study of navy bombing crews found that when the captain suggested an answer to a navigation problem, other members of the crew were more likely to accept the answer than they were when it came from the navigator, even though the navigator was more likely to have the correct answer.⁹²

Status within juries similarly forms very quickly after the group is composed, often before group members engage in any real interaction with one another.⁹³ One explanation for this immediate status hierarchy is that group members have certain expectations about each other and how much they are likely to contribute to the group.⁹⁴ When the jury forms, its members will evaluate each other and decide how much value they think individual members can provide to the group; those perceived as being the most vital will be given the highest status.⁹⁵ These expectations can be based on immutable characteristics like race, age, or gender, as well as on information group members reveal about themselves, like occupation or prior jury experience.⁹⁶ The jury accords higher status to people with characteristics others expect will be helpful in reaching a verdict.⁹⁷

Like individuals in any group, jurors also participate in group discussion at markedly different rates and high status members tend to dominate the discussion.⁹⁸ In one study, three of twelve jurors were responsible for more than

90. Levine & Moreland, *supra* note 88, at 598.

91. *Id.*

92. Charlan Jeanne Nemeth, *Dissent as Driving Cognition, Attitudes, and Judgment*, 13 SOC. COGNITION 273, 275 (1995).

93. Levine & Moreland, *supra* note 88, at 598-99.

94. *Id.* at 599; *see also* Brent Simpson et al., *Status Hierarchies and the Organization of Collective*, 30 SOC. THEORY 149, 152 (2012) (noting that “those group members for whom performance expectations are higher are granted more opportunities to perform, generate more performance outputs, and have their performance outputs more positively evaluated”).

95. Gavin J. Kilduff & Adam D. Galinsky, *From the Ephemeral to the Enduring: How Approach-Oriented Mindsets Lead to Greater Status*, 105 J. PERSONALITY & SOC. PSYCHOL. 816, 817 (2013) (noting that it is “perceptions of value, rather than value itself, determine status. As a result, groups do not necessarily always place their most valuable or competent members in charge; rather, the ones that *appear* to be the most valuable or competent achieve higher rank.”).

96. Levine & Moreland, *supra* note 88, at 599.

97. While this status can change over time as group members contribute to the discussion or reveal more about themselves, it can be difficult for group members with low-status to overcome this perception. *Id.* Another theory of rapid status development posits that group members quickly assess one another’s strength and dominance upon meeting, engage in dominance “contests” like maintaining eye-contact until one person looks away, and assign status based on the results of these contests. *Id.*; *see also* Anderson & Kilduff, *supra* note 89, at 297.

98. HASTIE ET AL., *supra* note 51, at 28.

half of the discussion, while another study found that in six-member juries, five percent of the jurors did not speak at all, and in twelve-member juries, twenty percent of mock jurors did not speak.⁹⁹ Male jurors tend to speak more than female jurors, and jurors with higher economic status also speak more often.¹⁰⁰ Physical location at the jury table is also important: jurors at the ends and middle of the table participate more than those in the corners.¹⁰¹

Generally speaking, higher-status jurors will be more influential during group deliberations and decisionmaking.¹⁰² Because jurors with higher status have more opportunities to speak, they similarly have more opportunities to guide the course of deliberation, and to ultimately influence the verdict.¹⁰³ All of these things contribute to some jurors guiding the verdict and having greater control over the jury's final decision.¹⁰⁴ This result—that an individual juror with high status can exert tremendous influence over the outcome of a trial—is at odds with the ideal of a representative jury system. Studies in group decisionmaking and group dynamics, however, suggest that jurors can be given training and techniques to ensure that individual jurors, even those with lower status in the group, have sufficient opportunities to voice their opinions and contribute to the deliberative process.¹⁰⁵

B. Cohesion

On April 17, 1961, less than three months into his presidency, President John F. Kennedy ordered the Bay of Pigs invasion in an attempt to overthrow the Fidel Castro regime in Cuba.¹⁰⁶ Because it was only the beginning of the Kennedy administration, most of the decisionmakers and advisors to the President had been in their positions for only a few months and most lacked close personal relationships with the President.¹⁰⁷ Secretary of State Dean Rusk just met Kennedy for the first time in December 1960, and National Security Assistant McGeorge Bundy knew Kennedy only socially.¹⁰⁸ Bundy later said that if he had known Kennedy better and enjoyed more rapport with him, he would have

99. *Id.* (citing various studies).

100. *Id.* (citing various studies).

101. *Id.* (citing various studies).

102. Stern, *supra* note 87, at 157.

103. Levine & Moreland, *supra* note 88, at 600 (“[A] person's status often affects his or her relations with other group members. People with higher status have more opportunities to exert social influence, try to influence other group members more often, and are indeed more influential than people with lower status.”).

104. *Id.* As the authors note, “[a] person's status can also affect how he or she is evaluated by others. Even when they behave in similar ways, people with higher status are often evaluated more positively than people with lower status.” *Id.*

105. *See infra* Part IV.B.

106. Stern, *supra* note 87, at 178-79.

107. *Id.* at 178.

108. *Id.* at 179.

questioned the President's support of the failed invasion.¹⁰⁹

Kennedy's advisers on the Bay of Pigs invasion were considered the "best and brightest," and included "[e]lder statesmen, cunning bureaucrats, captains of industry, and academic luminaries" all of whom participated in extensive group deliberations with the President.¹¹⁰ But the failed invasion was a foreign policy disaster. Kennedy himself later asked, "[H]ow could I have been so stupid as to let them go ahead?"¹¹¹ How did so many smart individuals make such a poor group decision? In his book, *A Thousand Days*, Arthur Schlesinger writes that Kennedy "could not know which of his advisers were competent and which were not. For their part, they did not know him or each other well enough to raise hard questions with force and candor."¹¹² Because they were a new group, and therefore unfamiliar with each other, group members lacked "idiosyncrasy credit" and were more susceptible to conformity—they did not know Kennedy so they did not speak up.¹¹³

Part of the problem was that the group—Kennedy's administration—was new and its members were not yet cohesive. A group is cohesive when its members "identify strongly with its key features and aspirations."¹¹⁴ One of the earliest definitions of group cohesiveness is "all the forces acting on the members to remain in the group."¹¹⁵ Unlike status hierarchies, cohesion does not occur immediately when a group is formed, but instead develops during the life cycle of the group when it has had the chance to work together and its members have gotten to know one another.¹¹⁶

Many studies find that high group cohesion leads to increased productivity and better group performance.¹¹⁷ Specifically, group cohesion can enhance group

109. *Id.*

110. *Id.* at 153.

111. Stern, *supra* note 87, at 153.

112. ARTHUR M. SCHLESINGER, JR., *A THOUSAND DAYS: JOHN F. KENNEDY IN THE WHITE HOUSE* 258 (2002).

113. Stern, *supra* note 87, at 179.

114. RUPERT BROWN, *GROUP PROCESSES: DYNAMICS WITHIN AND BETWEEN GROUPS* 46 (2000); see also MICHAEL A. HOGG, *THE SOCIAL PSYCHOLOGY OF GROUP COHESIVENESS: FROM ATTRACTION TO SOCIAL IDENTITY I* (1992) (defining cohesiveness as "the descriptive and technical term used by social psychologists to refer to the essential property of social groups that is captured in common parlance by a wide range of other expressions, such as solidarity, cohesion, comradeship, team spirit, group atmosphere, unity, 'oneness,' 'we-ness,' 'groupness,' and belongingness").

115. Leon Festinger, *Informal Social Communication*, *PSYCHOL. REV.* 271, 274 (1950).

116. Daniel J. Beal et al., *Cohesion and Performance in Groups: A Meta-Analytic Clarification of Construct Relations*, 88 *J. APPLIED PSYCHOL.* 989, 995 (2003).

117. Charles R. Evans & Kenneth L. Dion, *Group Cohesion and Performance: A Meta-Analysis*, 43 *SMALL GROUP RES.* 690, 695 (2012) (finding that cohesive groups were more productive than non-cohesive groups in a meta-analysis of twenty seven studies concerning group cohesion and productivity). As the authors noted, however, this meta-analysis consisted primarily of groups like sports teams and military units, where productivity could be measured in terms of

productivity, improve morale, facilitate group communication, and reduce group hostility.¹¹⁸ Furthermore, social loafing, a phenomenon where group members reduce their own efforts because they assume that other members of the group will put forth the necessary effort,¹¹⁹ can be reduced in highly cohesive groups.¹²⁰ If a jury is cohesive, it is also more likely to reach consensus on a verdict.¹²¹ Moreover, if jurors are simply told they are likely to be able to work well together, cohesion is increased and group performance improves.¹²² Finally, by taking part in training about effective decisionmaking strategies together, cohesion can be increased and group performance improved.¹²³

C. Norms

Although groups bring many benefits to decisionmaking, including diversity of backgrounds, perspectives, and experiences, the benefits of group decisions can be significantly influenced by an individual member's willingness to stand up to the majority or to act in a way that conflicts with the norms of the group. As members of a social group, jurors will tailor their behavior to be consistent with the norms of the group situation, and can feel "anxious, tense, and embarrassed" if they fail to conform to those norms.¹²⁴ Social norms tell us what

objective performance criteria. In other groups, like juries, "performance may depend on more than the product; it may also depend on the process of production." *Id.* at 696.

118. MICHAEL A. HOGG & DOMINIC ABRAHMS, *SOCIAL IDENTIFICATIONS: A SOCIAL PSYCHOLOGY OF INTERGROUP RELATIONS AND GROUP PROCESSES* 94 (1990) (citing various studies that have found group cohesion "enhances group productivity and performance, increases conformity to group norms, improves morale and job satisfaction, facilitates intragroup communication, reduces intragroup hostility . . . , and increases feelings of security and self-worth"). Other studies reach different findings. *See, e.g.*, BROWN, *supra* note 114, at 217 ("[T]he relative unimportance of cohesiveness [has] been confirmed in field studies of naturally functioning groups."). Finally, some sources suggest the relationship between cohesion and productivity is more reciprocal: while "cohesion aids performance," it is also true that performance causes changes in cohesiveness. FORSYTH, *supra* note 64, at 138.

119. *See infra* Part III.B.

120. Steven J. Karau & Kipling D. Williams, *The Effects of Group Cohesiveness on Social Loafing & Social Compensation*, 1 *GROUP DYNAMICS: THEORY, RES., & PRAC.* 156, 165 (1997).

121. JEFFREY T. FREDERICK, *MASTERING VOIR DIRE AND JURY SELECTION: GAIN AN EDGE IN QUESTIONING AND SELECTING A JURY* 268 (3d ed. 2012).

122. *Id.*

123. *See infra* Part IV.

124. Stanley Milgram & John Sabini, *On Maintaining Social Norms: A Field Experiment in the Subway*, in *SMALL GROUPS & SOCIAL INTERACTION* 190 (Blumberg et al. eds., 1983). One of Milgram's most famous studies involved subways in New York City. Milgram asked graduate students to do that thing "that just isn't done" on the subway in a major city: approach a rider and ask her to give up her seat. *Id.* at 192. As Milgram notes,

The requirements of appropriate social behavior on the subway are, on the face of it, simple. People get on the subway for a very clear and specific reason: to get from one

is appropriate and acceptable behavior in a given situation, and can have a significant impact on cognition and behavior.¹²⁵

There are two main types of social norms—descriptive and injunctive—and both have a powerful influence on how individuals choose to act in social situations.¹²⁶ Descriptive norms are our beliefs about what others are doing, while injunctive norms are our feelings about what constitutes acceptable behavior in others.¹²⁷ For example, people in high-energy-consuming households reduced their level of energy consumption when they were told that their electricity consumption was higher than their neighbors (they had violated a descriptive norm), and they reduced it even more when they were told that excessive use of electricity is undesirable (they had violated an injunctive norm).¹²⁸ Similarly, college students who believe it is not socially acceptable for teenagers to drink are significantly less likely to use alcohol,¹²⁹ and those who believe it socially

place to another in a brief period of time. The amount of interaction among the riders required for this purpose is minimal and the rules governing this interaction are widely adhered to. One rule of subway behavior is that seats are filled on a first-come, first-served basis. Another implicit rule is one that discourages passengers from talking to one another. The experimenters in this study violated these rules by asking people for their seats.

Id. at 186. When riders were given no explanation (“Excuse me. May I have your seat?”) they got up or slid over 68.3% of the time, and when they were given a trivial reason (“Excuse me. May I have your seat? I can’t read my book standing up.”) they gave up their seat 41.9% of the time. *Id.* But several of the other passengers who overheard the exchange openly chided the person who had given up the seat, saying things like, “Did you see that? He asked for a seat!” *Id.* Other passengers openly stared at the student subjects who asked for a seat. *Id.* at 187-89. Finally, many of the student subjects found it very difficult to carry out the experiment; they were anxious, tense, embarrassed, and were frequently “unable to vocalize the request for a seat and had to withdraw.” *Id.* As Milgrim notes, “[a]n important aspect of the maintenance of social norms is revealed in [this] emotional reaction” on the part of the student subjects. *Id.* at 190. The students were so uncomfortable violating the social norm of the subway and doing the thing that “just isn’t done” that they sometimes could not do it at all. *Id.*

125. Cialdini & Goldstein, *supra* note 60, at 597 (noting that “a close examination of the seemingly inconsistent literature on norms and their impact on behavior yields a meaningful distinction between norms that inform us about what is typically approved/disapproved (injunctive norms) and those that inform us about what is typically done (descriptive norms)”).

126. P. Wesley Schultz et al., *The Constructive, Destructive, and Reconstructive Power of Social Norms*, 18 PSYCHOL. SCI. 429, 430 (2007).

127. *Id.*

128. *Id.* at 431-32. Specifically, “if the household had consumed more than the average, the researcher drew a sad face (L). *Id.* The valence of the emoticon was used to communicate an injunctive message of approval or disapproval for the amount of energy being consumed.” *Id.* at 431. Furthermore, the authors noted that they believed these findings will apply to many other behaviors, including seat-belt use, littering, consumer choices, and illegal downloading of music. *Id.* at 433.

129. Andrew Hallim et al., *The Role of Social Drinking Motives in the Relationship Between*

unacceptable to gamble are similarly less likely to do so.¹³⁰

Although people consciously observe the behavior of others to determine how to act in social situations,¹³¹ it is also true that some of this norm development can occur automatically and unconsciously. For example, when college dormitory residents received flyers in their school mailboxes, they were more likely to litter and throw the flyers on the floor when the mailroom floor was covered with other flyers and less likely when the floor was clean.¹³² Interestingly, they were least likely to litter when the floor was clean, except for “one piece of highly conspicuous litter (a hollowed-out, end piece of watermelon rind).”¹³³ The students behaved in an orderly way because the environment reminded them that the norm was that “everybody behaved orderly except for ‘the pig that spoiled the place.’”¹³⁴ Similarly, people who were shown a picture of a library spoke more quietly because of the situational norm that people unconsciously associate with libraries.¹³⁵

When people have simultaneous, yet incompatible beliefs, the tension that results is known as cognitive dissonance.¹³⁶ Dissonance occurs in both individuals and in social groups; when people evaluate their own behavior and find it different from some standard of judgment they experience cognitive dissonance.¹³⁷ That standard of judgment can be personal to the individual (“I think it is important to respect the environment but I drive an SUV”), or it can be

Social Norms and Alcohol Consumption, 37 ADDICTIVE BEHAV. 1135, 1338 (2012).

130. Mary E. Larimer & Clayton Neighbors, *Normative Misperception and the Impact of Descriptive and Injunctive Norms on College Student Gambling*, 17 PSYCHOL. ADDICTIVE BEHAV. 235, 241 (2003).

131. Henk Aarts & Ap Dijksterhuis, *The Silence of the Library: Environment, Situational Norm, and Social Behavior*, 84 J. PERSONALITY & SOC. PSYCHOL. 18, 18–19 (2003). Situational norms are defined as “knowledge or mental representations of appropriate behavior that can be accessed to guide behavior in a specific situation or environment.” Henk Aarts et al., *Automatic Normative Behavior In Environments: The Moderating Role Of Conformity In Activating Situational Norms*, 21 SOC. COGNITION 447, 448 (2003).

132. Robert B. Cialdini et al., *A Focus Theory of Normative Conduct: Recycling the Concept of Norms to Reduce Littering in Public Places*, 58 J. PERSONALITY & SOC. PSYCHOL. 1015, 1019 (1990).

133. *Id.*

134. Aarts & Dijksterhuis, *supra* note 131, at 19 (discussing Cialdini et al., *supra* note 132).

135. *Id.* at 19–20. As the authors note, however, “this effect was qualified by the presence of the goal to go to the library.” *Id.* at 24. In other words, if people who saw the picture did not expect to visit a library, they did not speak in quieter voices. *Id.* at 24.

136. JENNIFER K. ROBBENOLT & JEAN R. STERNLIGHT, *PSYCHOLOGY FOR LAWYERS: UNDERSTANDING THE HUMAN FACTORS IN NEGOTIATION, LITIGATION, AND DECISION MAKING* 20 (2012). One of the earliest descriptions of cognitive dissonance explains that “[t]he presence of dissonance leads to action to reduce it just as, for example, the presence of hunger leads to action to reduce the hunger.” LEON FESTINGER, *A THEORY OF COGNITIVE DISSONANCE* 18 (1962).

137. David C. Matz & Wendy Wood, *Cognitive Dissonance in Groups: The Consequences of Disagreement*, 88 J. PERSONALITY & SOC. PSYCHOL. 22, 22 (2005).

external to the individual and based on social norms (“I am a member of the Catholic Church but I believe religious employers should provide birth control to employees.”).

People often experience significant discomfort when their behavior or opinions are different from the group, and this discomfort can motivate individuals to change their own beliefs to conform to those of the group.¹³⁸ For example, in one study subjects were asked their individual opinions on a variety of social issues.¹³⁹ They were then placed in a group and given the other group members’ responses to the same questions.¹⁴⁰ Those who were grouped with others with different opinions experienced significant amounts of dissonance (specifically they were “uncomfortable and tense”), especially when they were expected to interact with the group, or to interact until they reached a consensus on the issues.¹⁴¹

Going against the norm in a group can be so difficult that it actually triggers activity in areas of the brain associated with negative mental states.¹⁴² In a recent study testing this effect, researchers used functional magnetic resonance imaging (“fMRI”) to monitor participants’ neuronal activity while they completed a task.¹⁴³ Participants were shown two pairs of three-dimensional objects and asked to “mentally rotate” them to decide if they were identical.¹⁴⁴ Before making their decisions, they were told about the decisions of a group of peers, whose answers were incorrect half of the time.¹⁴⁵ When participants disagreed with the group—even when the group’s answers were wrong—there was increased activity in the amygdala region of the brain, which is closely associated with negative emotional states.¹⁴⁶ As the authors noted, “[t]he amygdala activation in our experiment was perhaps the clearest marker of the emotional load associated with standing up for one’s belief.”¹⁴⁷

138. Michael I. Norton et al., *Vicarious Dissonance: Attitude Change From the Inconsistency of Others*, 85 J. PERSONALITY & SOC. PSYCHOL. 47, 58-59 (2003).

139. Matz & Wood, *supra* note 137, at 25. Specifically, subjects were asked for their opinions on seven social or campus issues: “capital punishment, immigration laws, legalized abortion, tuition increases to provide funding to attract minority students, a law to make flag burning illegal, gun control, and reinstating a university-wide bonfire celebration that had been terminated because of safety concerns.” *Id.*

140. *Id.* at 24-25.

141. *Id.* at 27. Subjects also experienced a lesser degree of discomfort when they were simply told about other group member’s differing opinions, but did not expect to interact with the other group members. *Id.* The same study found similar levels of dissonance and discomfort when mock jurors disagreed with other members of the jury. *Id.* at 29.

142. Berns et al., *supra* note 57, at 252.

143. *Id.*

144. *Id.* at 246-47 (Figure 1).

145. *Id.* at 245.

146. *Id.* at 252.

147. *Id.* Interestingly, the “amygdala is also known to modulate social behavior and to be activated by human faces, particularly when the faces have emotional significance.” *Id.* (citing

Conversely, when a group has a mutual understanding of the applicable norms—when everyone knows and agrees about what everyone else is supposed to do—group performance improves.¹⁴⁸ In a study of physicians and nurses working in an emergency room, nurses were asked how “frequently work problems in their units were solved by ‘having clear and detailed job definitions for all involved.’”¹⁴⁹ Researchers then measured various indicators of effective care within the hospital, including the promptness of care, the quality of nursing care, and the quality of medical care.¹⁵⁰ As normative consensus increased, specifically when nurses felt everyone agreed about work expectations in the emergency room, all of the indicia of effective care correspondingly increased.¹⁵¹ As the authors noted, “[w]hen agreement about norms exists . . . [t]his provides a base for coordination and for effective performance.”¹⁵²

One of the benefits of the jury system is that jurors incorporate community values and community norms.¹⁵³ The jury defines the appropriate standard of care in a given situation, or it decides what amount of damages will make an injured person whole.¹⁵⁴ These are not specific standards, and the jury is expected to be a representative of the community in making these sorts of normative assessments.¹⁵⁵ Norms are central to the entire concept of a representative jury: “only a body taken from a cross sectional representative group of the community can meaningfully project community norms.”¹⁵⁶ If individual jurors are unwilling to stand up to the majority, however, or to act in a way that conflicts with the norms of the group, this unwillingness undermines the benefits of the representative jury and can lead to decisions based on the beliefs of a few individual jurors, rather than the decisions of a diverse group of decisionmakers.

D. Roles

On January 13, 1982, Air Florida Flight 90 took off from National Airport in

various studies).

148. Linda Argote, *Agreement About Norms and Work-Unit Effectiveness: Evidence From the Field*, 10 BASIC & APPLIED SOC. PSYCHOL. 131, 132 (1989). The study relied on interviews and questionnaires of 248 emergency unit physicians, 278 nurses, and 215 hospital physicians in six Midwestern states. *Id.* at 133.

149. *Id.* at 134.

150. *Id.* at 132.

151. *Id.* at 138. As the authors note, however, “[t]his agreement is likely to vary across systems. For example, in one hospital, nurses might think that what administrators expect the nurses to do is “about right,” whereas in another, nurses might think administrators expect the nurses to do too much paperwork or to exert too little influence over patient care.” *Id.* at 132.

152. *Id.* at 137.

153. RANDOLPH N. JONAKAIT, *THE AMERICAN JURY SYSTEM* 64-66 (2003).

154. *Id.* at 64-66.

155. *Id.* at 72.

156. Gary Goodpaster, *On the Theory of American Adversary Criminal Trial*, 78 J. CRIM. L. & CRIMINOLOGY 118, 146 (1987).

Washington, D.C. en route for Fort Lauderdale, Florida.¹⁵⁷ There had been a snowstorm that morning, with approximately four to eight inches of snow in the Washington area and the flight was delayed for almost two hours.¹⁵⁸ There were seventy-four passengers and five crewmembers on board the flight.¹⁵⁹ When the plane did take off, it was unable to gain proper speed due to ice on the wings and crashed over the Fourteenth Street Bridge and into the Potomac River.¹⁶⁰ Only five of the people on the plane survived, and the crash also killed four commuters on the bridge, bringing the death toll to seventy-eight.¹⁶¹

Although the plane had been cleared for takeoff, the final decision to fly rested with the pilot.¹⁶² The official National Transportation Safety Board Report blamed ice on the wings for the crash, and specifically the crew's failure to de-ice the wings prior to takeoff.¹⁶³ The pilot and the first officer had run through the standard pre-flight checklist, and although the first officer had noticed extra ice building up on the wings and questioned the pilot, the pilot dismissed his concerns and they continued with the takeoff.¹⁶⁴ The pilot and the first officer "had adopted such a fixed pattern of role responsibilities in their pre-flight checks that they failed to notice a serious build up of ice on the aircraft's wings and thus omitted to activate the deicing devices that were available to deal with the problem."¹⁶⁵

As part of his "role" as pilot, the pilot on Flight 90 decided to fly the plane, even though the first officer felt there might be a problem with ice on the wings.¹⁶⁶ A "role" is a set of behaviors expected of people who occupy a certain position within a group of social situation¹⁶⁷—pilots fly planes, doctors see patients, and waiters serve food. Like norms, roles are sometimes deliberately created—an employer appoints a manager or a jury elects a foreperson—or they can develop more organically. Even without a deliberate assignment of roles,

157. Kevin Ambrose, *The 30 Year Anniversary of the Crash of Air Florida Flight 90*, WASH. POST, (Jan 13, 2012, 4:55 AM), <http://alturl.com/exs8n>, archived at <http://perma.cc/393M-P69A>.

158. Connie J. G. Gersick & J. Richard Hackman, *Habitual Routines in Task-Performing Groups*, 47 ORG. BEHAV. & HUM. DECISION PROCESSES 65, 65 (1990).

159. *Id.*

160. Ambrose, *supra* note 157.

161. *Id.*

162. *Id.*

163. Gersick & Hackman, *supra* note 158, at 65.

164. *Id.* at 66-67.

165. BROWN, *supra* note 114, at 71.

166. Ambrose, *supra* note 157; *see also* Gersick & Hackman, *supra*, note 158, at 66-67 (expressing the hesitancy of the first officer).

167. BROWN, *supra* note 114, at 149; *see also* Travis C. Tubre & Judith M. Collins, *Jackson and Schuler (1985) Revisited: A Meta-Analysis of the Relationships Between Role Ambiguity, Role Conflict, and Job Performance*, 26 J. MGMT. 155, 155 (2000) ("a role is defined at a pattern of behaviors"); Ann Bettencourt & Kennon Sheldon, *Social Roles as Mechanisms for Psychological Need Satisfaction Within Social Groups*, 81 J. PERSONALITY & SOC. PSYCHOL. 1131, 1132 (2001) (noting that "social roles are typically associated with duties, norms, and expectations").

however, groups usually develop some sort of informal role structures through the process of role differentiation, with roles eventually becoming more narrowly defined and specialized.¹⁶⁸

Discrete and clear-cut roles within groups can help give structure and order to groups and also help people form identities within the group.¹⁶⁹ But sometimes roles within the group can be ambiguous where the responsibilities required of the role are not clear to the person occupying it or other members of the group.¹⁷⁰ Or there may be poor “role fit” where the behaviors associated with the role do not match the personal characteristics of the person who occupies the role.¹⁷¹ Role ambiguity and poor role fit can result in stress and tension for all group members and lead to poor group performance.¹⁷² Overall, groups tend to perform better—they make better choices and work more efficiently—when group members share the same ideas about their task and the role they each play in the group.¹⁷³

The role of the leader is a fundamental one in many groups, and the role of the foreperson is a significant one in juries.¹⁷⁴ In some states and in some federal jurisdictions, the trial judge commonly appoints the foreperson, and in three states—Maryland, Massachusetts and Rhode Island—the judge is required to do so.¹⁷⁵ When the jury elects the foreperson, however, that person tends to be

168. BROWN, *supra* note 114, at 150.

169. *Id.* at 72.

170. Mark R. Beauchamp et al., *Role Ambiguity, Role Efficacy, and Role Performance: Multidimensional and Meditational Relationships Within Interdependent Sport Teams*, 6 GROUP DYNAMICS: THEORY, RES., & PRAC. 229, 229 (2002) (“Role ambiguity refers to a lack of clear information associated with a particular role.”).

171. Bettencourt & Sheldon, *supra* note 167, at 1140 (defining “role-fit” as the “correspondence between role requirement and person characteristics.”).

172. Mark R. Beauchamp & Steven R. Bray, *Role Ambiguity and Role Conflict Within Interdependent Teams*, 32 SMALL GROUP RES. 133, 148 (2001) (finding that elite university athletes in interdependent sports teams—“elite sport teams characterized by a high degree of interdependence (such as hockey, rugby, soccer, and basketball) in which members’ role-related functions are likely to be prevalent, identifiable, and highly integrated with those of other team members”—with greater levels of role ambiguity had worse performance); *see also* Bettencourt & Sheldon, *supra* note 167, at 1140 (finding that the “degree to which an assigned role corresponded with a person’s strengths and characteristics influenced experiences of authenticity and connectedness while playing the role.”).

173. John E. Mathieu et al., *The Influence of Shared Mental Models on Team Process and Performance*, 85 J. APPLIED PSYCHOL. 273, 279-80 (2000).

174. BROWN, *supra* note 114, at 150.

175. Andrew Horwitz, *Mixed Signals and Subtle Cues: Jury Independence and Judicial Appointment of the Jury Foreperson*, 54 CATH. U. L. REV. 829, 830 (2005). As Horwitz points out, this practice is problematic for a variety of reasons: Unlike the much more traditional practice of allowing the jury to elect its own foreperson, judicial appointment of the foreperson is fraught with a variety of serious infirmities, many of them of constitutional magnitude. A substantial body of case law and literature—as well as common sense—tells us that anything that a trial judge says or

white, male, and seated at the end of the table.¹⁷⁶ The foreperson has often had, or claims to have had, prior jury experience¹⁷⁷ and is usually the first person to mention the need for a foreperson.¹⁷⁸

A recent study of mock juries found that even where there were an almost even number of men and women on juries, only two of the fourteen nominated forepersons were woman and the remaining twelve were men.¹⁷⁹ Speaking first is often a strong predictor of who is chosen as foreperson, but this study found that most of the time when women spoke first, it was to nominate a male member of the jury as foreperson.¹⁸⁰ Young people are also underrepresented as foreperson: while forty-two percent of jurors were between eighteen and thirty-five years of age, only twenty-four percent of elected forepersons were, and sixty-five percent of forepersons were between forty-five and sixty-five years of age.¹⁸¹ Extroverted jurors are more likely to be elected foreperson,¹⁸² as are those with more education and higher social economic status.¹⁸³ Most of the time,

does during a trial is likely to be perceived by all of the trial participants, including the jurors, as a reflection of the judge's personal views and opinions.

176. HASTIE ET AL., *supra* note 51, at 28 (1983); *see also* VIDMAR & HANS, *supra* note 2, at 143 (noting that when jurors select the foreperson, "it tends to be a person who is high in social status, has a college degree, and has experience in group settings, leadership positions, or prior jury service. Women are less likely to be chosen than would be expected from their representation on the jury."); Phoebe C. Ellsworth, *Are Twelve Heads Better Than One?*, 52 LAW & CONTEMP. PROBS. 205, 214 (1989) (noting that seat location is often explicitly given as a reason for the selection of the foreperson: "In the majority of cases the jurors explicitly gave table position as their reason for their choice—'you should do it, you're sitting in the right place.'").

177. Devine et al., *supra* note 19, at 696; *see also* Ellsworth, *supra* note 176, at 213. Ellsworth describes the typical conversation that occurs during the selection of the foreperson: *Id.* When the jurors had arrived in the room and settled in their seats, someone would point out that their first job was to choose a foreman, and then typically someone would ask, "Has anybody had any experience with this sort of thing?" *Id.* A man would claim experience, and the other jurors would agree that he should take the job. *Id.* Occasionally, two men would claim experience and a brief "after you, Alphonse" discussion would ensue until one of them said, "all right, I'll do it." *Id.* These two scenarios account for foreman selection in ten of the eighteen juries. *Id.* Of course, as Ellsworth notes, the person selected did not always have jury experience. *Id.* In this study, thirty-nine percent of the foremen selected had served on juries, while thirty-six percent of other jurors who were not elected also had previous jury experience, an insignificant difference. *Id.*

178. Devine et al., *supra* note 19, at 696.

179. Louise Ellison & Vanessa E. Munro, *Getting to (Not) Guilty: Examining Jurors' Deliberative Processes in, and Beyond, the Context of a Mock Rape Trial*, 30 LEGAL STUD. 74, 89 (2010). Moreover, the two women who were selected foreperson nominated themselves. *Id.*

180. *Id.*

181. *Id.*

182. John Clark et al., *Five Factor Model Personality Traits, Jury Selection, and Case Outcomes in Criminal and Civil Cases*, 34 CRIM. JUST. & BEHAV. 641, 644 (2007).

183. Shari Seidman Diamond & Jonathan D. Casper, *Blindfolding the Jury to Verdict Consequences: Damages, Experts, and the Civil Jury*, 26 LAW & SOC'Y REV. 513, 549 (1992).

foreperson selection occurs in the first four minutes of deliberation and within ten or twenty statements by jurors.¹⁸⁴ As noted above, not all jurors participate equally, and the foreperson tends to talk two to three times more than other jurors.¹⁸⁵

The roles that individuals have in the group can have a significant impact of the quality of the jury's deliberation and decisionmaking. If jurors are uncertain about their roles because of role ambiguity or poor role fit, this uncertainty can lead to stress and tension among jury members and poorer performance.¹⁸⁶ This result is especially likely in juries, because of the high degree of task interdependence: each individual juror's role in the deliberative process is dependent and interwoven with other jurors' roles.¹⁸⁷ For example, in one study, college athletes with high role ambiguity—specifically they were unsure of the scope of their responsibilities on the team—played more poorly than other players.¹⁸⁸

Because the role of foreperson is an important one with significant impact on the form and content of deliberation, choosing a foreperson because they are white, male, older, or more extraverted, is in stark contrast to the ideals of a representative jury. We should give jurors additional information about the important role the foreperson plays; this additional information will help all jurors cope with role stress by making the duties of the foreperson and the behavior associated with them more explicit.¹⁸⁹

III. THE ROLE OF SOCIAL INFLUENCE ON JURY DECISIONMAKING

We trust groups of jurors with decisionmaking because we think that the diversity of the group and the resources of its individual members will lead to improved decisionmaking, that “two heads are better than one.” Moreover, jury diversity is an important part of the representative jury system and gives heightened legitimacy to the legal process. Many studies highlight the benefits of diverse juries: juries composed of diverse members deliberate longer and consider more information than juries that are less diverse.¹⁹⁰ In one recent study

184. Ellison & Munro, *supra* note 179, at 88; Diamond & Casper, *supra* note 183, at 547.

185. HASTIE ET AL., *supra* note 51, at 28.; Ellison & Munro, *supra* note 179, at 88.

186. Beauchamp et al., *supra* note 170, at 229.

187. *Id.* (explaining that “when role occupants’ responsibilities are interwoven with those of other individuals in an organizational system, the impact of role ambiguity on the role occupant personally should be more problematic compared with when role occupants function more or less independently of others. Furthermore, in situations characterized by interdependence of roles, ambiguity could be predicted to influence the thoughts and behaviors of both the role occupant and the other individuals (e.g., group members) with whom he or she interacts.”).

188. *Id.* at 238.

189. Robert D. Pritchard et al., *The Productivity Measurement and Enhancement System: A Meta-Analysis*, 93 J. APPLIED PSYCHOL. 540, 558 (2008); see also *infra* Part IV.C.

190. Samuel R. Sommers, *On Racial Diversity and Group Decision Making: Identifying Multiple Effects of Racial Composition on Jury Deliberations*, 90 J. PERSONALITY & SOC. PSYCHOL.

of mock juries, white jurors “raised more case facts, made fewer factual errors, and were more amenable to discussion of race-related issues when they were members of a diverse group.”¹⁹¹ Diversity also improves creativity within the group, flexibility in decisionmaking, and thoughtfulness.¹⁹²

But relying on diverse groups of individuals to reach decisions about difficult topics has its drawbacks. When people become members of a jury, individual jurors lose some of their independence and must coordinate their actions with other jurors. While particular jurors may have greater or less influence over the group because of group dynamics like status, norms, and roles, the group itself still has a profound influence on those individual jurors. This type of social influence—or the “interpersonal processes that produce, sometimes directly but often very subtly and indirectly, changes in other people”—flows from the group to the individual, and from the individual to the group.¹⁹³ Jurors may feel pressure to modify their opinions and judgments to conform to the majority of other jurors. Relatedly, jurors may experience certain motivation losses, like “social loafing” and the “free-rider effect” when they are acting as a group because they do not feel the same responsibility to act as they would if they were acting alone.¹⁹⁴ We can examine group conformity and motivation losses among groups to get a better sense of how these group dynamics influence jury deliberation and decisionmaking.

A. Group Conformity

“We are discreet sheep; we wait to see how the drove is going, and then go with the drove.”

—Mark Twain¹⁹⁵

Although people tend to explain behavior in terms of individual personalities, social situations also have a profound influence on human behavior and individuals are often quick to conform to the behavior of others.¹⁹⁶ In a series of famous experiments testing behavior in a group setting, Solomon Ashe asked

597, 606 (2006).

191. *Id.* In this case, “diversity” meant there were four whites and two blacks in each of the six-member juries. *Id.* at 601. A variety of studies support the idea that diversity leads to better group performance. See, e.g., Karen A. Jehn et al., *Why Differences Make a Difference: A Field Study of Diversity, Conflict, and Performance in Workgroups*, 44 ADMIN. SCI. Q. 741, 757 (1999).

192. Sommers, *supra* note 190, at 598 (citing various studies). At the same time, some studies suggest that “diversity creates social divisions that, in turn, create poor social integration and cohesion, resulting in negative outcomes for the group.” Elizabeth Mannix & Margaret A. Neale, *What Differences Make a Difference? The Promise and Reality of Diverse Teams in Organizations*, 6 PSYCHOL. SCI. PUB. INT. 31, 34 (2005).

193. FORSYTH, *supra* note 64, at 178.

194. Henningsen et al., *supra* note 1, at 168.

195. MARK TWAIN’S AUTOBIOGRAPHY VOL. II, 10 (1924).

196. FISKE, *supra* note 24, at 7.

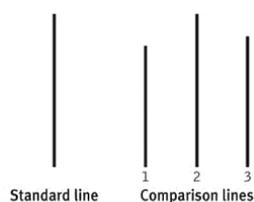
groups of college students to participate in what they were told was an experiment testing perception.¹⁹⁷ Subjects were asked to compare the length of a “standard” line against three “comparison lines.”¹⁹⁸ One of the comparison lines was the same as the standard line, while the other two were much longer or much shorter.¹⁹⁹ Unbeknownst to the real subjects in the study, the other members of the group were instructed to give the same *wrong* answer before the subject gave his own answer.²⁰⁰ After hearing the confederate’s incorrect answer, seventy-five percent of participants went along at least once with the confederate’s mistakes, which were obvious errors of half an inch to three-quarter of an inch on lines that were anywhere between two and ten inches.²⁰¹ In contrast, when subjects were asked to make independent judgments, they were correct over ninety-nine percent of the time.²⁰² On average, participants in the experimental groups were wrong a third of the time, with no other cause than conformity to the group—the social situation—and “contradicting the clear evidence of his senses.”²⁰³

Although the conformity seen in Ashe’s studies was extreme, people conform their behavior to that of others in group settings all of the time, sometimes without even realizing they are doing so.²⁰⁴ When we observe the actions of others, it actually triggers the same neurophysiological response as if we took the action ourselves.²⁰⁵ “Mirror neurons” in the frontal lobes of monkeys discharge when the monkey grasps a piece of food and when it watches another monkey make a similar grasping motion.²⁰⁶ Similar research of human fMRIs shows that

197. Solomon E. Ashe, *Studies of Independence and Conformity: A Minority of One Against a Unanimous Majority*, 70 PSYCHOL. MONOGRAPHS 1, 3 (1956).

198. *Id.* at 3.

199. The standard line varied from two to ten inches, and the comparison lines differed from the standard lines by $\frac{1}{2}$ to $1\frac{3}{4}$ inches, as indicated in this example from the study:



Id. at 6, Table 1.

200. *Id.* at 3.

201. *Id.* at 9.

202. *Id.* at 3.

203. *Id.*

204. FORSYTH, *supra* note 64, at 196.

205. GÜN R. SEMIN, *Grounding Communication: Synchrony*, in SOCIAL PSYCHOLOGY: HANDBOOK OF BASIC PRINCIPLES 632-33 (Arie W. Kruglanski & Tory Higgins eds., 2007).

206. Vittorio Gallese et al., *Action Recognition in the Premotor Cortex*, 119 BRAIN 593, 593 (1996).

the premotor cortex is active when people watch other people act.²⁰⁷ The mind creates a “neural replica” of the observed action—“that is, the regions activated correspond to those that are active during the execution of the action.”²⁰⁸ We mimic the facial expressions of the people around us, as well as their motor behavior, accents, speech rhythms, and moods.²⁰⁹ Human beings are social animals and this type of social coordination with the group is necessary for survival.²¹⁰

People also compare their opinions to the people around them and evaluate the accuracy of their own beliefs and decisions in comparison to those of the group.²¹¹ Like other individual decisions, groups make decisions and interpret information along a continuum from quick intuitive judgments to slower, more thoughtful reasoning.²¹² Groups, like individuals, sometimes rely on “fast,” or intuitive, categorical thinking, and they are also sometimes more systematic, or “slow” in their thinking.²¹³ In the jury setting, jurors might not pay attention to

207. G. Buccino et al., *Action Observation Activates Premotor and Parietal Areas in a Somatotopic Manner: An fMRI Study*, 13 EUR. J. NEUROSCIENCE 400, 401 (2001). There is, however, a recent debate in the neuroscience literature about these findings. See Gregory Hickok, *Eight Problems for the Mirror Neuron Theory of Action Understanding in Monkeys and Humans*, 21 J. COGNITIVE NEUROSCIENCE 1229, 1240 (2008) (suggesting that “the ‘mirror system’ is not the basis for action understanding”).

208. SEMIN, *supra* note 205, at 633.

209. Simone Kühn et al., *Why Do I Like You When You Behave Like Me? Neural Mechanisms Mediating Positive Consequences of Observing Someone Being Imitated*, 5 SOC. NEUROSCIENCE 384, 384 (2010).

210. Patrick Bourgeois & Ursula Hess, *The Impact of Social Context on Mimicry*, 77 BIOLOGICAL PSYCHOL. 343, 343 (2008).

211. FORSYTH, *supra* note 64, at 196.

212. See Serena Chen et al., *Motivated Heuristic and Systematic Processing*, 10 PSYCHOL. INQUIRY 44 (1999) (citing various studies); see also GORDON B. MOSKOWITZ, *SOCIAL COGNITION: UNDERSTANDING SELF AND OTHERS* 194 (2005) (describing the dual-process model coined by Marilynn Brewer. There are a variety of dual-process models, including Brewer’s dual-process model, the heuristic-schematic model coined by Shelley Chaiken, and the theory of lay epistemics developed by Arie Kruglanski. The various models use different terminology, but all of them describe people as using a combination of default information processing including schemas and heuristics, as well as more effortful and deliberate mental processing. For a review of the various models, see *id.* at 195-219.

213. Daniel Kahneman refers to these two ways of thinking as System One and System Two reasoning. Daniel Kahneman, *Maps of Bounded Rationality: Psychology for Behavioral Economics*, 93 AM. ECON. REV. 1449, 1451 (2003). In System One, or heuristic reasoning, groups make decisions quickly, and often base those decisions on instincts, emotions, schemas, or stereotypes. This type of “fast thinking” has evolved because people and groups need to manage a complex environment with limited cognitive resources. *Id.* (describing the operations of System One as “fast, automatic, effortless, associative, and often emotionally charged; they are also governed by habit, and are therefore difficult to control or modify.”). In contrast, System Two, or systematic reasoning, relies on deliberate and reflective cognition, where groups take their time and

the discussion, not really understand the arguments, or forget what others say, all of which can trigger “fast” thinking.²¹⁴ Studies have shown that group members often base their decision on the general mood of the group instead of the quality of the arguments,²¹⁵ and they are more willing to believe a minority view when the person speaks more abstractly and avoids specifics.²¹⁶ Another shortcut individuals use is preference for the popular choice: people look to others’ choices in deciding how to invest their money, how many children to have, and whether to adopt new technology.²¹⁷ This phenomenon is known as “herding,” and it has a rational basis: “paying heed to what everyone else is doing is rational because their decisions may reflect information that they have and we do not.”²¹⁸

The influence of the majority in jury deliberations also depends on these types of cognitive shortcuts or heuristics. If jurors think that the minority view is becoming more popular with other jury members, they may shift sides. In one study, subjects were given a five-page summary of the trial and jury deliberations in the movie *Twelve Angry Men*.²¹⁹ First, the subjects were told that the jury vote was eleven against one to convict the defendant.²²⁰ When the subjects were asked to rate the guilt of the defendant after that first vote, almost all of them agreed with the majority.²²¹ But when subjects were subsequently told that after deliberations progressed, the jury’s vote began shifting toward not guilty, the subjects shifted their own votes from guilty to not guilty.²²² As the authors noted, “participants were influenced by both majority defection to the minority position and the number of persons who presented arguments for the minority position.”²²³

think carefully and slowly about evidence before reaching a decision. *Id.* (describing the operations of System Two as “slower, serial, effortful, and deliberately controlled; they are also relatively flexible and potentially rule-governed.”). Of course, not all “fast” decisionmaking is bad decisionmaking. For a discussion of the benefits of intuitive thinking in judicial decisionmaking, see Linda Berger, *A Revised View of the Judicial Hunch*, 10 LEGAL COMM. & RHETORIC: JALWD 1 (2013).

214. FORSYTH, *supra* note 64, at 198.

215. Eddie M.W. Tong et al., *Conformity: Moods Matter*, 38 EUR. J. SOC. PSYCHOL. 601, 607 (2008). As the authors note, good moods are associated with System One/heuristic thinking, while bad moods are more associated with System Two/deliberative thinking. *Id.* at 602 (citing various studies).

216. Harold Sigall et al., *Minority Influence Is Facilitated When the Communication Employs Linguistic Abstractness*, 9 GROUP PROCESSES & INTERGROUP REL. 443, 449 (2006) (noting that “no such effect occurred when the communicator represented the majority”).

217. Abjihit Banerjee, *A Simple Model of Herd Behavior*, 107, Q.J. ECON. 797, 797-98 (1992).

218. *Id.* at 798.

219. Russell D. Clark III, *Effects of Majority Defection and Multiple Minority Sources on Minority Influence*, 5 GROUP DYNAMICS: THEORY, RES., & PRAC. 57, 59 (2001).

220. *Id.* at 59.

221. *Id.* at 59-61.

222. *Id.* The subjects were told that after deliberations, the jury’s vote shifted from nine to three to convict, and then to six to six, to three to nine, and eventually to zero to twelve. *Id.*

223. *Id.* at 60.

Diverse groups of individuals bring different life experiences and backgrounds to the jury, but are also susceptible to social influence and will tend to conform their beliefs and behaviors to other members of the jury.²²⁴ This social influence has an especially significant effect when individual jurors are in the minority. The tendency to conform to the group and to rely on cognitive shortcuts means that the minority view can often go unmentioned and unexamined in the context of group deliberations.

B. Social-Loafers and Free-Riders

“Got a good reason
For taking the easy way out now.”
—John Lennon & Paul McCartney, Day Tripper²²⁵

Although juries often possess tremendous resources, including the background and experiences of individual jurors, they do not always *use* the resources of their individual members effectively.²²⁶ In juries, as in all groups, productivity is often lower than the potential productivity of individual members because of both “coordination losses” and “motivation losses.”²²⁷ Coordination losses, or “productivity losses,” occurs in groups because by their very nature groups allow for only one person to talk at a time and other members cannot (or usually should not) speak during that time.²²⁸ This aspect of group decisionmaking prohibits individuals from speaking about their ideas as they occur, especially if other members of the group are dominating the conversation.²²⁹ Those ideas may then be forgotten, or dismissed, as the individual listens to other members of the group.²³⁰ Motivation losses, on the other hand, occur for a variety of reasons, but can be broadly categorized as the

224. *Id.* at 58.

225. JOHN LENNON & PAUL MCCARTNEY, DAY TRIPPER (EMI Studios 1965).

226. Henningsen et al., *supra* note 1, at 168. Recent studies on “brainstorming,” for example, suggest that people who brainstorm alone come up with more ideas—and more good ideas—than people who brainstorm in groups. See Nicholas W. Kohn & Steven M. Smith, *Collaborative Fixation: Effects of Others’ Ideas on Brainstorming*, 25 APPLIED COGNITIVE PSYCHOL. 359, 359 (2011) (citing various studies).

227. The most often cited description of this process is Steiner’s work on “process losses” in groups. See IVAN D. STEINER, *GROUP PROCESS AND PRODUCTIVITY* (1972). For a more recent review, see Henningsen et al., *supra* note 1, at 168.

228. Henningsen et al., *supra* note 1, at 168.

229. *Id.*

230. Bernard A. Nijstad et al., *Cognitive Stimulation And Interference In Groups: Exposure Effects In An Idea Generation Task*, 38 J. EXPERIMENTAL SOC. PSYCHOL. 535, 537 (2002). For an application of the theory to intelligence analysis teams, see Susan G. Straus et al., *The Group Matters: A Review of Processes and Outcomes in Intelligence Analysis*, 15 GROUP DYNAMICS: THEORY, RES., & PRAC. 128, 131 (2011).

problems of social loafing and free-riding.²³¹

When people work alone, they often work harder than when they work in groups.²³² When people work in groups, some group members reduce their own efforts because they assume that other members of the group will put forth the necessary effort to complete the assigned task.²³³ This phenomenon, known as “social loafing,” is true across a variety of tasks.²³⁴ Social loafing occurs in tasks requiring physical effort like rope-pulling and cheering, as well as in tasks requiring cognitive effort like brainstorming and writing poems.²³⁵ Students are often implicitly aware of this phenomenon: because they think that other group members will not do their share of the work, students often prefer courses where individual efforts toward group work is counted in the grade, and avoid those courses where all group members receive the same grade on the project.²³⁶ This loafing occurs—at least in part—because when the group’s efforts are combined, individual effort becomes lost. “Because participants can receive neither credit nor blame for the individual performances, they loaf.”²³⁷

Groups that are less cohesive tend to have higher instances of social loafing and poorer performance overall.²³⁸ Social loafing in less cohesive groups is present in cognitive tasks²³⁹ and physical tasks,²⁴⁰ and has also been seen in creative partnerships as well, like songwriting and filmmaking. For example, one study considered the quality and creativity of 162 Beatles songs written by John Lennon and Paul McCartney.²⁴¹ Researchers found that for songs written before

231. Kerr & Tindale, *supra* note 56, at 628.

232. *Id.* at 625; see also Kenneth H. Price et al., *Withholding Inputs in Team Contexts: Member Composition, Interaction Processes, Evaluation Structure, and Social Loafing*, 91 J. APPLIED PSYCHOL. 1375, 1375 (2006).

233. Henningsen et al., *supra* note 1, at 168.

234. *Id.*

235. For a comprehensive review of the original social loafing literature, see Steven J. Karau & Kipling D. Williams, *Social Loafing: A Meta-Analytic Review and Theoretical Integration*, 65 J. PERSONALITY & SOC. PSYCHOL. 681 (1993). For a more recent review, see Ashley Simms & Tommy Nichols, *Social Loafing: A Review of the Literature*, 15 J. MGMT. POLICY & PRACTICE 58, 65 (2014).

236. Jody R. Hoffman & Steven G. Rogelberg, *All Together Now? College Students’ Preferred Project Group Grading Procedures*, 5 GROUP DYNAMICS: THEORY, RES., & PRAC. 33, 38 (2001).

237. Stephen G. Harkins & Jeffrey M. Jackson, *The Role of Evaluation in Eliminating Social Loafing*, 11 PERSONALITY & SOC. PSYCHOL. BULL. 457, 458 (1985). The term “social loafing” was originally coined by Bibb Latané. See Bibb Latané et al., *Many Hands Make Light the Work: The Causes and Consequences of Social Loafing*, 37 J. PERSONALITY & SOC. PSYCHOL. 822, 826 (1979).

238. Rune Høigaard et al., *The Effect of Team Cohesion on Social Loafing in Relay Teams*, 18 INT’L J. APPLIED SPORTS SCI. 59, 68 (2006).

239. Paul W. Mulvey & Howard J. Klein, *The Impact of Perceived Loafing and Collective Efficacy on Group Goal Processes and Group Performance*, 74 ORGANIZATIONAL BEHAV. & HUM. DECISION PROCESSES 62, 84-85 (1998).

240. Høigaard et al., *supra* note 238, at 68.

241. Jeffrey M. Jackson & Vernon R. Padgett, *With a Little Help from My Friend: Social*

1967, individually written songs were less likely to be selected as singles and did not do as well on the Billboard charts.²⁴² The situation was reversed, however, for songs written after 1967; at that point, songs that were solo-written were more popular.²⁴³ As the authors note, “during the 1966-1967 years profound changes occurred. Perhaps these resulted from experimentation with drugs and film-making, the death of their manager Brian Epstein, the appearance of Yoko Ono, the change from live performances to studio recording, or the realization that they had become the most popular rock group of the time.”²⁴⁴ The researchers theorized that as Lennon and McCartney began growing apart, they had reduced cohesiveness and more opportunity for social loafing.²⁴⁵

Although social loafing can be detrimental to group performance, it has a rational basis. Social loafing often occurs because people feel that their individual contributions to a group effort will not be noticed or are not necessary for the group’s success.²⁴⁶ If people do not think their individual contributions will be noticed—or missed—it is rational for them to reduce their own effort and leave the work to others.²⁴⁷ In the classic study of this effect, people participating in a tug-of-war performed at a fraction of their individual potential when they performed in groups.²⁴⁸ In other words, they reduced their efforts as the group size increased because they felt that other members would compensate for them.²⁴⁹

Closely related to the problem of social loafing is the problem of free-riders: if group members think their individual efforts will not be helpful to the group,

Loafing and the Lennon-McCartney Songs, 8 PERSONALITY & SOC. PSYCHOL. BULL. 672, 675 (1982). Prolific song-writers, Lennon and McCartney wrote a total of 162 songs as members of the Beatles: John Lennon wrote seventy songs individually, McCartney wrote forty five, and they collaborated on forty seven. *Id.*

242. *Id.*

243. *Id.*

244. *Id.* at 673-74.

245. *Id.* at 676. However, in another study of individual and group songwriting credits of *Billboard* number one songs in the United States from 1955 to 2009, researchers found that individual and group songs were equally represented at the top of the *Billboard* charts. Terry F. Pettijohn II & Shujaat F. Ahmed, *Songwriting Loafing or Creative Collaboration?: A Comparison of Individual & Team Written Billboard Hits in the USA*, 7 J. ARTICLES SUPPORT NULL HYPOTHESIS 1, 3 (2010) (“Individuals or groups may create musical hits and social loafing in groups may occur in certain situations, but not always.”).

246. See Alan G. Ingham, *The Ringelmann Effect: Studies of Group Size and Group Performance*, 10 J. EXPERIMENTAL SOC. PSYCHOL. 371 (1974) (describing French agricultural engineer Max Ringelmann’s original 1927 study).

247. *Id.*

248. *Id.* at 371-72 (explaining if individual performance is considered 100% of potential, participants performed at ninety-three percent of their potential in pairs, eighty-five percent of their potential in groups of three, and forty-nine percent of their potential in groups of eight).

249. *Id.* at 371-72.

they have a tendency to “free-ride” off of the efforts of others.²⁵⁰ The main difference between social loafing and free-riding is that social loafers reduce their effort because it is not essential for the group’s success, while free-riders do not contribute to the group’s task at all.²⁵¹ Many economists believe that because so few elections are close calls and because of the personal costs in terms of time and effort in going to the polls, “a rational individual should abstain from voting.”²⁵² Similarly, because a listener receives the same benefit whether or not they donate money to public radio, “most donors should therefore choose to free-ride.”²⁵³ The free-rider effect tends to increase as groups grow larger, both because individual behavior is less noticeable in larger groups,²⁵⁴ and because individual members’ perceptions of the utility of their contributions declines in bigger groups.²⁵⁵

Social loafing and free-riding can be reduced or even eliminated when individual contributions to a group effort are identifiable,²⁵⁶ and when people feel their contributions are unique or indispensable.²⁵⁷ Individuals also loaf and free-ride less in smaller groups, probably because they are more likely to feel their individual contributions are necessary for the group’s success.²⁵⁸ Furthermore, people are generally more willing to work harder on a group task when they think their individual contributions will be helpful in reaching an outcome they find personally valuable.²⁵⁹ These “valuable outcomes” can be objective, like

250. Kameda et al., *supra* note 59, at 76.

251. *Id.*

252. Patricia Funk, *Social Incentives and Voter Turnout: Evidence from the Swiss Mail Ballot System*, 8 J. EUR. ECON. ASS’N 1077, 1077 (2010).

253. LISE VESTURLUND, WHY DO PEOPLE GIVE? THE NONPROFIT SECTOR: A RESEARCH HANDBOOK 568, 572 (Walter W. Powell & Richard Steinberg, eds., 2006).

254. Norbert L. Kerr & Steven E. Bruun, *Dispensability of Member Effort and Group Motivation Losses: Free-Rider Effects*, 44 J. PERSONALITY & SOC. PSYCHOL. 78, 79 (1983).

255. *Id.* at 92. If group members become suspicious that some members are free-riding, they sometimes reduce their own effort to match that of the free-riders. Norbert L. Kerr, *Motivation Losses in Small Groups: A Social Dilemma Analysis*, 45 J. PERSONALITY & SOC. PSYCHOL. 819, 820–25 (1983). This reduction in effort is known as “the sucker effect,” whereby other group members will reduce their own efforts instead of playing the “sucker.” *Id.* As one study observed, “apparently, subjects sometimes preferred to fail at the task rather than be a sucker and carry a free rider.” *Id.* A more recent study has shown that the sucker effect is strongest when individuals think other members of the group are competent to perform the task, but lazy. Jason W. Hart et al., *Coworker Ability and Effort as Determinants of Individual Effort on a Collective Task*, 5 GROUP DYNAMICS: THEORY, RES., & PRAC. 181, 187 (2001).

256. Price et al., *supra* note 232, at 1379.

257. Kerr & Bruun, *supra* note 254, at 92; Simms & Nichols, *supra* note 235, at 65.

258. Tatsuya Kameda et al., *Social Dilemmas, Subgroups, and Motivation Loss in Task-Oriented Groups: In Search of an “Optimal” Team Size in Division of Work*, 55 SOC. PSYCHOL. Q. 47, 54 (1992) (concluding motivation peaked in four-person groups and declined in both smaller and larger groups).

259. Karau & Williams, *supra* note 120, at 156. The authors termed this idea the “Collective

receiving a paycheck, or subjective, like gaining satisfaction, a feeling of belonging, or a feeling of self-worth.²⁶⁰ Furthermore, much of people's self-conceptions derive from their membership in various groups.²⁶¹ Because people generally want other people to view them positively, they are motivated to enhance their status in the group.²⁶² When the group becomes a part of an individual member's identity, those individuals will work harder for the benefit of the group, individual productivity will increase and social loafing and free-riding will decrease.²⁶³

Just as conformity in groups can affect individual behavior and cognition, the productivity of individual group members is also influenced by the presence of the group. Although people tend to be less productive when they believe other members of the group will make up the difference, we can reduce social loafing and free-riding by making individual effort identifiable and making individuals accountable for their contributions to the group decision.

IV. RECOMMENDATIONS: TRAINING BETTER JURORS

"It's all to do with the training: you can do a lot if you're properly trained."
—Queen Elizabeth II

Training—or “a systematic approach to learning and development to improve individual, team, and organizational effectiveness”—improves the performance of both individuals and groups.²⁶⁴ A meta-analysis of 165 studies found that training improves performance.²⁶⁵ Moreover, a vast scholarly literature analyzing effective training details its benefits to performance, in fields ranging from social and organizational psychology to human resource development and knowledge management.²⁶⁶ Studies show that training increases innovation, enhances strategic knowledge (knowing when to apply a specific knowledge or skill), and

Effort Model.” *Id.* at 157.

260. *Id.*

261. Anderson & Kilduff, *supra* note 89, at 295 (noting that “the implications of achieving high status in one’s group are profound. Those higher in the social order tend to have more access to scarce resources; receive more social support; and enjoy better physical health, a longer life span, and better reproductive success.”).

262. *Id.* at 297.

263. Nathan C. Pettit & Robert B. Lount, Jr., *Looking Down And Ramping Up: The Impact of Status Differences on Effort in Intergroup Contexts*, 46 J. EXPERIMENTAL SOC. PSYCHOL. 9, 10 (2009).

264. Aguinis & Kraiger, *supra* note 6, at 452–53.

265. Winfred Arthur Jr. et al., *Effectiveness of Training in Organizations: A Meta-Analysis of Design and Evaluation Features*, 88 J. APPLIED PSYCHOL. 234 (2003). By one estimate, companies in the United States spent over 164 billion dollars in 2012 on training for employees. AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT, STATE OF THE INDUSTRY REPORT (2013), available at <http://alturl.com/anwhk>, archived at <http://perma.cc/LJB9-TPQ6>.

266. Aguinis & Kraiger *supra* note 6, at 452.

can improve cooperation and communication within groups, which can ultimately improve decisionmaking.²⁶⁷

Most scholars have recognized a causal link between a better decisionmaking process and better outcomes—“[a] ‘better’ process leads to a more advantageous result.”²⁶⁸ Yet jurors—who are asked to work with others to make incredibly important decisions—are given almost no instruction, let alone any sort of formal training in decisionmaking or group dynamics. And while many empirical studies have found that jurors are competent decisionmakers,²⁶⁹ often reaching the same or similar decisions as judges, some additional training could be enormously helpful in assisting jurors to overcome many of the challenges all groups face in coming to decisions. Furthermore, this training does not have to be extensive, nor should it replace the common-sense approach that we hope lay jurors will bring to their decisionmaking. Instead, some simple training in group decisionmaking and the common pitfalls associated with group dynamics can enhance the way lay jurors approach the information they hear during a trial and improve decisionmaking.

Many model jury instructions contain a short instruction to jurors about their “duty to deliberate.”²⁷⁰ For example, the Ninth Circuit Model Civil Jury Instructions say that after electing a foreperson, jurors should “discuss the case with . . . fellow jurors to reach agreement if you can do so” and that the verdict must be unanimous.²⁷¹ The instructions continue: “[e]ach of you must decide the case for yourself, but you should do so only after you have considered all of the evidence, discussed it fully with the other jurors, and listened to the views of your fellow jurors. Do not hesitate to change your opinion if the discussion persuades you that you should. Do not come to a decision simply because other jurors think it is right.”²⁷²

Beyond this instruction, however, jurors are given little or no guidance about effective decisionmaking strategies, or strategies for working in a group. Working with a group of people to analyze complex information and reach a verdict requires skills, knowledge, and attitudes that many lay jurors do not possess.²⁷³ And while a group of diverse decisionmakers is an important part of the jury system, this group superiority is lost if some jurors do not discuss all of the relevant information or capitulate to the majority opinion without thoughtful deliberation. Furthermore, because jurors have diverse sets of knowledge,

267. *Id.* at 454-56.

268. Randall S. Peterson, *A Directive Leadership Style in Group Decision Making Can Be Both Virtue and Vice: Evidence From Elite and Experimental Groups*, 72 J. PERSONALITY & SOC. PSYCHOL. 1107, 1107 (1997).

269. *See* Robbennolt, *supra* note 32.

270. *See* 3.1 DUTY TO DELIBERATE, *supra* note 3.

271. *Id.*

272. *Id.*

273. RICHARD L. MORELAND ET AL., TRAINING PEOPLE TO WORK IN GROUPS, SOCIAL PSYCHOLOGICAL APPLICATIONS TO SOCIAL ISSUES: APPLICATIONS OF THEORY AND RESEARCH ON GROUPS 37, 39 (Tindale et al., eds., 1998).

procedures that structure deliberations are especially important to increase information sharing and effective decisionmaking and even simple training and recommended procedures can improve performance.²⁷⁴

Like all human cognition, group decisionmaking involves acquisition and use of information and typically involves four phases, which we can apply to jurors: accumulation, interaction, examination, and accommodation.²⁷⁵ In the accumulation phase, the jurors become aware of and acquire new knowledge and information about the law and the evidence in a trial.²⁷⁶ Jurors will also filter out certain information at this stage and decide it is unnecessary or irrelevant to the verdict.²⁷⁷ In the interaction phase, the jurors will recall information they have learned and share this information with one another; this process is influenced by communication within the group, and which jurors decide to speak.²⁷⁸ In the examination phase, jurors will evaluate and interpret the information they have learned during the trial.²⁷⁹ By highlighting certain information or presenting arguments to other jurors, individual jurors can have tremendous influence on group decisionmaking at this stage and the evaluation of information is largely impacted by the roles and status of the jurors who contribute to the deliberations.²⁸⁰ Because individuals with higher status often dominate group discussion, these contributions are often weighted more heavily in the jury's decision.²⁸¹ Finally, in the accommodation phase, jurors integrate their various opinions to reach a verdict.²⁸²

While movement from one phase to another can be linear, it can also be recursive, with decisionmakers moving back and forth between phases.²⁸³ When jurors do not have a good idea about how to approach the task of reaching a verdict, they will spend more time on the accumulation and interaction phases where they discuss known information with one another.²⁸⁴ At the same time, they will spend less time on the accommodation and examination phases, where they evaluate the law and the facts they have heard during to trial in order to come to a decision.²⁸⁵ Giving jurors more information about their task and the

274. Straus et al., *supra* note 230, at 136; *see also* Jessica R. Mesmer-Magnus & Leslie A. DeChurch, *Information Sharing and Team Performance: A Meta-Analysis*, 94 J. APPLIED PSYCHOL. 535, 543 (2009).

275. Many theorists have characterized groups as information-processing systems. Christine B. Gibson, *From Knowledge Accumulation to Accommodation: Cycles of Collective Cognition in Work Groups*, 22 J. ORGANIZATIONAL BEHAV. 121, 123 (2001).

276. *Id.* at 124.

277. *Id.*

278. *Id.* at 124, 126.

279. *Id.* at 126.

280. *Id.*

281. *Id.*

282. *Id.*

283. *Id.* at 127.

284. *Id.*

285. *Id.*

various ways they can approach the decisionmaking process can increase evaluation of the evidence and improve the effectiveness of the decisionmaking process.²⁸⁶

Juror training in decisionmaking could be standardized and shown to jurors before they begin deliberations. One option would be technology-delivered instruction, including web-based training.²⁸⁷ There are various types of web-based or computer-based trainings, but one of the most popular is multimedia training, “in which text, graphics, animation, audio, and video are used through the computer to facilitate learning.”²⁸⁸ Studies have shown that computer-based training, especially when supplemented with training strategies, is effective in increasing user knowledge and performance.²⁸⁹ A recent meta-analysis of the effectiveness of web-based instruction found that it was as effective as classroom instruction and may even be more effective in some cases.²⁹⁰

Furthermore, when groups of people receive training as a group, not only does performance improve, but participation in the training itself increases jurors’ familiarity with one another, which can also increase cohesion and improve performance.²⁹¹ Juror training will further maximize the benefits of a diverse group of individuals coming together to make an important decision about the evidence they have learned during the trial. Jury instructions that simply tell jurors to “reach an agreement” on the evidence do not provide jurors with the tools and strategies they need to thoughtfully and efficiently analyze the facts and law they learn during the trial.

Specifically, jurors would benefit tremendously from additional training in effective group decisionmaking strategies and effective group collaboration. These strategies would allow jurors to spend more time analyzing the information and law they have heard about in a trial and less time simply figuring out how to

286. *Id.* at 128.

287. Aguinis & Kraiger, *supra* note 6, at 463; *see also* Bradford S. Bell & Steve W. J. Kozlowski, *Adaptive Guidance: Enhancing Self-Regulation, Knowledge, and Performance in Technology-Based Training*, 55 PERSONNEL PSYCHOL. 267, 268 (2002).

288. Michael J. Wesson & Celile Itir Gogus, *Shaking Hands With a Computer: An Examination of Two Methods of Organizational Newcomer Orientation*, 90 J. APP. PSYCHOL. 1018, 1019 (2005).

289. Bell & Kozlowski, *supra* note 287, at 269, 298 (discussing how supplementing technology-delivered instruction adaptive guidance—or “training strategy that provides trainees with diagnostic and interpretive information that helps them make effective learning decisions”—helps people make better learning decisions and improves performance). As the authors noted, “[i]ndividuals who received adaptive guidance displayed higher levels of basic and strategic knowledge and performance and were also better able to transfer their skills to the more complex generalization trial.” *Id.*

290. Traci Sitzmann, *The Comparative Effectiveness of Web-Based and Classroom Instruction: A Meta-Analysis*, 59 PERSONNEL PSYCHOL. 623, 640 (2006) (finding that web-based instruction was six percent more effective than classroom instruction for teaching declarative knowledge, and that the two methods were equally effective for teaching procedural knowledge).

291. MORELAND ET AL., *supra* note 273, at 42.

approach the information. Additionally, jurors should be trained in information sharing, which will ensure that the group discusses all relevant evidence. Information sharing can also help reduce group conformity and encourage individual jurors to mention and discuss minority views. Information sharing will further help achieve the goal of a truly diverse decisionmaking body. Finally, jurors should also be trained in effective decisionmaking procedure, including the selection of the foreperson. This process will help encourage more thoughtful evaluation of the evidence and help reduce the impact that status and social conformity has on group decisionmaking.

A. Training in Decisionmaking

Jurors should be given training in decisionmaking strategies and told to discuss those strategies before they are asked to reach a decision on the evidence they have heard during a trial. Groups often do not discuss their decisionmaking strategies,²⁹² and juries, composed of laypeople with little or no training in legal decisionmaking, are no exception. Moreover, some research suggests that many groups never discuss strategies unless some group norm is violated.²⁹³ Furthermore, unless they are instructed to discuss decisionmaking strategies, groups are especially unlikely to do so when it would require them to make “comparisons about the relative quality of members’ inputs.”²⁹⁴ However, when groups are told to explicitly consider how they should accomplish their task, performance improves.²⁹⁵ As one author noted, “this is especially true when there is no generally accepted procedure for accomplishing the task and when the task demands a high degree of coordination and information exchange.”²⁹⁶

Furthermore, groups trained in group decisionmaking and group collaboration perform better than groups without such training. In one study exhibiting the positive effects of training on group decisionmaking, researchers had subjects participate in the Moon Survival task, a problem that is used to measure group performance on decisionmaking tasks.²⁹⁷ It asks group members to imagine that they have crash-landed on the moon and are 200 miles from the nearest base.²⁹⁸ They have fifteen pieces of equipment available to help them and they are asked to rank them based on how helpful they will be as they walk to safety.²⁹⁹ In one

292. James R. Larson, *Discussion of Shared and Unshared Information in Decision-Making Groups*, 67 J. PERSONALITY & SOC. PSYCHOL. 446, 447 (1994).

293. Rebecca A. Henry, *Improving Group Judgment Accuracy: Information Sharing and Determining the Best Member*, 62 ORG. BEHAVAVIOR & HUMAN DECISION PROCESSES 190, 195 (1995) (citing various studies).

294. *Id.*

295. *Id.*

296. Larson, *supra* note 292, at 448.

297. Preston C. Bottger & Phillip W. Yetton, *Improving Group Performance by Training in Individual Problem Solving*, 72 J. APPLIED PSYCHOL. 651, 651 (1987).

298. *Id.*

299. *Id.* at 652. The “correct” answers to the problem are based on the ranks assigned to the

study, one group of subjects were asked to solve the problem individually for ten minutes; each subject was then randomly assigned to the group and the group spent an additional thirty minutes solving the problem.³⁰⁰ In a second group, group members heard the problem and then were read a statement that explained possible threats to good decisionmaking.³⁰¹

Subjects were told to make sure they had not misread the instructions or made unwarranted assumptions.³⁰² They were told about the four common ways in which people make poor decisions: hypervigilance (which is characterized by “frantic searches for quick solutions”), unconflicted adherence (“decision makers . . . stick with the first idea that comes into their heads, without further evaluation of its consequences”), unconflicted change (where people “change [their minds] uncritically and accept the first new idea that comes along”), and defensive avoidance (which involves delaying a decision, minimizing the importance of the problem, and ignoring nagging doubts about the decision).³⁰³ The subjects were given strategies for dealing with these common problems and asked to make their decisions about the items as a group.³⁰⁴ The groups that were given guidance about the effective use of information produced better solutions than the uninstructed group.³⁰⁵

Finally, when groups are trained in decisionmaking strategies, they plan in advance how they will work on a task, make more “information-vigilant” comments than untrained groups, and take significantly longer to reach a decision.³⁰⁶ One study found that teams that were given training in effective group collaboration—when the team was told to “explicitly explore[] strategies for coordinating and integrating members’ work”—significantly outperformed groups that did not receive the training.³⁰⁷ Task performance improves with training, and if jurors receive even minimal training in decisionmaking strategies and group collaboration techniques, that training could directly influence the quality of jury decisionmaking.³⁰⁸

Jurors can be trained to use more effective decisionmaking strategies to reach a verdict. Jurors should be instructed to discuss how they will approach their deliberations and told about common pitfalls associated with group decisionmaking, both of which would help reduce the production losses that

objects by the Crew Equipment Research Unit at the National Aeronautics and Space Administration. *Id.*

300. *Id.* at 653.

301. *Id.*

302. *Id.*

303. *Id.*

304. *Id.* at 653-54.

305. *Id.* at 654.

306. Larson, *supra* note 292, at 452.

307. Anita Williams Wooley et al., *Bringing in the Experts: How Team Composition and Collaborative Planning Jointly Shape Analytic Effectiveness*, 39 SMALL GROUP RES. 352, 367 (2008).

308. Henry, *supra* note 293, at 195-96.

commonly occur in groups.³⁰⁹ This training could be accomplished through web-based instruction shown to jurors before the introduction of evidence. This type of training can also help jurors recognize the various resources other jurors bring to the deliberation process.³¹⁰ This training is not an attempt to turn jurors into legal experts, but is instead a way to best capture the unique viewpoints and commonsense approach individual jurors bring to group decisionmaking. Training jurors to recognize pitfalls common to all group decisionmaking, and instructing them to first discuss and then take a structured approach as they evaluate the evidence they heard during a trial can improve the process of decisionmaking and encourage a more thorough and evenhanded evaluation of the evidence.

B. Training in Information Sharing

In addition to general decisionmaking strategies, juries should be given additional training in information sharing before they begin deliberations. When juries deliberate, they do not necessarily discuss all of the relevant information and evidence they learned during the trial. Whether a particular piece of evidence is discussed by the jury depends on several things: whether jury members mention the evidence, whether jury members recall the information, whether they have the opportunity to mention the evidence, and whether they are motivated to participate in the discussion.³¹¹ The jury's task is an important one, and people are more motivated to expend energy to do their best and consider all relevant information when they believe they are engaged in an important task.³¹² In the group setting, however, jurors can be influenced by various group dynamics that cause them to leave the discussion to other jurors or keep silent about a particular piece of evidence because they believe it is not the majority view. Training in information sharing can help reduce these effects and encourage more thoughtful decisionmaking in jurors.

Jurors have two main sources of information available to discuss: shared information they learn during the trial and unshared information that includes individual jurors' preexisting knowledge and experiences.³¹³ The concept of

309. Straus et al., *supra* note 230, at 139.

310. Wooley et al., *supra* note 307, at 367.

311. See Larson, *supra* note 292, at 447 (discussing Strasser & Titus' "Information Sampling Model"); Garold Strasser & William Titus, *Pooling of Unshared Information in Group Decision Making: Biased Information Sampling During Discussion*, 48 J. PERSON. SOC. PSYCHOL. 1467 (1985).

312. *Id.*; see also Sara Gordon, *What Jurors Want to Know: Motivating Juror Cognition to Increase Legal Knowledge & Improve Decision Making*, 81 TENN. L. REV. 751 (2015). Various studies suggest that jurors do take their responsibilities very seriously and want to do a good job. See, e.g., VIDMAR & HANS, *supra* note 2, at 245; Ellsworth, *supra* note 176, at 218.

313. See generally Strasser & Titus, *supra* note 311, at 1468; see also R. Scott Tindale & Tatsuya Kameda, 'Social Sharedness' as a Unifying Theme for Information Processing in Groups, 3 GROUP PROCESSES & INTERGROUP REL. 123, 124 (2000).

shared and unshared information distinguishes group decisionmaking from individual decisionmaking. Because they have different backgrounds and experiences, individual jury members necessarily have different information and strategies to share with one another and to use in making a decision. Furthermore, because they have different life experiences, a diverse group of jurors will have access to more familiar information—information contributed by at least one member of the group—and when the group does face unfamiliar information, a smaller part of that information will be unfamiliar to every member of the group. Diverse groups therefore have more time to identify and analyze that unfamiliar information.³¹⁴

When jurors deliberate face-to-face in an unstructured environment where they are required to reach a consensus, they tend to focus on information that is shared by all members of the jury and to primarily consider the information that supports the group's existing preferences.³¹⁵ Furthermore, studies suggest that jurors begin deliberations with at least an initial decision on the verdict and a goal to quickly reach a decision.³¹⁶ Most studies show that in nine out of ten cases, the jury's vote on the first ballot predicts the outcome of the verdict.³¹⁷ In other words, jurors are less likely to share new information or discuss alternative ideas because they have already made up their minds.

Furthermore, studies on group decisionmaking suggests “that the information group members choose to mention during discussion is significantly influenced by the information that other members have already brought out, by members' prediscussion preferences, and by status differences within the group.”³¹⁸ Group discussion “is rarely a systematic and balanced exploration of the relevant issues.”³¹⁹ Instead, group members often do not contribute all available information and discussion is instead focused on information the group possesses collectively and information that supports the group's preexisting preferences.³²⁰ This focus on known information and preexisting preferences can in turn perpetuate biases that group members bring to the group: information bias, where group members spend most of their time discussing information already available to all members of the group,³²¹ and preferential bias, where group members prefer alternatives they hear at the beginning of discussion, even if they would not otherwise prefer those alternatives with more information.³²²

Jurors should be instructed to share information and to discuss everything

314. Kristina B. Dahlin, *Team Diversity and Information Use*, 48 ACAD. MGMT. J. 1107, 1111 (2005).

315. Straus et al., *supra* note 230, at 132.

316. Maria Sandys & Ronald C. Dillehay, *First-Ballot Votes, Predeliberation Dispositions, and Final Verdicts in Jury Trials*, 19 LAW & HUM. BEHAV. 175, 188 (1995).

317. *Id.*

318. Larson, *supra* note 292, at 446 (citing various studies).

319. Strasser & Titus, *supra* note 311, at 1467.

320. Straus et al., *supra* note 230, at 132.

321. *Id.*

322. *Id.*

they think is relevant to the verdict. This discussion can improve the quality of jury deliberations. In one study, groups who were simply told to “list the three most relevant pieces of information which come up in your discussion of each question” performed significantly better on a set of quantitative judgment questions.³²³ Furthermore, in newly-formed groups, strong social norms to be pleasant and non-confrontational are likely to exist, and group members may avoid speaking up to share their own impressions out of fear of violating this norm.³²⁴ If jurors are explicitly instructed to share their thoughts and impressions of the evidence, the group decision will more fully benefit from the diversity of experiences individual jurors bring to the group.

Furthermore, jurors should be instructed to discuss the evidence before they share their individual opinions about the case. If jurors withhold their individual preferences until the group has discussed all of the relevant evidence and various alternatives, information bias and preferential bias will be reduced.³²⁵ Similarly, if jurors are able to separate new idea generation from their actual decision about the evidence, jurors will be better able to “expand the number of ideas that are identified and enhance solution quality.”³²⁶

Finally, jury instructions that simply admonish jurors to discuss the evidence they heard with other jurors should be amended to explicitly recommend that each juror actively contribute both shared and unshared information to the jury deliberation. In order to reduce productivity losses, jurors could be instructed to use methods that do not require them to take turns. For example, they could write their answers down simultaneously and then take turns exchanging those ideas with the group. By encouraging jurors to present their opinions simultaneously, social conformity and confirmation bias will be reduced.³²⁷ Each juror could then be instructed to share her ideas in order to promote involvement and increase information sharing. This requirement could make jurors more accountable for their role in the deliberation process and limit social loafing by individual jurors.³²⁸ As Shestowsky & Horowitz note, “instructions that emphasize the role that active jury discussion plays in sustaining the legal system may be one way of increasing personal responsibility and reducing social loafing in the jury context.”³²⁹

While jurors may bring diverse experiences to bear on their evaluation of the evidence they hear during a trial, this resource might not be effectively used

323. Henry, *supra* note 293, at 193. Examples of questions included, “(a) the year the safety pin was invented, (b) the coldest temperature ever recorded in Alabama, and (c) per capita beef consumption in the United States.” *Id.* at 192.

324. *See infra* Part II.C.

325. *See supra* notes 311-12 and accompanying text; *see also* Straus et al., *supra* note 230, at 131.

326. Straus et al., *supra* note 230, at 137.

327. *See supra* Part III.A; *see also* Straus et al., *supra* note 230, at 137.

328. *See generally* Shestowsky & Horowitz, *supra* note 20, at 333.

329. *Id.* at 334.

without some prompting.³³⁰ Jurors should be reminded that different members of the group may have different perspectives on the evidence and should be encouraged to consider those perspectives in reaching a group decision. And while this training does not need to be extensive, even simple instructions to share and discuss all information can help maximize the benefits of the jury's diversity, which in turn will lead to more thoughtful and effective group decisionmaking.

C. Training in Procedure

Like decisionmaking strategies and information sharing, the jury's decisionmaking procedure can have a significant impact on its decision and juries should be given training in effective procedural approaches.³³¹ Research on juries has identified two styles of deliberation: the "verdict-driven" style, where jurors conduct a public ballot before any deliberation, and the "evidence" driven style, where jurors first deliberate before voting.³³² Many scholars believe that in as many as ninety percent of juries, this first vote predicts the jury's ultimate decision.³³³ The foreperson often decides which style of deliberation the jury will take³³⁴ and controls speaking time and the order in which other jurors participate.³³⁵ Additionally, the order and form of initial juror opinions can influence the votes of other jurors. Some widely used group voting procedures

330. Henry, *supra* note 293, at 191.

331. See *supra* note 231 and accompanying text.

332. HASTIE ET AL., *supra* note 51, at 163. The "verdict-driven" style has four distinctive features: "Deliberation begins with a public ballot. Individual jurors advocate only one verdict position at a time. Evidence is cited in support of a specific verdict position. And the content of deliberation contains many statements of verdict preferences and frequent pollings." *Id.* In contrast, the "evidence-driven" style has the following characteristics:

Public balloting occurs only late in deliberation, and in extreme cases, only one ballot is taken to validate that a quorum has been reached. Individual jurors are not closely associated with verdict preferences but may cite testimony or instructions with reference to several verdicts. The evidence is reviewed without reference to the verdict categories, in an effort to agree upon the single most credible story that summarizes the events at the time of the alleged crime. And the early parts of deliberation are focused on the story construction and the review of evidence; not until toward the conclusion of deliberation does discussion emphasize the task of verdict classification.

Id.

333. *Id.* at 66 (finding a ninety-one percent accuracy rate of predeliberation distribution of juror verdict preferences and the final verdict when guilty versus not guilty outcomes are the only consideration); see also Sandys & Dillehay, *supra* note 316, at 188 (finding "guilty votes on the first ballot predicted final verdicts in 89% of the cases"). As Kalven & Zeisel, in their pioneering book *The American Jury*, put it, "the deliberation process might well be likened to what the developer does for an exposed film: it brings out the picture, but the outcome is predetermined." HARRY KALVEN, JR. & HANS ZEISEL, *THE AMERICAN JURY* 489 (1971).

334. Devine et al., *supra* note 19, at 699.

335. Ellison & Munro, *supra* note 179, at 88.

are the straw poll, in which jurors vote orally or by show of hands, and the roll-call vote, in which jurors individually voice their initial votes.³³⁶ In one study of mock jurors, the sequence of initial straw votes had a significant impact on later voters: in groups of six mock jurors, the fourth person to vote was heavily influenced by the previous three votes, especially when those three votes were for a guilty verdict.³³⁷

Moreover, the timing of jury votes has a significant impact on decisionmaking. In the straw-poll study noted above, the fourth-voting jurors who initially believed the defendant was not guilty were very susceptible to early straw polls with three previous guilty votes, but they were not influenced when the straw poll came later in deliberations.³³⁸ In contrast, jurors inclined to vote guilty were about as susceptible to three non-guilty votes but were even more susceptible when the poll took place later in the deliberations.³³⁹ The authors attribute this difference at least partially to the leniency bias, the “socially (and legally) preferred error of acquitting the guilty in contrast to convicting the innocent.”³⁴⁰ When votes come after discussion, discussion increases the salience of social norms like the leniency bias.³⁴¹

Jurors should be instructed to use an evidence-driven approach. Studies have found that evidence-driven juries reviewed testimony more thoroughly and considered more carefully the connections between the testimony and the applicable law.³⁴² In contrast, verdict-driven juries spent less time reaching a decision³⁴³ and report themselves and other jurors as less open-minded than juries who use an evidence-driven approach.³⁴⁴ Furthermore, to minimize the impact of status and social conformity, jurors could be instructed to avoid straw-polls and instead submit anonymous written ballots, which could be collected and relayed to the jury by the foreperson.

Finally, jurors could be instructed to think more carefully about the selection of the foreperson. Specifically, jurors could be told about how the foreperson is typically selected and told about the significant role the foreperson will play in their deliberation. The foreperson could also be responsible for making sure each juror speaks before deliberations begin and for focusing jurors’ attention on the

336. James H. Davis et al., *Some Social Mechanics of Group Decision Making: The Distribution of Opinion, Polling Sequence, and Implications for Consensus*, 57 J. PERSONALITY & SOC. PSYCHOL. 1000, 1000 (1989).

337. *Id.*

338. James H. Davis et al., *Effects of Straw Polls on Group Decision Making: Sequential Voting Pattern, Timing, and Local Majorities*, 55 J. PERSONALITY & SOC. PSYCHOL. 918, 921 (1988).

339. *Id.*

340. *Id.* at 918.

341. *Id.* at 920; see also *infra* Part II.C.

342. HASTIE ET AL., *supra* note 51, at 165.

343. *Id.* Verdict-driven juries reach a verdict in an average of eighty-three minutes, while evidence-driven juries deliberate for an average of 131 minutes. *Id.*

344. *Id.*

process of deliberations, rather than the ultimate verdict. Studies have found that leaders who encouraged open discussion and focused on the process of decisionmaking produced better decisions than those leaders who focused on the substance of the decisions.³⁴⁵ This same leadership style can be incorporated by the jury foreperson in order to enhance individual juror participation and improve the evaluation of evidence by all jury members.

CONCLUSION

One benefit of asking juries to decide verdicts is that the diverse range of experiences and knowledge in the group should lead to more informed decisionmaking. Representative juries composed of laypeople with different backgrounds and experiences promote accurate fact-finding because such a group is likely to hold diverse perspectives on the evidence, engage in more thorough debate, and more closely evaluate the facts. At the same time, a variety of problems are associated with group decisionmaking, from loss of motivation in groups due to social loafing and the free-rider effect, to the vulnerability of groups to various cognitive biases and errors. Group dynamics also play a role; it can be difficult for an individual to stand up to the group when her opinion is in the minority or when she believes that she has a lower social status than others in the group.

While jurors may bring diverse experiences to bear on their evaluation of the evidence they hear during a trial, this resource could be better captured if jurors were given training on group collaboration and group decisionmaking. Although extensive training is not realistic given the time constraints of a typical trial, even simple training in group decisionmaking, group collaboration, and effective procedures can dramatically improve performance. Jurors should be trained in effective group decisionmaking strategies to ensure thorough discussion of relevant ideas and information. Furthermore, jurors should be given strategies to reduce the tendency for information to be lost and for non-shared information to remain hidden during deliberations. Finally, jurors should be trained on effective and efficient deliberation procedures to encourage deliberation, maximize participation, and reduce social conformity. This training will further maximize the benefits of a diverse group of individuals coming together to make an important decision about the evidence and the facts they learned during the trial.

345. Straus et al., *supra* note 230, at 137.

CORPORATIONS AND RELIGIOUS FREEDOM: *HOBBY LOBBY STORES*—A MISSED OPPORTUNITY TO RECONCILE A FLAWED LAW WITH A FLAWED HEALTH CARE SYSTEM

MATTHEW A. MELONE*

“It is truly enough said, that a corporation has no conscience; but a corporation of conscientious men is a corporation *with* a conscience.”

Henry David Thoreau**

“Corporation, n. An ingenious device for obtaining individual profit without individual responsibility”

Ambrose Bierce***

On June 30, 2014, the Supreme Court held, in *Burwell v. Hobby Lobby Stores, Inc.*,¹ that the requirement that employer group health insurance plans provide coverage for certain contraception products or services violated the religious free exercise rights of three closely-held corporations.² The contraception mandate was imposed by regulations implementing the Patient Protection and Affordable Care Act,³ itself a very controversial piece of legislation, a part of which was upheld recently by the Court in a perhaps even more controversial case.⁴ The religious rights at issue were protected by a two decades old statute enacted in the aftermath of another controversial Court decision that significantly curtailed First Amendment protection for religious free exercise when such exercise runs counter to the strictures of a law of general applicability.⁵

The Patient Protection and Affordable Care Act intruded—some would say rather rudely—into what theretofore was the private matter of whether an employer offered its employees health insurance coverage as part of their compensation package.⁶ Most employers of significant size must offer such coverage or face the possible imposition of significant financial penalties.⁷

* Professor of Law, Lehigh University, Bethlehem, Pennsylvania.

** HENRY DAVID THOREAU, *RESISTANCE TO CIVIL GOVERNMENT* 190-91 (1849) (emphasis in original).

*** AMBROSE BIERCE, *THE DEVIL’S DICTIONARY* 23 (1911), available at <http://www.commissionedwriting.com/THE%20DEVILS%20DICTIONARY%20AMBROSE%20BIERCE.pdf>, archived at <http://perma.cc/ZQ9J-784Q>.

1. *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751 (2014). Two cases were before the Court, *Burwell v. Hobby Lobby Stores, Inc.* on writ of certiorari to the Tenth Circuit and *Conestoga Wood Specialties Corp. v. Burwell* on writ of certiorari to the Third Circuit. See *infra* notes 59-76 and accompanying text.

2. *Id.* at 2759.

3. Pub. L. No. 111-148, 124 Stat. 119 (2010).

4. See *infra* notes 27-28 and accompanying text.

5. See *infra* notes 45-58 and accompanying text.

6. I.R.C. § 4980H (CCH 2014).

7. See *id.* § 4980H(c)(D).

Moreover, in addition to mandating the benefit itself, the legislation also dictated what types of products or services must be included within the mandated coverage.⁸ One such mandated product or service is contraception.⁹

Individual health care decisions are highly personal, but not entirely private, matters. Most individual health care services are paid by an insurer thereby interjecting a third party into the patient-physician relationship.¹⁰ Quite often disputes arise between the insured and insurer regarding policy coverages.¹¹ However, these disputes, invariably, are financial in nature.¹² By dint of economic measures necessitated by the demands of World War II, employer-provided health insurance is a significant fixture in the delivery of health care in the United States.¹³ Consequently, many health care decisions also involve an employer whose interests may or may not coincide with the needs of individual employees.¹⁴ Employer-employee conflicts are routine but, similar to insured-insurer disputes, they generally are financial in nature.¹⁵ The conflict generated by the contraception mandate is one that implicates religion and the reproductive rights of women.¹⁶ By themselves, these are highly-charged issues. In combination, they are legally combustible. *Hobby Lobby Stores* is the opening salvo in what promises to be a contentious political and legal war between two uncompromising sides that hold their competing values dear.

Part I of this Article provides an overview of the contraception mandate and the Religious Freedom Restoration Act (“RFRA”), the statute enacted to reinstate the religious protections that Congress believed the Court had abdicated in an earlier decision.¹⁷ Part II analyzes the Court’s decision in *Hobby Lobby Stores*.¹⁸ The Court, in its most controversial holding, stated that for-profit corporations enjoy the protections provided by RFRA.¹⁹ It then proceeded to examine whether

8. 42 U.S.C.A. § 18022 (2014).

9. 42 U.S.C. § 300gg-13 (a)(4) (2010).

10. See Thomas C. Buchmueller & Alan C. Monheit, *Employer-Sponsored Health Insurance and the Promise of Health Insurance Reform 1* (Nat’l Bureau of Econ. Research, Working Paper No. 14389, 2009).

11. *Handling an Insurance Dispute*, Ctr. for Advancing Health (June 2013), <http://www.cfah.org/prepared-patient/pay-for-your-health-care/handling-an-insurance-dispute>, archived at <http://perma.cc/CLS3-ER25>.

12. *Id.*

13. Buchmueller & Monheit, *supra* note 10, at 3.

14. *Report of the Working Group on Challenges to the Employment-Based Healthcare System*, United States Dep’t of Labor (Nov. 14, 2001), http://www.dol.gov/ebsa/publications/AC_1114b01_report.html, archived at <http://perma.cc/MD7T-CZ4P>.

15. *Id.*

16. Karen Finney, *Hobby Lobby Opens a New Front in the ‘War on Women,’* MSNBC (July 13, 2014, 9:11 AM) <http://www.msnbc.com/msnbc/hobby-lobby-opens-new-front-the-war-women>, archived at <http://perma.cc/235W-XFNG>.

17. Pub. L. No. 103-141, 107 Stat. 1488 (1993).

18. *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751 (2014).

19. *Id.* at 2775.

the contraception mandate violated RFRA.²⁰ According to the majority, the contraception mandate placed a substantial burden on the corporations' right to free exercise and that the government had other, less restrictive, means at its disposal to accomplish what the mandate was designed to achieve.²¹ This part also analyzes Justice Ginsburg's vigorous dissent.²²

Part III critiques the Court's decision. This part takes exception with the Court's reasoning with respect to corporate rights and asserts that individual and corporate rights exist for different reasons and these differences justify the denial of certain rights in a corporate context. Moreover, the recognition of corporate rights by derivation from individual rights of association misunderstands the nature of the modern corporation. Part III also argues that the Court should have used this occasion to place some principled limitation on the concept of the "exercise" of religion. RFRA protects free exercise but does not insure the presence of a clear conscience.²³ Alternatively, the Court should have scrutinized the claim that the burden imposed by the contraception mandate was substantial by reference to some objective standard. Unfortunately, the Court's failure to do either insures that courts will reach the final prong of the statute—the least restrictive means test.²⁴ In this respect, *Hobby Lobby Stores* was an abdication of the judicial humility that the Court displayed in the seminal case of *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.*²⁵

I. THE CONTRACEPTION MANDATE & RFRA: AN OVERVIEW

The Patient Protection and Affordable Care Act, a broad and controversial piece of legislation that enacted sweeping changes to the health care industry was signed into law by President Obama on March 23, 2010.²⁶ In 2012 the United States Supreme Court, in *National Federation of Independent Business v. Sebelius*, upheld the constitutionality of the individual mandate, the requirement, upon pain of financial penalty, that individuals obtain health insurance

20. *Id.*

21. *Id.* at 2779-82.

22. *Id.* at 2783-85.

23. *Id.* at 2789.

24. *Id.* at 2780.

25. *Chevron U.S.A., v. Natural Res. Def. Council*, 467 U.S. 837 (1984).

26. The Act, among its many provisions, imposed reforms on the health insurance industry, expanded Medicaid, enacted changes to Medicare, introduced illness prevention programs, and imposed a host of penalties, taxes, and other assessments on individuals and employers. This legislation "includes the largest set of tax law changes in more than 20 years." TREAS. INSPECTOR GEN. FOR TAX ADMIN., REF. NO. 2012-43-064, AFFORDABLE CARE ACT: PLANNING EFFORTS FOR THE TAX PROVISIONS OF THE PATIENT PROTECTION AND AFFORDABLE CARE ACT APPEAR ADEQUATE; HOWEVER, THE RESOURCE ESTIMATION PROCESS NEEDS IMPROVEMENT, HIGHLIGHTS (2012); see also Fla. v. U.S. Dep't of Health and Human Serv., 648 F.3d 1235, 1248-49 (11th Cir. 2011) (providing a succinct discussion of the scope of the legislation).

coverage.²⁷ The Court held that the imposition of the individual mandate was

27. Nat'l Fed'n of Indep. Bus. v. Sebelius, 132 S. Ct. 2566 (2012). The Act added section 5000A to the Internal Revenue Code. Pub. L. No. 111-148, §§ 1501(b), 10106(b)(1), 124 Stat. 119, 244-49, 909-10 (2010) (codified as amended at I.R.C. § 5000A). The penalty amount imposed by the statute was amended shortly thereafter by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, § 1002, 124 Stat. 1029, 1032-33 (2010) (codified at I.R.C. § 5000A). The statute requires that an applicable individual maintain minimum essential coverage for such individual and any dependents who are also applicable individuals each month beginning after 2013. I.R.C. § 5000A(a) (2014). An applicable individual is an individual other than an individual who qualifies for statutorily defined religious conscience or health ministry exemptions, is not a citizen or national of the United States or a legal alien present in the United States, or is incarcerated. *Id.* § 5000A(d). Individuals whose required contribution exceeds eight percent of household income, individuals with very low income, and members of Indian tribes are not subject to the penalty. *Id.* § 5000A(e)(1)-(3). Hardship exemptions are also available. *See* Treas. Reg. § 1.5000A-3(h) (2013); CONG. BUDGET OFFICE, PAYMENTS OF PENALTIES FOR BEING UNINSURED UNDER THE AFFORDABLE CARE ACT: 2014 UPDATE (2014) (projecting that a significant number of individuals will be eligible for hardship exemptions), *available at* <http://www.cbo.gov/sites/default/files/cbofiles/attachments/45397-IndividualMandate.pdf>, *archived at* <http://perma.cc/EL9T-VWKV>. Failure to meet this requirement for one or more months results in the imposition of a shared responsibility payment. I.R.C. § 5000A(b)(1) (2014). The shared responsibility payment is termed a penalty that is to be included with a taxpayer's income tax return for the taxable year which includes the month that such failure occurred. *Id.* § 5000A(b)(1)-(2). The requirement to maintain minimum essential coverage is variously met through, among other means, Medicare or Medicaid coverage, individual insurance policies, or eligible employer-sponsored group health plans or insurance coverage. *Id.* § 5000A(f). The amount of the penalty due for a taxable year is the lesser of the sum of the monthly penalty amounts or the amount of the national average insurance premiums for a particular level of coverage for the applicable family size involved offered through insurance Exchanges. *Id.* § 5000A(c)(1). The monthly penalty amount is one-twelfth of the greater of a flat dollar amount or a percentage of income. *Id.* § 5000A(c)(2). The flat dollar amount is \$95 per individual failure in 2014 increasing to \$325 per individual failure in 2015 and then settling at \$695 per individual failure thereafter. *Id.* §§ 5000A(c)(2)(A), 5000A(c)(3)(A)-(B). The total flat dollar amount penalty cannot exceed 300% of the individual amounts. *Id.* § 5000A(c)(2)(A)(ii). The tax base for the percentage of income penalty amount is the taxpayer's household income in excess of the amount of gross income that is necessary to impose a duty on the taxpayer to file an income tax return. *Id.* §§ 5000A(c)(2)(B), 6012(a)(1). For this purpose, household income is the modified adjusted gross income of the taxpayer and all dependents that are required to file a tax return for the year in question. *Id.* § 5000A(c)(4)(B). Modified adjusted gross income is adjusted gross income increased by certain foreign income and tax-exempt interest. *Id.* § 5000A(c)(4)(C). The penalty is equal to one percent of the tax base in 2014, two percent of the tax base in 2015, and two and one-half percent of the tax base thereafter. *Id.* § 5000A(c)(2)(B). It is likely that the penalty will be determined by a percentage of income for families of moderate to moderately high income. Lower income families will likely be subject to a flat dollar amount penalty. Very low income families are exempted from the penalty. High income families will likely find themselves subject to a penalty that is based on the cost of insurance coverage and, depending on their household income, incur the maximum

impermissible under the commerce power but that such imposition was a proper exercise of Congress' taxing power.²⁸ The challenge to the individual mandate engendered the most sustained media scrutiny of a United States Supreme Court case in recent memory.

Less notoriety attached to the Act's addition of section 4980H to the Internal Revenue Code.²⁹ This provision imposes an exaction on certain employers if they either do not offer insurance coverage to their employees or offer coverage that is deemed inadequate under the statute.³⁰ The constitutionality of this provision was not before the Court in *National Federation of Independent Business v. Sebelius*.³¹ An assessable payment is imposed on large employers, those with an average of fifty or more full-time or full-time equivalent employees, if such employers fail to offer minimum essential health care coverage to full-time employees.³² Failure to offer such coverage results in the imposition of a penalty,

penalty for failure to obtain insurance for a portion of the year.

28. *Sebelius*, 132 S. Ct. at 2593. Seven Justices also held that the statute's expansion of Medicaid was impermissibly coercive to the states and held that states could opt to decline to expand Medicaid eligibility without the loss of federal funds provided under existing programs. *See id.* at 2606-07. A related provision that prohibits a state from restricting existing Medicaid eligibility requirements prior to the establishment of its state Exchange was not at issue in this case. *See Patient Protection and Affordable Care Act*, Pub. L. No. 111-148, § 2001(b), 124 Stat. 275 (2010).

29. *Patient Protection and Affordable Care Act*, Pub. L. No. 111-148, §§ 1513, 10106(e), 124 Stat. 253-56, 910-11 (2010) (codified as amended in I.R.C. § 4980H (2014)).

30. *See generally* I.R.C. § 4980H (2014).

31. A federal district court upheld the constitutionality, on Commerce Clause grounds, of both the individual and employer mandates, but its decision was vacated by the Fourth Circuit due to the application of the Ant-Injunction Act. *See Liberty Univ., Inc. v. Geithner*, 753 F. Supp. 2d 611 (W.D. Va., 2010), *vacated*, *Liberty Univ., Inc. v. Geithner*, 671 F.3d 391 (4th Cir. 2011). The Anti-Injunction Act prohibits, subject to few exceptions, any "suit for the purpose of restraining the assessment or collection of any tax . . . in any court by any person, whether or not such person is the person against whom such tax was assessed." I.R.C. § 7421(a) (2014). In *Sebelius*, the Court also held that despite the status of the individual mandate penalty as a tax for constitutional purposes, the penalty was not a tax for purposes of the Anti-Injunction Act. *Sebelius*, 132 S. Ct. at 2594. In light of its holding in *Sebelius*, the United States Supreme Court granted certiorari and remanded the case back to the Fourth Circuit. The Fourth Circuit then held that Liberty University had standing to challenge the employer mandate and upheld the constitutionality of the employer mandate. *Liberty Univ., Inc. v. Lew*, 733 F.3d 72 (4th Cir. 2013), *cert. denied*, *Liberty Univ., Inc. v. Lew*, 134 S. Ct. 683 (2013). Both mandates were also challenged in another case, but the court dismissed the complaint for lack of standing. *See N.J. Physicians, Inc. v. Obama*, 757 F. Supp. 2d 502 (D.N.J. 2010), *aff'd*, *N.J. Physicians, Inc. v. President of the United States*, 653 F.3d 234 (3d Cir. 2011).

32. I.R.C. §§ 4980H(a)(1), 4908H(c)(2)(A) (2014). A full-time employee is defined as an employee who is employed an average of at least thirty hours per week. *Id.* § 4980H(c)(4)(A). The full-time equivalency rules apply only for the purposes of determining whether an employer employs an average of fifty or more full time employees. These rules do not apply for purposes

for each full-time employee in excess of thirty, up to \$2000 per annum if no coverage is provided and one employee qualifies for a premium tax credit or subsidy.³³ The maximum annual penalty amount is \$3000 if unaffordable coverage is offered.³⁴ The Obama Administration has twice delayed the

of determining the penalty amount. *See id.* § 4980H(c)(2)(E). Therefore, if full-time employees number less than thirty there would be no penalty for failure to offer coverage regardless of the number of full time equivalent employees.

33. *Id.* §§ 4980H(a), (c)(1). The penalty is assessed at the rate of one twelfth of the aforementioned amount for each month that such penalty is applicable. *Id.* The Patient Protection and Affordable Care Act segments the health insurance market into four markets: the individual market; two employer provided group insurance markets, the small and large group market, based on the size of the employer; and the Exchanges. Patient Protection and Affordable Care Act, Pub. L. 111-148, §§ 1304, 1312, 124 Stat. 171, 182 (2010) (codified at 42 U.S.C. §§ 18024, 18032(2010)). The Exchanges are intended to function as insurance marketplaces in which individuals have the ability to comparison shop for insurance products. Qualified employers may also purchase group plans through the Exchanges. *Id.* § 1311(d)(2), 124 Stat. 176 (codified at 42 U.S.C. § 18031 (2010)). A state may opt out of creating and operating an Exchange in which case the Exchange will be established by the federal government. *Id.* § 1321(c), 124 Stat. at 186 (codified at 42 U.S.C. § 18041). Federal tax credits are provided to individuals and families whose income is below a certain threshold, who do not obtain insurance through their employer, and who purchase insurance through an exchange. I.R.C. § 36B (2014). Section 36B appears to limit the tax credit to taxpayers who are enrolled in state Exchanges. *See id.* § 36B(b)(2). However, regulations were issued pursuant to which participants in federally assisted Exchanges would also qualify for the credit. *See* Treas. Reg. §§ 1.36B-1(k) (2012) (defining Exchange by reference to 45 C.F.R. § 155.20); Treas. Reg. §§ 1.36B-2(a) (2012) (providing eligibility for credit by enrollment in an Exchange); 45 C.F.R. § 155.20 (2012) (stating that the term Exchange refers to state Exchanges, regional Exchanges, subsidiary Exchanges, *and a Federally-facilitated Exchange*) (emphasis added). These regulations have come under attack. *See* Louise Radnofsky, *Health Law Opponents Challenge Tax Credit*, WALL ST. J., July 17, 2012, at A7. Two commentators have asserted that the statute's omission of enrollment in federal Exchanges as a condition for the tax credit was intentional. *See* Jonathan H. Adler & Michael F. Cannon, *Taxation Without Representation: The Illegal IRS Rule to Expand Tax Credits Under the PPACA*, 22-41 (Case Research Paper Series in Legal Studies, Working Paper 2012-27, 2012), available at <http://ssrn.com/abstract=2106789>, archived at <http://perma.cc/6FMB-734C>. Two recent district court decisions have upheld the regulations. However, the Fourth and D.C. Circuits split with the former affirming the lower court decision and the latter reversing the lower court decision. *See* King v. Burwell, 759 F.3d 358 (4th Cir. 2014), *aff'g* King v. Sebelius, 997 F. Supp. 2d 415 (E.D. Va. 2014); Halpig v. Burwell, 758 F.3d 390 (D.C. Cir. 2014), *rev'g* Halpig v. Sebelius, Civil Action No. 13-0623 (PLF), 2014 U.S. Dist. LEXIS 4853 (D.D.C. Jan. 15, 2014). Given the circuit court split and the effect that this issue has on a great number of states and taxpayers it is likely that this issue will reach the Court soon. *See* Louise Radnofsky, *States Try to Protect Exchanges From Ruling*, WALL ST. J., July 26, 2014, at A4.

34. I.R.C. §§ 4980H(a)(1), 4980H(b)(1) (2014). This penalty also is assessed at the rate of one twelfth of the aforementioned amount for each month that such penalty is applicable. *Id.*

enforcement of these provisions.³⁵ The delays themselves have generated controversy because the statute does not authorize such delays.³⁶ In addition, an

35. See Notice 2013-45, 2013-31 I.R.B. 116 (2013) (delaying enforcement until 2015). In February 2014, final regulations were issued that further delay the enforcement of the employer mandate until 2016 for employers with less than 100 full-time equivalent employees or for those employers with 100 or more full-time equivalent employees that provide affordable health insurance coverage to at least seventy percent of employees. See generally Treas. Reg. §§ 54.4980H-1-54, -6 (2014). Moreover, employers with 100 or more full-time equivalent employees will not be subject to the full mandate in 2016 if they provide coverage to at least ninety-five percent of employees. *Id.* The final rules prohibit the application of these transition rules if the employer reduces the size of its workforce or the overall hours of service of its employees between February 9, 2014 and December 31, 2014 in order to qualify for relief under the less than 100 full-time equivalent employee test. *Id.* Workforce or hour reductions are permitted for bona fide business reasons. *Id.* Moreover, transition relief is denied to employers that would otherwise qualify if such employer eliminates or materially reduces health coverage it offered as of February 9, 2014. *Id.* Employers subject to the mandate for plan years beginning in 2015 will be subject to an assessable payment only for full-time employees in excess of eighty instead of full-time employees in excess of thirty as previously noted.

36. House Republicans are contemplating a lawsuit over the administration's actions. See Michael R. Crittenden & Colleen McCain Nelson, *House Authorizes Boehner to Sue President*, WALL ST. J., July 31, 2014, at A4; see also Jeremy W. Peters, *Partisanship Infuses Hearings on Health Law and Executive Power*, N.Y. TIMES, July 17, 2014, at A15. Whether Congress has standing to bring the suit is an open question. The Court has not been amenable to the standing of individual members of Congress to challenge legislation or executive branch actions. In *Raines v. Byrd*, several members of Congress claimed that the Line Item Veto Act unconstitutionally rendered their votes on appropriation bills less effective. *Raines v. Byrd*, 521 U.S. 811, 816 (1997). Despite the fact that the statute expressly conferred standing to any member of Congress that it adversely affected, the Court held that such injury was not cognizable because it was "wholly abstract and widely dispersed." *Id.* at 829. The Court left open the possibility in *Raines* that an injury that amounted to the complete nullification of the legislators' votes may be cognizable. *Id.* at 823-25. The possibility that standing could be maintained in the event of vote nullification is based on the case of *Coleman v. Miller*, in which the Court held that a group of Kansas state legislators had standing to challenge the casting of the deciding vote by the lieutenant governor regarding the ratification of an amendment to the United States Constitution. *Coleman v. Miller*, 307 U.S. 433 (1939). The Court has not addressed whether Congress or any of its chambers, as a body, has standing to sue to enforce a statute. It has, however, hinted that standing Congress may have. In *INS v. Chadha*, a federal statute that permitted either house of Congress, by resolution, to overrule a decision by the Immigration and Naturalization Service to allow a deportable alien to remain in the United States was held unconstitutional upon challenge by the petitioner alien. *INS v. Chadha*, 462 U.S. 919 (1983). The agency agreed with the petitioner's claim, and the Ninth Circuit permitted Congress to intervene and defend the constitutionality of the statute. *Id.* at 923-28. The Court permitted the intervention and stated that "Congress is the proper party to defend the validity of a statute when an agency of government, as a defendant charged with enforcing the statute, agrees with plaintiffs that the statute is inapplicable or unconstitutional." *Id.* at 939. However, the Court held that the petitioner maintained standing in the case despite the fact that he

excise tax is imposed in the amount of \$100 per day for each affected individual if the group health plan does not conform to the requirements of the Patient Protection and Affordable Care Act.³⁷

One objective of the Patient Protection and Affordable Care Act is the provision of preventative care for women.³⁸ Recommended guidelines were published on August 3, 2011, that included, as part of such preventive care, FDA-approved contraceptive methods for women with discretionary exemptions for churches, their auxiliaries, and religious orders.³⁹ After originally providing certain religious non-profit employers with an additional year to comply with the contraception coverage, the Obama Administration, under pressure from various religious groups, announced a compromise whereby insurance companies would provide contraception coverage for employees of certain religious non-profit employers—termed “eligible organizations”—free of charge if the employers decided not to provide such coverage.⁴⁰ No other exemptions or concessions

had prevailed in the lower courts and that the INS agreed with his position. *Id.* at 930, 939-40. Consequently, it was not necessary for Congress to maintain standing in its own right in order to intervene. *United States v. Windsor*, the recent case that struck down the Defense of Marriage Act, raised standing issues similar to *Chadha*. *United States v. Windsor*, 133 S. Ct. 2675 (2013). The Bipartisan Litigation Advisory Group (“BLAG”) of the House of Representatives petitioned to intervene to defend the statute and was permitted by the district court to intervene as an interested party. *Id.* at 2684. The Court held that the petitioner and respondent maintained standing. *Id.* at 2686. Consequently, the Court did not need to decide whether BLAG had standing its own right despite the fact that BLAG’s presence in this case was crucial to its standing holding. *Id.* at 2688. Justices Alito and Thomas, however, believed that BLAG did have standing to defend the statute. “Accordingly, in the narrow category of cases in which a court strikes down an Act of Congress and the Executive declines to defend the Act, Congress has both the standing to defend the undefended statute and is a proper party to do so.” *Id.* at 2714 (Alito, Thomas, J.J., concurring in part, dissenting in part).

37. See I.R.C. §§ 4980D(a)-(b), 9815 (2014). The excise tax imposed by section 4980D predates the enactment of Patient Protection and Affordable Care Act. The excise tax is triggered by the failure of a plan to conform to the requirements of chapter 100 of the Internal Revenue Code. I.R.C. § 4980(a) (2014). Internal Revenue Code 9815 was added to chapter 100 by the Patient Protection and Affordable Care Act to incorporate its changes into chapter 100. See Patient Protection and Affordable Care Act, Pub. L. 111-148, Title I, § 1563(f), 124 Stat. 270 (as redesignated by Patient Protection and Affordable Care Act, Pub. L. 111-148, Title X, § 10107(b)(1), 124 Stat. 911 (2010)).

38. 42 U.S.C. § 300gg-13 (a)(4) (2010).

39. See 45 C.F.R. § 147.131(a) (2013); see also Group Health Plans and Health Insurance Issuers Relating to Coverage of Preventive Services Under the Patient Protection and Affordable Care Act, 76 Fed. Reg. 46,621, 46,623 (Aug. 3, 2011).

40. See 45 C.F.R. § 147.131(b) (2013); see also Press Release, Office of the Press Sec’y, The White House, Fact Sheet: Women’s Preventive Services and Religious Institutions (Feb. 10, 2012) available at <http://www.whitehouse.gov/the-press-office/2012/02/10/fact-sheet-women-s-preventive-services-and-religious-institutions>, archived at <http://perma.cc/V8FW-FMYM>. This accommodation has itself come under attack. As a result, the Obama Administration recently

were made for any other persons who object, on religious grounds, to the coverage of contraceptive services.⁴¹ Grandfathered plans are exempt from this provision without regard to religious objections.⁴² In 2000, the Equal Employment Opportunity Commission (“EEOC”) decided that employers sponsoring group health insurance plans that offer prescription drug coverage but that fail to cover contraceptives were in violation of Title VII of the Civil Rights Act of 1964 as amended by the Pregnancy Discrimination Act.⁴³ The contraception mandate at issue in this case offers much broader protection for contraception coverage than Title VII because nothing in Title VII requires employers to offer prescription drug coverage to any employee, male or female, and not all courts have agreed with the EEOC’s position.⁴⁴

Prior to 1990, whether exceptions to laws of general applicability were required under the Free Exercise Clause of the First Amendment for religious objectors was judicially determined by balancing the competing interests at stake taking into account, among other factors, whether the government’s asserted interest was compelling and the burden imposed on the religious objectors.⁴⁵ For example, in *Sherbert v. Verner*,⁴⁶ the Court determined whether an individual’s right to her free exercise of religion had been violated by the government by first determining whether the challenged government action imposed a burden on her ability to act on her religious beliefs.⁴⁷ If so, the government had to prove that it

modified the accommodation. See *infra* note 160 and accompanying text. The modified accommodation has not placated all objectors. See Louise Radnofsky, *Birth-Control Fight Isn’t Over*, WALL ST. J., Sept. 10, 2014, at A2.

41. See 45 C.F.R. § 147.131 (2013).

42. A grandfathered plan is exempt from some, but not all, of the insurance market reforms enacted by the Patient Protection and Affordable Care Act. See Patient Protection and Affordable Care Act, Pub. L. No. 111-148, Title I, Title X, §§ 1251, 10103(d), 124 Stat. 161,895 (codified at 42 U.S.C. § 18011(2010)). A grandfathered plan is any group health plan that was in existence as of March 23, 2010, that, among other requirements, does not eliminate any benefits, substantially increase cost-sharing requirements, substantially reduce employer contributions toward coverage, nor impose certain new or modified annual limits on benefits after March 23, 2010. See generally 29 C.F.R. § 2590.715-1251 (2010); 45 C.F.R. § 147.140(g) (2010); Temp. Treas. Reg. § 54.9815-1251T (2010).

43. Equal Employment Opportunity Commission Enforcement Guidance Commission Decision on Coverage of Contraception (Dec. 14, 2000), available at <http://www.eeoc.gov/policy/docs/decision-contraception.html>, archived at <http://perma.cc/YX9K-9A29>.

44. Arguably contraception is not a medical treatment related to pregnancy but a treatment to prevent pregnancy, and therefore, it is not covered by the Pregnancy Discrimination Act amendments to Title VII. See, e.g., *Standridge v. Union Pac. R.R. Co.*, 479 F.3d 936, 942 (8th Cir. 2007), *reh’g and reh’g en banc denied*, No. 06-1706 (8th Cir. May 23, 2007).

45. See *Emp’t Div. v. Smith*, 494 U.S. 872, 883 (1990) (balancing governmental actions that substantially burden a religious practice must be justified by a compelling interest is not applicable across-the-board for all forms of conduct).

46. *Sherbert v. Verner*, 374 U.S. 398 (1963).

47. *Id.* at 403-05.

employed the least restrictive means in furtherance of a compelling state interest.⁴⁸ In that case the Court held that a state could not deny unemployment benefits to an individual whose employment was terminated for her refusal to work on the Sabbath.⁴⁹ Similarly, in *Wisconsin v. Yoder*, the Court held that a state could not compel attendance at school by Amish children in violation of the parents' religious beliefs.⁵⁰ In *Yoder*, the Court made clear that the religious beliefs in question had to emanate from objective practices and not subjective interpretations of religious doctrine.⁵¹

Any nuance or subtlety derived from the equities of a particular case gave way in *Employment Division v. Smith*.⁵² In that case, the Court, upholding the denial of state unemployment benefits to two individuals who were terminated from employment because of their use of an illegal narcotic substance during a religious ceremony, held that the First Amendment does not require laws of general applicability to accommodate the religious beliefs of the citizenry.⁵³ Congress, reacting to public displeasure with the Court, enacted the Religious Freedom Restoration Act of 1993 ("RFRA").⁵⁴ The legislation stated that one of the purposes of the statute was to restore the compelling interest test as set forth in *Sherbert* and *Yoder*.⁵⁵

RFRA prohibits the federal government from imposing a substantial burden of a person's exercise of religion, even if such burden results from a law of general applicability, unless the government demonstrates that its imposition is in furtherance of a compelling government interest and that the imposition at issue is the least restrictive means of furthering that interest.⁵⁶ All federal law is

48. *Id.* at 407.

49. *Id.* at 404.

50. *Wisconsin v. Yoder*, 406 U.S. 205, 234 (1972).

51. *Id.* at 215-16. Congress took exception to this requirement when it amended the Religious Freedom Restoration Act in 2000. *See infra* note 58.

52. *Emp't Div. v. Smith*, 494 U.S. 872 (1990).

53. *Id.* at 878-79. Three years after *Smith*, the Court unanimously held that several local ordinances prohibiting animal sacrifice that seemingly were of general applicability were, in fact, targeted at the Santeria faith. *See Church of Lukumi Babalu Aye, Inc. v. Hialeah*, 508 U.S. 520, 531-38 (1993). Accordingly, *Smith* was inapplicable and the ordinances failed to pass constitutional muster under strict scrutiny. *Id.*

54. Pub. L. No. 103-141, 107 Stat. 1488 (1993) (codified at 42 U.S.C. §§ 2000bb-2000bb-4).

55. 42 U.S.C. § 2000bb-(b)(1) (2010).

56. *Id.* § 2000bb-1(b). The statute is not intended to affect the application of the Establishment Clause of the First Amendment. *Id.* § 2000bb-4. For purposes of the statute, government means the United States, the District of Columbia, the Commonwealth of Puerto Rico, and each territory and possession of the United States. *Id.* §§ 2000bb-2(1)-(2). The statute, as originally enacted, also applied to the states and their political subdivisions. *See Religious Freedom Restoration Act of 1993*, Pub. L. 103-141, § 5(1), 107 Stat. 1489 (1993). The statute was amended to read in its current form by the Religious Land Use and Institutionalized Persons Act of 2000 ("RLUIPA"), Pub. L. No. 106-274, § 7 (a)(1), 114 Stat. 803, 806 (2000). This legislation was enacted in response to the Court's decision in *City of Boerne v. Flores*, 521 U.S. 507 (1997). In

subject to RFRA except for statutes that were adopted after November 16, 1993, and explicitly excluded themselves from its strictures by reference to RFRA.⁵⁷ Under the statute, the exercise of religion is defined as any exercise of religion, whether or not compelled by, or central to, a system of religious belief.⁵⁸

II. *BURWELL V. HOBBY LOBBY STORES, INC.*

A. *Factual Background*

Conestoga Wood Specialties Corp. is a fifty year old for-profit corporation organized under the laws of Pennsylvania that employs 950 people.⁵⁹ The corporation's voting stock is held entirely by the founder, his wife, and three sons, all of whom are devout Mennonites.⁶⁰ The Mennonite Church opposes abortion, and the shareholders operate the corporation in accordance with their religious principles.⁶¹ The corporation objected to two of the drugs for which coverage was mandated under the administrative guidelines implementing the requirements of the Patient Protections and Affordable Care Act because it believed that such drugs were abortifacients.⁶² Consequently, the provision of insurance coverage for the purchase of such drugs violates its religious beliefs.⁶³ The Third Circuit, affirming the district court's denial of injunctive relief, rejected the corporation's claims that the contraception mandate violated RFRA and the First Amendment because, in the court's opinion, a for-profit secular corporation cannot engage in religious exercise and is therefore protected neither under RFRA nor the First Amendment.⁶⁴ The court also rejected similar claims brought by the

that case, the Court held that RFRA as applied to the states exceeded Congress' authority to enforce the Fourteenth Amendment. *Id.* at 536. RLUIPA is aimed at projects that receive federal funding or affect interstate commerce, and therefore, derives its authority from Congress' spending and commerce powers. *See* 42 U.S.C. § 2000cc(a)(2) (2010).

57. 42 U.S.C. §§ 2000bb-3(a)-(b) (2010).

58. *Id.* §§ 2000bb-2(4), 2000cc-5(7). As originally enacted, RFRA defined the exercise of religion as the exercise of religion under the First Amendment. *See* Religious Freedom Restoration Act of 1993, Pub. L. 103-141, § 5(4), 107 Stat. 1489 (1993). The statute was amended to read in its current form by RLUIPA, Pub. L. 106-274, § 7(a)(3), 114 Stat. 806 (2000). The majority placed significant emphasis on the subsequent change in this definition. *See infra* notes 100-01 and accompanying text.

59. *See* *Conestoga Wood Specialties Corp. v. Sec'y of the U.S. Dep't of Health & Human Servs.*, 724 F.3d 377, 381 (3d Cir. 2013), *aff'g* *Conestoga Wood Specialties Corp. v. Sebelius*, 917 F. Supp. 2d 394 (E.D. Pa. 2013).

60. *Id.* at 381-82.

61. *Id.* at 381-82; *id.* at 382 n.5.

62. *Id.* at 381-82.

63. *Id.*

64. *Id.* at 385-88. The court did not believe that *Citizens United v. FEC*, 558 U.S. 310 (2010), the controversial campaign finance case that held that corporations are entitled to the speech protections of the First Amendment, entitled corporations to the free exercise protections of the

shareholders because the mandate was not imposed upon them personally.⁶⁵

Hobby Lobby Stores, Inc. is a forty-five year old for-profit corporation organized under the laws of Oklahoma that employs approximately 13,000 people.⁶⁶ Like Conestoga Wood Specialties Corp., this corporation is controlled and managed exclusively by the founder, his spouse, and his children.⁶⁷ One of the founder's children also owns and operates an affiliated business, Mardel, Inc., that operates Christian bookstores and employs almost 400 people.⁶⁸ This corporation is also a for-profit corporation organized under the laws of Oklahoma. Both corporations are operated according to their owners' Christian beliefs.⁶⁹ Employees of Hobby Lobby Stores and Mardel are covered under the Hobby Lobby Stores' group health insurance plan, a self-insured plan that the corporation did not elect to grandfather under the Patient Protection and Affordable Care Act.⁷⁰ The corporations raised objections to the contraception mandate similar to those asserted by Conestoga Wood Specialties Corp., except in this case the corporations objected to the provision of insurance coverage for the purchase of four of the drugs for which coverage was mandated.⁷¹

After the district court denied the corporations injunctive relief, the Tenth Circuit held that the two corporations were persons for both First Amendment and RFRA purposes.⁷² With respect to the First Amendment, the court, contrary to the Third Circuit's opinion, held that "the Free Exercise Clause is *not* a 'purely personal' guarantee . . . limited to the protection of individuals."⁷³ Instead, its protection extends to corporations derivatively through the constitutional right to associate.⁷⁴ The court also held that corporations are persons for purposes of

First Amendment. In the court's opinion, certain constitutional protections are "purely personal' . . . because 'the historic function' of the particular guarantee has been limited to the protection of individuals." *Conestoga*, 724 F.3d at 383 (quoting *First Nat'l Bank of Boston v. Belotti*, 435 U.S. 765, 778 n.14 (1978)).

65. *Conestoga*, 724 F.3d at 388-89.

66. *Hobby Lobby Stores, Inc. v. Sebelius*, 723 F.3d 1114, 1122 (10th Cir. 2013), *rev'g* 870 F. Supp.2d 1278 (W.D. Okla. 2012).

67. *Id.* The corporations actually were controlled by a trust. The court did not make clear whether all of the stock of the corporations was held in trust or whether the trust beneficiaries extended beyond the founder, his spouse, and children.

68. *Id.*

69. *Id.* at 1120. The Green family, the family that controls Hobby Lobby Stores and Mardel, is planning to establish a Bible museum in Washington, D.C. and its plans have raised concerns that the family's activities will extend to efforts to influence Congress. See Alan Rappeport, *Family Behind Hobby Lobby Has New Project: Bible Museum*, N.Y. TIMES, July 17, 2014, at A15.

70. *Sebelius*, 723 F.3d at 1124; see *supra* note 42 and accompanying text for a discussion of grandfathered status.

71. *Sebelius*, 723 F.3d at 1124-25.

72. *Id.* at 1128-29.

73. *Id.* at 1133-34 (quoting *First Nat'l Bank of Boston v. Belotti*, 435 U.S. 765, 778 n.14 (1978)) (emphasis in original).

74. *Id.* at 1133.

RFRA on the basis of statutory interpretation.⁷⁵ The court proceeded to determine that the contraception mandate violated RFRA because it substantially burdened the corporations' exercise of religion and that the Department of Health and Human Services demonstrated neither a compelling interest in enforcing the mandate against the corporations nor that the mandate was the least restrictive means in furthering the government's asserted interests.⁷⁶

B. United States Supreme Court Decision

The Court, in a 5-4 ruling, held that for-profit corporations are persons for purposes of RFRA and that the contraception mandate violated RFRA.⁷⁷ Justice Alito, writing for the majority, asserted that, in enacting RFRA, Congress intended to provide protections for religious liberty far beyond the required constitutional protections under pre-*Smith* case law.⁷⁸ Accordingly, it is unlikely that RFRA would require small business owners to choose between incorporation and religious protections. The Court held that corporations are persons for RFRA purposes, that the contraception mandate imposed a substantial burden on its free exercise rights, and that the government could have achieved its asserted compelling purpose by less restrictive means.⁷⁹

1. *Corporate Personhood.*—The Court held that for-profit corporations are included within the statutory definition of persons for several reasons.⁸⁰ First, the Court examined the Dictionary Act's definition of the term "person" and, according to the majority, the statutory definition included corporations as well

75. *Id.* at 1129-30.

76. *Id.* at 1137-45. Although the court held that a for-profit corporation enjoys free exercise protection under the First Amendment, it did not opine on whether the contraception mandate violated the First Amendment. It is unlikely that the contraception mandate would be found to violate the test set forth in *Employment Division v. Smith*. See *supra* notes 52-53 and accompanying text. However, the dissent in *Conestoga Wood Specialties Corp.* believed that the contraception mandate, due to its myriad exceptions, was not a law of general applicability, and consequently, there is reasonable likelihood that it does not pass constitutional muster. See *Conestoga Wood Specialties Corp. v. Sec'y of the U.S. Dep't of Health & Human Servs.*, 724 F.3d at 415-16 (Jordan, J., dissenting).

77. Justice Alito delivered the opinion of the Court and was joined by Chief Justice Roberts and Justices Scalia, Kennedy, and Thomas. Justice Kennedy also filed a concurring opinion. Justice Ginsburg filed a dissenting opinion in which Justice Sotomayor joined and in which Justices Breyer and Kagan joined in part. Justices Kagan and Breyer filed a separate dissenting opinion in which they indicated that it was not necessary to decide in this case whether for-profit corporations or their owners could make a claim under RFRA. See *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751 (2014).

78. *Id.* at 2760-61 (majority opinion).

79. *Id.* at 2759-61.

80. *Id.* at 2759-60. Justices Ginsburg and Sotomayor were the only Justices who dissented from this holding. Justices Breyer and Kagan dissented from the holding on the merits but believed it was not necessary to decide this issue. See *supra* note 77.

as other non-natural persons within its scope.⁸¹ The definitions set forth in the Dictionary Act determine the meaning of any act of Congress unless the context indicates otherwise and nothing in RFRA appears to so indicate.⁸² Moreover, the fact, conceded by the Department of Health and Human Services, that non-profit corporations are persons within the meaning of the statute “effectively dispatches any argument that the term ‘person’ as used in RFRA does not reach the closely held corporations involved in these cases.”⁸³ The term “persons” may encompass artificial entities or be limited to natural persons, “[b]ut no conceivable definition of the term include[ed] natural persons and nonprofit corporations, but not for-profit corporations.”⁸⁴

Second, the Court dismissed the assertion that the corporations in question cannot engage in the exercise of religion and, therefore, are not subject to the statute’s protection. According to Justice Alito, the fact that the statute protects non-profit corporations belies the notion that the corporate form, *per se*, denies the applicability of the statute.⁸⁵ He proceeded to examine whether the profit motive was the linchpin for the inapplicability of the statute.⁸⁶ Justice Alito found no principled distinction between offering religious protection to a sole proprietor engaged in for-profit activities, which the Court had done, and a corporation engaged in similar activities.⁸⁷ The notion that a for-profit corporation, in contrast to a sole proprietor, pursues profit making at the expense of all other objectives is belied both by modern corporate law and common business practices.⁸⁸ Both the laws of Pennsylvania and Oklahoma permit a for-profit corporation to engage in any lawful activity and pursue profits in accordance with the shareholders’ religious beliefs.⁸⁹ Moreover, many for-profit corporations are organized as such to avoid certain restrictions on lobbying and political activities to promote their religious or charitable goals.⁹⁰

81. *Burwell*, 134 S. Ct. at 2768-70.

82. *Id.* at 2769 (majority opinion).

83. *Id.*

84. *Id.* at 2756. Justice Ginsburg believed that the Senate’s rejection of the so-called conscience amendment evidenced the intent by Congress to exclude for-profit corporations from the application of RFRA. *See id.* at 2789-90 (Ginsburg, J., dissenting). That amendment would have provided an exemption for employers who objected to coverage on religious or moral grounds. *Id.* The majority, in contrast, believed that the failure of the Senate to adopt such an amendment may simply have been due to the fact that the amendment would have allowed exemptions under far more circumstances than would be the case under RFRA. *See id.* at 2775 n.30 (majority opinion).

85. *Id.* at 2769.

86. *Id.* at 2770-72, 2770 n.23.

87. *Id.* at 2769-70.

88. *Id.* at 2770-71.

89. *Id.* at 2771-72.

90. *Id.* at 2770-71. There are several types of tax exempt non-profit entities that derive their name from the applicable Internal Revenue Code section that defines them. For example, section 501(c)(3) organizations are organizations operated exclusively for religious, charitable, scientific,

Justice Ginsburg rebutted the aforementioned contentions.⁹¹ Contrary to the majority's opinion, the context of RFRA does indicate that the term person is not meant to encompass for-profit corporations.⁹² The fact that the Court had never recognized a for-profit corporation's right to free exercise is quite expected because corporations "have no consciences, no beliefs, no feelings, no thoughts, no desires."⁹³ The protections frequently afforded religious-based organizations reflect government solicitude toward organizations that further individual religious freedoms and whose very existence is designed to further such freedoms.⁹⁴ No such solicitude is given to, nor warranted for, for-profit corporations.⁹⁵ Moreover, Justice Ginsburg asserted a principled rationale for the distinction between the religious accommodation that is properly afforded to individuals operating for-profit enterprises as proprietors and the accommodation that is properly afforded to such individuals operating the same enterprises in corporate form.⁹⁶ Individuals who avail themselves of the corporate form separate themselves from the entity to obtain legal protection from personal

testing for public safety, literary, educational, to foster certain amateur sports, or to prevent cruelty to children or animals. I.R.C. § 501(c)(3) (2014). Contributions to section 501(c)(3) organizations, with the exception of those organized to test for public safety, are tax deductible by the donors. *See id.* § 170(c)(2). Section 501(c)(4) organizations are operated exclusively for the promotion of social welfare. Other tax-exempt entities include labor unions, business leagues, social clubs, domestic fraternal societies, benevolent life insurance associations, certain cooperatives, and employee benefit trusts. *See generally id.* § 501(c). There are significant differences among the organizations with respect to permissible political activity and disclosure. Section 501(c)(3) organizations are prohibited from participating or intervening in any political campaign, but they may engage in lobbying activity if such activities are not a substantial part of the entity's activities or if such activities are conducted through affiliated section 501(c)(4) organizations. *See generally id.* § 501(c)(3); Treas. Reg. §§ 1.501(c)(3)-1(c)(3)(i)-(iii), 1.501(c)(3)-1(e) (2008); *Regan v. Taxation with Representation of Wash.*, 461 U.S. 540, 544 n.6 (1983). Thus, these organizations are not significant actors in electoral politics—at least not directly. In contrast, section 501(c)(4) organizations may engage in unlimited lobbying activities that are related to their exempt purpose and may also engage in political campaigns provided that such activity does not constitute the organization's primary activity. Treas. Reg. § 1.501(c)(4)-1(a)(2)(i) (1990) (emphasis added). Direct or indirect participation in political campaigns are not deemed activities that promote social welfare. *Id.* § 1.501(c)(4)-1(a)(2)(ii). Several section 501(c)(4) organizations, such as the American Association of Retired Persons and the National Rifle Association, are well known for their lobbying prowess and wield considerable political influence.

91. *Burwell*, 134 S. Ct. at 2793, 2794 n.12 (Ginsburg, J., dissenting).

92. *Id.* at 2793.

93. *Id.* at 2794 (Ginsburg, J., dissenting) (quoting *Citizens United v. FEC*, 558 U.S. 310, 466 (2010) (Stevens, J. dissenting in part and concurring in part)). The majority interpreted the lack of such cases in a much different light. *See infra* note 104 and accompanying text.

94. *Burwell*, 134 S. Ct. at 2794.

95. *Id.*

96. *Id.* at 2796-97 (Ginsburg, J., dissenting).

liability.⁹⁷

Third, the Court accepted neither the notion that RFRA merely codified the Court's pre-*Smith* jurisprudence nor the assertion that such jurisprudence denied that a for-profit corporation had rights to the free exercise of religion.⁹⁸ Justice Alito believed that the statute did not restore the legal landscape to the status quo ante.⁹⁹ The language of the statute, as originally enacted, referred to freedom of religious exercise under the First Amendment and not to freedom of religious exercise under existing Court precedent.¹⁰⁰ In any event, later amendments to the statute resolved any ambiguity that may have existed in this respect.¹⁰¹ Justice Ginsburg's dissent disagreed with this interpretation of congressional intent.¹⁰² Referencing the express language of the statute, case law, and legislative history, she believed that RFRA was enacted to restore, by statute, the religious protections that the Court curtailed in *Smith* but nothing more.¹⁰³ According to Justice Alito, a concession that RFRA incorporated pre-*Smith* law into the statute is not a concession of the point at issue because pre-*Smith* law implicitly recognized the standing of for-profit corporations to assert a free exercise claim.¹⁰⁴ Referring to Title VII of the Civil Rights Act and an anti-discrimination statute relating to abortion, the Court stated that Congress has shown that it is capable of specificity when it wants to exclude for-profit corporations from the benefits of religious accommodation.¹⁰⁵

Finally, Justice Alito dismissed the notion that the practical difficulties of applying RFRA to for-profit corporations are evidence of the congressional intent to exclude them from the application of the statute.¹⁰⁶ There is little or no

97. *Id.* at 2797.

98. *Id.* at 2772.

99. *Id.* at 2773.

100. *Id.* at 2772.

101. *Id.*; see *supra* notes 56, 58 and accompanying text for a discussion of the amendments enacted by RLUIPA in 2000.

102. *Burwell*, 134 S. Ct. at 2796-97 (Ginsburg, J., dissenting).

103. *Id.* at 2791-92. Justice Ginsburg stated that the Court's assertion in *City of Boerne*, that the statute's least restrictive means test went beyond pre-*Smith* requirements, was erroneous. See *id.* at 2792-93, 2793 n.11. The majority noted that Justice Ginsburg joined in that opinion. See *id.* at 2767 n.18 (majority opinion).

104. *Id.* at 2772-73. The Court cited to *Gallagher v. Crown Kasher Super Market of Massachusetts, Inc.*, 366 U.S. 617 (1961). In that case, a corporation challenged a state law that required it to close its store on Sundays. The Court issued no holding on this issue, but two concurring Justices and three dissenting Justices did not question the standing of the corporation to bring the claim thereby implicitly endorsing its standing to bring a free exercise claim. *Burwell*, 134 S. Ct. at 2773. The Court also stated, in rebuttal to the dissent, that the fact that no such person brought a claim pre-*Smith* does not preclude such persons from bringing forth a claim at present. In effect, the fact that the Court had never explicitly sanctioned such a claim is not to be equated with the fact that it would not. See *id.*; see also *supra* note 93 and accompanying text.

105. *Burwell*, 134 S. Ct. at 2773-74.

106. *Id.* at 2774.

difficulty in determining the sincerity of a corporation's religious beliefs with respect to the corporations in this case. Closely held corporations controlled by one family, whose sincerity of belief is undisputed, pose no practical difficulties.¹⁰⁷ Corporations with large number of diffuse shareholders have never brought a claim under RFRA and are unlikely to do so.¹⁰⁸ Moreover, in the event that situations arise in which the sincerity of asserted religious beliefs is in doubt, Congress has expressed confidence that the courts are capable of sorting out legitimate claims from illegitimate claims.¹⁰⁹ RLUIPA extended religious protections to prisoners, a class of claimants with a propensity for insincerity.¹¹⁰ The Court also was not troubled by the possibility of shareholder disputes regarding the conduct of a corporation's business.¹¹¹ Such disputes, not unique to religious issues, are routine and are dispensed with by state corporate law.¹¹² As expected, Justice Ginsburg envisions the majority's holding as the commencement of a ride down a slippery slope.¹¹³

Echoing to an extent its reasoning in *Citizens United*, the majority's view that Congress intended to extend religious protections to corporations was premised on the associational rights of individuals.¹¹⁴

Congress provided protection for people like the Hahns and Greens by employing a familiar legal fiction: It included corporations within RFRA's definition of "persons." But it is important to keep in mind that the purpose of this fiction is to provide protection for human beings. A corporation is simply a form of organization used by human beings to achieve desired ends. An established body of law specifies the rights and obligations of the people (including shareholders, officers, and employees) who are associated with a corporation in one way or another. When rights, whether constitutional or statutory, are extended to corporations, the purpose is to protect the rights of these people. For example, extending Fourth Amendment protection to corporations protects the privacy interests of employees and others associated with the company. Protecting corporations from government seizure of their property without just compensation protects all those who have a stake in the corporations' financial well-being. And protecting the free-exercise rights of corporations like Hobby Lobby, Conestoga, and

107. *Id.*

108. *Id.*

109. *Id.*

110. *Id.* RLUIPA was enacted, in part, to protect prisoners. It also was enacted to protect religious freedom from action by states and their instrumentalities after the Court held that RFRA was unconstitutional as applied to the states and their instrumentalities. *See supra* note 56 and accompanying text.

111. *Burwell*, 134 S. Ct. at 2774.

112. *Id.* at 2774-75.

113. *Id.* at 2802-03 (Ginsburg, J. dissenting).

114. *Id.* at 2768.

Mardel protects the religious liberty of the humans who own and control those companies. . . . Corporations, “separate and apart from” the human beings who own, run, and are employed by them, cannot do anything at all.¹¹⁵

2. *Substantial Burden.*—Having concluded that RFRA is indeed applicable to the corporations in this case, the Court proceeded to test the contraception mandate against the strictures of the statute.¹¹⁶ There was no dispute regarding the sincerity of the beliefs of the shareholders of all three corporations.¹¹⁷ The factual record made clear that the corporations were operated in accordance with the shareholders’ religious tenets.¹¹⁸ Accordingly, the Court examined whether the contraception mandate substantially burdened the free exercise rights of the corporations and their shareholders.¹¹⁹

In order to operate their businesses according to conscience, the mandate presented the corporations with two choices.¹²⁰ First, they could continue to offer health insurance coverage but exclude coverage for the contraceptives that they found morally objectionable.¹²¹ This choice would trigger the excise tax under Internal Revenue Code section 4980D—estimated by the Court to be \$475 million, \$33 million, and \$15 million per year for Hobby Lobby Stores, Conestoga Wood Specialties, and Mardel, respectively.¹²² Alternatively, the corporations could discontinue its health insurance coverage for their employees.¹²³ However, if one employee qualified for a subsidy or tax credit for the purchase of insurance on a government exchange then the employer mandate penalty imposed by Internal Revenue Code section 4980H would be triggered.¹²⁴ The Court estimated that this penalty could amount to \$26 million, \$1.8 million, and \$800,000 for Hobby Lobby Stores, Conestoga Wood Specialties, and Mardel, respectively.¹²⁵

The Court, for procedural reasons, stated that it would not address the government’s contention that the burden imposed by the mandate was not substantial because the penalty imposed by Internal Revenue Code section 4980H

115. *Id.*

116. *Id.* at 2775.

117. *Id.* at 2774.

118. *See id.* at 2764-66. The corporations adopted mission statements and other formal statements that reflected their religious beliefs. Furthermore, Hobby Lobby Stores, Inc. and Mardel, Inc. closed their stores on Sundays to their financial detriment.

119. *Id.* at 2774.

120. *Id.* at 2775.

121. *Id.*

122. *Id.* at 2775-76; *see supra* note 17 and accompanying text for a discussion of I.R.C. § 4980D (2014).

123. *Burwell*, 134 S. Ct. at 2776.

124. *Id.*

125. *Id.*; *see supra* notes 9-16 and accompanying text for a discussion of I.R.C. § 4980H (2014).

would cost the companies less than the cost of the insurance coverage.¹²⁶ However, the Court proceeded to state that it would find such an argument unpersuasive for several reasons.¹²⁷ First, the provision of health insurance to their employees is motivated, in large part, by the religious beliefs of the three corporations and their shareholders.¹²⁸ Moreover, the Court was unconvinced by the economics underlying this argument.¹²⁹ A straight comparison of the cost of the penalty to the cost of insurance coverage fails to consider the fact that wages would be adjusted to compensate for the loss of health insurance benefits, that the penalty itself, unlike the insurance costs, is not tax deductible, and that the value of group health insurance coverage, unlike wages, is tax-free to the employees.¹³⁰

The majority refused to countenance the government's assertion that the connection between the provision of insurance for objectionable drugs or products and the results produced from the use of such drugs or products is too attenuated to result in a substantial burden on free exercise rights.¹³¹ The morally objectionable result is the destruction of an embryo and this result can only occur by the intervening act of an employee who chooses to take advantage of the coverage to use one of the drugs or products in question.¹³² The Court noted that this argument is inconsistent with the provision of exemptions for religious employers.¹³³ More importantly, the question of whether it is morally wrong to engage in an innocent act that nonetheless enables or facilitates an immoral act by another is, according to the Court, a moral and philosophical one that the Court—or any court—has no business addressing.¹³⁴ When a person has drawn a line that morally he cannot cross, “it is not for us to say that the line he drew was an unreasonable one.”¹³⁵

126. *Burwell*, 134 S. Ct. at 2776.

127. *Id.*

128. *Id.*

129. *Id.* at 2776-77.

130. *Id.* The penalty imposed by I.R.C. § 4980H is not deductible. See I.R.C. §§ 275(a)(6), 4980H(c)(7) (2014). Employer provided health insurance is not taxable to the employees. See generally *id.* §§ 105-06. As a result, in order to place the employees in the same after-tax position, the substitution of wages for such benefits will necessitate the employer to increase wages to account for the taxes due on such wages. Moreover, the achievement of a tax neutral result for all employees would be practically impossible because each employee's insurance costs would vary based on her particular circumstances. In addition, any cost advantages that group health insurance enjoys over individual insurance policies would be lost.

131. *Burwell*, 134 S. Ct. at 2777.

132. *Id.* at 2778.

133. *Id.* at 2777 n.33.

134. *Id.* at 2778.

135. *Id.* (quoting *Thomas v. Review Bd. of Ind. Emp't Sec. Div.*, 450 U.S. 707, 715 (1981)). The Court distinguished the facts in this case from the facts in *Tilton v. Richardson*, 403 U.S. 672 (1971) and *Board of Education of Central School District No. 1 v. Allen*, 392 U.S. 236 (1968). In those cases, the Court rejected the assertion that the use of general tax revenues to subsidize the secular activities of religious institutions violated the Free Exercise Clause. *Id.* at 2779. However,

Although admitting that the parties' beliefs are sincere, Justice Ginsburg did not believe that assertions regarding the substantiality of imposed burdens on religious exercise must go unchallenged.¹³⁶ She placed significant importance on the fact that the adjective "substantial" was added to the statute after the original draft of the statute was proposed and that the Court's own precedents belie the notion that such inquiries are beyond the purview of judicial inquiry.¹³⁷ For Justice Ginsburg, the intervening acts of employees and physicians make any religious burden visited upon the sponsors of the group health insurance coverage too attenuated to be considered substantial.¹³⁸

3. *Least Restrictive Means*.—Having determined that the substantial burden test was met, the Court assumed that the inclusion of the disputed forms of contraception in the mandate advances a compelling government interest.¹³⁹ Accordingly, the majority proceeded to test the mandate against the statute's least restrictive means standard—a standard that, according to the Court, "is exceptionally demanding."¹⁴⁰ RFRA imposes the burden of proof upon the government to establish that the substantial burden it has placed upon a person is the least restrictive means of furthering a compelling government interest.¹⁴¹

The Court identified two methods that would further the government's interest of providing cost-free access to contraception in a less restrictive manner than the imposition of an employer coverage mandate.¹⁴² First, the government could assume the cost of providing the contraceptives at issue.¹⁴³ The Department of Health & Human Services failed to provide any cost estimates in this respect and the majority speculated that this cost would be trivial in comparison to the Patient Protection and Affordable Care Act's estimated \$1.3 trillion cost to the federal government over the next decade.¹⁴⁴ The Court rejected the government's contention that RFRA cannot be employed to require the creation of entirely new programs.¹⁴⁵ It refused to get bogged down in drawing distinctions between the creation of an entirely new program and the modification of an existing

the challenges in those cases were not based on the religious beliefs of the challengers but instead on their views of proper church-state relations. *Id.* at 2779.

136. *Id.* at 2798.

137. *See id.* at 2799 (Ginsburg, J. dissenting) (citing *Bowen v. Roy*, 476 U.S. 693 (1986) (rejecting a free exercise claim that challenged the requirement to provide a social security number to a government agency); *Hernandez v. Comm'r*, 490 U.S. 680 (1989) (drawing a distinction between the sincerity of a belief and the substantiality of any burden imposed on such belief)).

138. *Id.*

139. *Id.* at 2780. The Court made this assumption, but it appeared to have made it somewhat grudgingly. The existence of various exemptions, particularly the exemption for grandfathered plans, appeared to trouble the Court in this respect.

140. *Id.*

141. *Id.* (citing 42 U.S.C. § 2000bb-1(a)-(b) (2014)).

142. *Id.* at 2780-81.

143. *Id.* at 2780.

144. *Id.* at 2780-81.

145. *Id.* at 2781.

program.¹⁴⁶ According to the Court, there was no need to draw such distinctions because nothing in RFRA precludes the possibility that a new program may be considered a less restrictive means to achieve an objective.¹⁴⁷

More importantly, the accommodation that the government instituted for religious-based employers was a ready-made less restrictive alternative to the mandate.¹⁴⁸ Regulations put in place a system under which a qualifying organization could certify to its insurance carrier or third-party administrator that it objected to the provision of coverage for certain contraceptives.¹⁴⁹ The insurer or third-party administrator would then be obligated to provide coverage for these contraceptives without the imposition of any cost-sharing on the employer, the plan, the participants, or their beneficiaries.¹⁵⁰ By the Court's own admission, this approach may not satisfy all religious objections to contraception coverage, but it would satisfy the objections of the complaining corporations in this case.¹⁵¹

The dissent disagreed that the "government pays" model is a viable alternative for two reasons.¹⁵² First, such a scheme would require the women seeking coverage to navigate the administrative procedures that such a scheme would no doubt entail—a burden that the majority noted pointedly would be negligible and preferable to no coverage at all.¹⁵³ Moreover, the majority's cavalier resort to the government as the fallback paymaster for programs that for-profit entities find objectionable on religious grounds has no logical limit.¹⁵⁴ If this approach is used to defeat the contraception mandate then it can also be used to defeat a host of other government imposed requirements such as minimum wage laws, anti-discrimination laws, and mandated coverage for drugs that have no reproductive implications.¹⁵⁵ The majority made clear that its decision is about contraception coverage that is required to be provided by these particular

146. *Id.*

147. *Id.*

148. *Id.* at 2782.

149. *Id.*

150. *Id.*; see *supra* note 40 and accompanying text for a discussion of this accommodation.

151. *Burwell*, 134 S. Ct. at 2782, 2782 n.30. In fact, the religious objections of some employers that are eligible to take advantage of this provision are not assuaged. See *supra* note 40, *infra* note 160 and accompanying text. The administration has not issued regulations or provided other guidance for plan sponsors or plan participants whose group health insurance plans, as a result of the Court's decision, do not cover all mandated forms of contraception. The Departments of Labor, Health and Human Services, and the Treasury issued a joint pronouncement which employers that chose to drop coverage of some forms of contraception must provide notice to participants pursuant to a pre-existing statute and Department of Labor regulations. See Dep't of Labor, *FAQs About Affordable Care Act Implementation (Part XX)*, U.S. DEP'T OF LABOR (July 17, 2014), available at <http://www.dol.gov/ebsa/faqs/faq-aca20.html>, archived at <http://perma.cc/3X7H-ZY9A>.

152. *Burwell*, 134 S. Ct. at 2801-03.

153. *Id.* at 2802 (Ginsburg, J. dissenting); *id.* at 2782-83.

154. *Id.* at 2802 (Ginsburg, J. dissenting).

155. *Id.*

employers.¹⁵⁶ Cases involving other issues or other drugs may very well have different outcomes depending on the particular facts and issues at stake.¹⁵⁷

Justice Ginsburg appeared to be at a loss to posit any practical objections to the extension of the religious accommodation made for religious-based employers to for-profit employers.¹⁵⁸ Instead, her objection was based on the fact that this accommodation may not satisfy religious objectors.¹⁵⁹ Justice Ginsburg's trepidation in this regard very well may be warranted. The Court subsequently ordered a preliminary injunction barring the enforcement of the very accommodation that the majority believed was a practical alternative to the mandate against a religious college.¹⁶⁰ Finally, Justice Ginsburg invoked the language of *United States v. Lee* to assert that the voluntary participation in the world of commerce comes with the obligation to subjugate one's religious and moral beliefs to the laws applicable to society as a whole.¹⁶¹ As the majority retorted, this is precisely what RFRA was enacted to avoid.¹⁶²

III. CRITIQUE

It was inevitable that the RFRA would meet the Patient Protection and Affordable Care Act.¹⁶³ The former is a bad law, and the latter is a consequence of a flawed system of delivering health care insurance coverage. Justice Scalia forcefully articulated the rationale for the Court's holding in *Employment Division v. Smith*, the case that precipitated the enactment of RFRA.¹⁶⁴

Conscientious scruples have not, in the course of the long struggle for

156. *Id.* at 2783.

157. *Id.*

158. *Id.* at 2782-83.

159. *Id.* at 2803. In addition, implementing the majority's suggestion may not be as seamless a process as the majority believed. See, e.g., Jess Bravin, *High Court Spars on Birth-Control Coverage*, WALL ST. J., July 5, 2014, at A4; Robert Pear & Adam Liptak, *Obama Weighs Steps to Cover Contraception*, N.Y. TIMES, July 5, 2014 at A1.

160. *Wheaton Coll. v. Burwell*, No. 13A1284, 2014 U.S. LEXIS 4706 (July 3, 2014) (order granting preliminary injunction). The Obama Administration has indicated that it will issue regulations that will modify the accommodation procedures applicable to religious non-profit institutions to perhaps provide such institutions the option of notifying the Department of Health and Human Services directly that they will not provide contraception coverage. See Louise Radnofsky, *Part of Contraception Rule to be Revised*, WALL ST. J., July 23, 2014, at A5. New regulations recently were issued that provide the alternative notification procedure described above. See Treas. Reg. § 54.9815-2713AT (2014).

161. *Burwell*, 134 S. Ct. at 2804 (Ginsburg, J. dissenting). In *Lee*, the Court held that the Free Exercise Clause does not require the government to provide an exemption from social security taxes for religious objectors. See *United States v. Lee*, 455 U.S. 252, 260 (1982).

162. *Burwell*, 134 S. Ct. at 2784.

163. See generally *id.* at 2760-64 (providing brief history of development of RFRA and Patient Protection and Affordable Care Act).

164. *Emp't Div. v. Smith*, 494 U.S. 872, 879 (1990).

religious toleration, relieved the individual from obedience to a general law not aimed at the promotion or restriction of religious beliefs. The mere possession of religious convictions which contradict the relevant concerns of a political society does not relieve the citizen from the discharge of political responsibilities. . . . We first had occasion to assert that principle in *Reynolds v. United States*, 98 U.S. 145 (1879), where we rejected the claim that criminal laws against polygamy could not be constitutionally applied to those whose religion commanded the practice. “Laws,” we said, “are made for the government of actions, and while they cannot interfere with mere religious belief and opinions, they may with practices. . . . Can a man excuse his practices to the contrary because of his religious belief? To permit this would be to make the professed doctrines of religious belief superior to the law of the land, and in effect to permit every citizen to become a law unto himself.”¹⁶⁵

Although, in *Hobby Lobby Stores*, the Court did not address whether the contraception mandate violated the constitutional rights of the three corporations, it is highly unlikely that, under *Smith*, the mandate is violative of the Free Exercise Clause.¹⁶⁶ Congress decided that the *Smith* standard was not sufficiently solicitous of religious beliefs.¹⁶⁷ This author has no objection to the legislative branch subjecting its legislative enactments to religious accommodations. RFRA, however, was a lazy and politically expedient way to do so. The statute was a reaction to a case whose facts begged for religious accommodation. The accommodation sought in *Smith* was the permission to use peyote in a religious ceremony, an accommodation that would have had no impact on third parties and would not have necessitated any modifications to existing government programs.¹⁶⁸

RFRA subjects all subsequently enacted federal statutes to its strictures unless Congress deigns to exempt such statutes from RFRA’s requirements.¹⁶⁹ RFRA provides neither context nor nuance. In effect, it was a vote for religious freedom in a vacuum. Such a vote carried little political cost. In the post-RFRA world, Congress must now affirmatively exempt its handiwork from RFRA.¹⁷⁰ Politically, this generally will require a vote that will be seen by many as anti-

165. *Id.* (quoting *Minersville Sch. Dist. Bd. of Ed. v. Gobitis*, 310 U.S. 586, 594-595 (1940); *Reynolds v. United States*, 98 U.S. 145, 166-67 (1879)).

166. Justice Ginsburg did address this issue in her dissent, and she believed that the mandate posed no constitutional issue under *Smith*. See *Burwell*, 134 S. Ct. at 2790-2791 (Ginsburg, J. dissenting). However, Judge Jordan of the Third Circuit believed that *Smith* was inapplicable to the case because, due to its myriad exemptions, the Patient Protection and Affordable Care Act was not a law of general applicability. See *Conestoga Wood Specialties Corp. v. Sec’y of the U.S. Dep’t of Health & Human Servs.*, 724 F.3d 377, 415-16 (3d Cir. 2013).

167. *Burwell*, 134 S. Ct. at 2761 (citing 42 U.S.C. §§ 2000bb(a)(2), 2000(a)(4) (1993)).

168. *Emp’t Div.*, 494 U.S. at 874.

169. See 42 U.S.C. §§ 2000bb-3(a)-(b) (2000).

170. *Id.*

religion.¹⁷¹ The statute poses little practical difficulty when relief of a religious burden requires no more than an exemption to an existing government requirement. However, many government impositions on one party have been put in place to protect interests of third parties that are deemed sufficiently important to justify such an imposition. In such cases, an exemption requires the government to either set aside third party interests or enact modifications to existing programs to ameliorate the effects of the exemption. The *Smith* Court gave no constitutional succor to religious interests.¹⁷² However, there is a continuum of religious protection between *Smith* and the overly protective standard set forth in RFRA. Title VII achieves a balance between the religious interests of employees and the non-religious interests of employers in a practical manner by requiring employers to make reasonable accommodations.¹⁷³ By requiring the use of least restrictive means to achieve objectives, RFRA slights the interests of third party beneficiaries of government actions.

Congress could have considered the effect of the *Smith* decision on a case-by-case basis and chosen to provide the protections provided by RFRA in a particular statute. This approach is fraught with political danger. It takes little imagination to envision the outcry that would have ensued had the Patient Protection and Affordable Care Act contained language similar to that contained in RFRA. Magically, a vote for religious freedom would be re-characterized as a vote against women. Critics are quick to denounce the Court's decision, yet the Court simply interpreted the language of a statute.¹⁷⁴ If indeed the Court was misguided, Congress can amend the Patient Protection and Affordable Care Act to undo the Court's work. Even if one assumes the absence of the dysfunctional

171. A politician may be willing to accept this label if a sufficiently compelling political reason exists for doing so. Women's health is apparently a sufficient reason, given that a bill was introduced in the Senate that would exempt group health insurance mandates from the application of RFRA. See Protect Women's Health Care from Corporate Interference Act of 2014, S.2578, 113th Cong. §§ 3(19), 4(a)-(b) (2014). The bill exempts religious organizations from its strictures, but it would, despite its name, apply to other employers, whether or not such employers are organized as corporations. It is unlikely that this proposed legislation will pass the Senate, let alone the Republican-controlled House of Representatives. See also Kristina Peterson, *Democrats Fail in Move to Negate Hobby Lobby Ruling*, WALL ST. J., July 17, 2014, at A4 (reporting that bill failed to obtain the sixty votes needed to advance).

172. *Emp't Div.*, 494 U.S. at 907.

173. See, e.g., *Redmond v. GAF Corp.*, 574 F.2d 897 (7th Cir. 1978); see 42 U.S.C. § 2000e(j) (2010) (accommodation is not reasonable if it requires more than a *de minimis* cost to implement); 42 U.S.C. § 2000e-2(a) (2010); 29 C.F.R. § 1605.2(e)(1) (2009); see also 29 C.F.R. § 1605.1 (2014); *Welsh v. United States*, 398 U.S. 333 (1970). See generally Zeke Katz, Note, *Honor Thy Father and Thy Mother: Religious Accommodation Under Title VII in Adeyeye v. Heartland Sweeteners, LLC*, 9 SEVENTH CIR. REV. 110 (2013), available at <http://www.kentlaw.iit.edu/Documents/Academic%20Programs/7CR/v9-1/katz.pd>, archived at <http://perma.cc/4GBP-XQ6J>.

174. See, e.g., Op-Ed, *The Justices Endorse Imposing Religion on Employees*, N.Y. TIMES, July 1, 2014, at A20; Dana Milbank, *A Ruling for the People, at Least the "Artificial" Ones*, WASH. POST, July 1, 2014, at A2.

partisan gridlock that has enveloped Congress, such an enactment would carry significant political risk.

RFRA does not appear to have presented significant problems thus far because most federal actions do not implicate religious beliefs. However, a significant portion of health insurance is delivered to individuals through their employers.¹⁷⁵ This system had its genesis as a mechanism to avoid wage controls during World War II and has been aided and abetted by income tax subsidies.¹⁷⁶ Although group purchases of insurance yield certain efficiencies, the system has been subject to much criticism by economists because, among other things, it provides greater subsidies to higher income individuals; masks the true cost of coverage to the insured, resulting in the overconsumption of medical care; and distorts labor market mobility due to lack of portability.¹⁷⁷

Until the enactment of the Patient Protection and Affordable Care Act, whether an employer offered coverage, and the scope of such coverage, was a choice made by the employer without government coercion. The legislation's individual mandate and employer mandate generated significant opposition because they made mandatory what was previously voluntary.¹⁷⁸ The Patient Protection and Affordable Care Act went further, however, and dictated required

175. See Buchmueller & Monheit, *supra* note 10.

176. *Id.* at 3.

177. See *id.* at 8-14. The tax subsidy that results from tax-exempt income is dependent upon the marginal tax rates of the taxpayer who receives such income. The fact that the value of health insurance coverage is exempt from federal payroll taxes mitigates the tax advantage to high income employees because the income to which the Old-Age, Survivors, and Disability Insurance portion of payroll taxes applies is capped. See generally I.R.C. §§ 3101(a); 3121(a)(1)-(2)(2014). The portability issue has been addressed in part by the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), Pub. L. No. 99-272, 100 Stat. 82 (1986). Provisions of this statute mandate that employers with twenty or more full time equivalent employees offer medical coverage for a period of eighteen months to an employee or covered family member after a qualifying event. Among qualifying events are voluntary or involuntary termination of employment, divorce, death, and disability. For certain qualifying events, the coverage period is twenty-nine months or thirty-six months. The employee must pay for the cost of coverage, plus an allowable administrative fee. Failure to provide COBRA coverage subjects an employer to an excise tax. See generally I.R.C. § 4980(b) (2014). In addition, the Patient Protections and Affordable Care Act prohibits group health plans and insurers from excluding individuals from participation on account of pre-existing medical conditions or a history of illness. Patient Protection and Affordable Care Act, Pub. L. 111-148, Title I, § 1201(3), (4) 124 Stat. 154, 156 (2010) (codified at 42 U.S.C. § 300gg-4 (2014)). Similarly, effective January 1, 2014, health issuers must accept every employer and individual who applies for coverage during open enrollment periods. Patient Protection and Affordable Care Act, Pub. L. 111-148, Title I, § 1201, 124 Stat. 156 (codified at 42 U.S.C. §§ 300gg-1, 300gg-3 (2014)). For a succinct discussion of the changes the Act made to the health insurance market, see Sarah Somers & Jane Perkins, *The Affordable Care Act: A Giant Step Toward Insurance Coverage for All Americans*, 44 CLEARINGHOUSE REV. 330 (2010).

178. See *supra* notes 27-35 and accompanying text.

types of coverage, of which contraception services are but a piece.¹⁷⁹ In effect, the federal government has intruded to an extraordinary degree into the details of individual health care—a highly personal matter—and has enlisted employers to assist it in its efforts. Consequently, the fact that RFRA has surfaced in this context should surprise no one.

Whether the Patient Protection and Affordable Care Act is sound policy and whether employer-based insurance coverage should retain its prominent place in the delivery of health insurance is well beyond the scope of this work. However, it should be evident to a casual observer that the mixture of an employer paymaster, employee health care decisions, and government fiat invites RFRA disputes.

The purpose of RFRA was to expand religious protections in the aftermath of *Smith*.¹⁸⁰ However, the Court expanded these protections too far. Although certain rights may be held by both natural persons and institutions, the reasons why such rights are recognized in natural persons differ from the reasons that they are recognized in corporate solution. This difference justifies disparate treatment between a corporation and an individual with respect to certain rights.¹⁸¹ Moreover, justification of corporate rights by derivation from individual associational rights misunderstands the nature of the modern for-profit corporation. In addition, the Court interpreted the term “exercise” too broadly. RFRA protects the free exercise of religion but does not guarantee a clear conscience.¹⁸² If, in fact, RFRA does protect an expansive scope of activities, then some principled objective standard should be enlisted to determine whether the burden on free exercise imposed by a challenged action is indeed substantial. Finally, a narrow interpretation of exercise, objective limitations on substantiality, or both, will limit the occasions on which the courts engage RFRA’s least restrictive means test—an engagement that has serious separation of powers implications.

179. Beginning in 2014, individual and small group market plans must provide coverage for ten statutory categories of “essential health benefits.” See Patient Protection and Affordable Care Act Pub. L. 111-148, Title I, §§ 1201, 1302, 124 Stat. 161, 163-64 (2010) (codified at 42 U.S.C. §§ 300gg-6, 18022 (2014)). Although employers with more than 100 employees are not required to cover all ten essential benefits, the Act requires large employer-insured plans and all self-insured plans to meet similar standards or be subject to the employer mandate set forth in I.R.C. § 49080H. See *supra* notes 29-35 and accompanying text. The contraception mandate is imposed by another provision of the statute and is applicable to all health plans except grandfathered plans and plans of certain religious-based organizations. See Patient Protection and Affordable Care Act, Pub. L. 111-148, §§ 1001, 1251, 124 Stat. 130-31, 161-62 (codified at 42 U.S.C. § 300gg-13, 18011 (2014)); see also *supra* notes 38-42 and accompanying text.

180. *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751, 2761 (2014) (citing 42 U.S.C. §§ 2000bb(a)(2), 2000bb(a)(4) (1993)).

181. See *id.* at 2794-97 (Ginsburg, J. dissenting).

182. See *id.* at 2804 (Ginsburg, J. dissenting).

A. RFRA and Corporations

The principle of regarding a corporation as a person, for legal purposes, has long been recognized by the Court.¹⁸³ A corporation is a taxpaying entity, and it may be sued civilly and convicted criminally.¹⁸⁴ Its property is protected against unreasonable searches and seizures, and its treasury is immune from the government's imposition of excessive fines.¹⁸⁵ The separate legal status of the corporate form is uncontroversial in these respects because such status is premised on notions that sound in property law.¹⁸⁶ However, certain rights—particularly those involving speech and religion—would appear, to a casual observer, to reside exclusively with natural persons.¹⁸⁷ In *Citizens United v. FEC*, one of the Court's most controversial decisions in recent times, the Court held that a corporation is a person for purposes of First Amendment speech protections.¹⁸⁸ Both the freedom to speak and the ability to freely exercise one's faith are fundamental rights and enjoy vigorous legal protection from government interference.¹⁸⁹ However, there are significant differences between these two rights, and an examination of these differences justifies the disparate treatment of corporate entitlements to these rights.

Justice Alito placed great emphasis on the Dictionary Act's definition of a person.¹⁹⁰ Moreover, the fact that certain religious-based corporations were either exempted from, or provided accommodations in order to comply with, the contraception mandate was a tacit admission that the corporations were indeed persons for purposes of RFRA.¹⁹¹ However, the Dictionary Act's provisions apply unless the context indicates otherwise. The issue of whether or not the

183. Corporate personhood, for purposes of due process and equal protection rights under the Fourteenth Amendment, was established as early as 1886. *See Santa Clara Cnty. v. S. Pac. R.R.*, 118 U.S. 394 (1886).

184. For federal purposes and many state purposes, a corporation meeting the qualifications set forth in Subchapter S of the Internal Revenue Code is, in most cases, not subject to income tax. However, subchapter S is limited strictly to income taxes and has no effect on employment, excise, and other federal taxes, and does not affect state or local employment and property taxes. *See generally* I.R.C. §§ 1361-63 (2014).

185. *See, e.g.,* *Browning-Ferris Indus. of Vt., Inc. v. Kelco Disposal, Inc.*, 492 U.S. 257, 280 (1989) (holding that punitive damages are not susceptible to an Eighth Amendment challenge but not intimating in any way that a corporation is not protected by the Eighth Amendment); *Hale v. Henkel*, 201 U.S. 43, 78-79 (1906) (holding that a corporation has Fourth Amendment protection against unreasonable searches and seizures).

186. *See, e.g., Hale*, 201 U.S. at 78-79 (holding that corporations may enjoy protection from government seizure of their property).

187. The right against self-incrimination does not apply to corporations. *See id.* at 69-70; *see also infra* note 262 and accompanying text.

188. *Citizens United v. FEC*, 558 U.S. 310, 361-62 (2010).

189. *See* U.S. CONST. amend. I.

190. *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751, 2768-69 (2014).

191. *See id.* at 2763.

context in a particular case indicated otherwise begs the questions of why the free exercise of religion is valued so dearly and whether this answer justifies its extension to for-profit corporations.

1. *Free Exercise v. Free Expression.*—Individual rights of expression and free exercise can be justified on utilitarian, or policy-based, grounds or on a more fundamental level. These rights have been identified as fundamental rights and, accordingly, state-imposed restrictions on such rights are subject to strict scrutiny. Why are such rights fundamental? A right can be deemed fundamental for no greater reason than the Kantian belief that such right is essential in order to accord human beings the respect that they deserve as such.¹⁹² The framers of the Constitution undoubtedly subscribed to this view, at least in certain respects, and it provides support for the existence of other constitutional rights, such as the right against cruel and unusual punishment and the right to be free from racial discrimination.¹⁹³

Freedom of expression has Kantian roots, as noted implicitly by Justice Brandeis in *Whitney v. California*, when he stated that “[t]hose who won our independence believed that the final end of the State was to make men free to develop their faculties.”¹⁹⁴ Freedom of speech is the natural extension of that quintessential human characteristic, the freedom of thought.¹⁹⁵ Substantive due process claims to autonomy and other fundamental rights putatively have their genesis in the self-actualization aspect of free expression.¹⁹⁶ In the landmark right to privacy case *Griswold v. Connecticut*, Justice Douglas believed that peripheral rights necessary to secure more basic rights—the freedom to read, to inquire, to teach, and to associate—emanate from the First Amendment.¹⁹⁷ Justice Cardozo articulated somewhat similar justifications in support of freedom of speech and

192. Claire Andre & Manuel Velasquez, *Rights Stuff*, SANTA CLARA UNIVERSITY, <http://www.scu.edu/ethics/publications/iie/v3n1/> (last visited Oct. 15, 2014), *archived at* <http://perma.cc/D9XJ-NFDU>.

193. See U.S. CONST. amend. VIII; U.S. CONST. amend. XIV. Immanuel Kant’s philosophy of rights is often referred to as a philosophy rooted in “natural rights” and the idea that human beings are entitled to certain rights simply by virtue of their status as free and autonomous beings capable of rational thought. A detailed discussion of Kant is well beyond the scope of this work. For an introduction to Kant’s philosophy, see IMMANUEL KANT, *BASIC WRITINGS OF KANT* (Allen W. Wood ed., 2001). The Declaration of Independence speaks of certain inalienable rights that were conferred to individuals by their creator. THE DECLARATION OF INDEPENDENCE, para. 2 (U.S. 1776). Moreover, the Constitution was ratified, in part, in order to “secure the Blessings of Liberty.” U.S. CONST. pmbl.

194. *Whitney v. California*, 274 U.S. 357, 375 (1927) (Brandeis, J., concurring).

195. Justice Holmes, defending the right of a pacifist to become a naturalized citizen, stated that “if there is any principle of the Constitution that more imperatively calls for attachment than any other it is the principle of free thought—not free thought for those who agree with us but freedom for the thought that we hate.” *United States v. Schwimmer*, 279 U.S. 644, 654-55 (1929) (Holmes, J., dissenting).

196. See *Griswold v. Connecticut*, 381 U.S. 479, 482-83 (1965).

197. *Id.*

expression.¹⁹⁸ Freedom to exercise one's faith is justifiable on similar grounds. It is a natural extension of freedom of thought and implicates rights of autonomy, inquiry, and association.

Alternatively, a right may be considered fundamental because its existence is essential to the well-being of the society. In contrast to the Kantian view, such rights are considered instrumental and are rooted in a utilitarian rationale.¹⁹⁹ Despite the fact that, under both views, rights may be deemed fundamental, the protection we afford such rights may differ depending on whether they are natural rights or policy-based rights. Natural rights are immune from the traditional cost-benefit type of analysis, but policy-based rights enjoy no such immunity.²⁰⁰ Of course, many rights can be supported on both grounds. For example, the exclusionary rule and the right to confront witnesses are supportable both by the notion that individuals are entitled to procedures that provide elemental fairness and by the fact that such practices foster a healthy respect for law enforcement and the criminal justice system.²⁰¹ Free speech rights are similarly supported by both rationales. Two giants of First Amendment jurisprudence, Justices Holmes and Brandeis, often supported the right of free expression on utilitarian grounds.²⁰²

A corporation cannot have "natural rights."²⁰³ Such rights, whether one believes they are derived by humans from a deity or that they simply attach to

198. See *Palko v. Connecticut*, 302 U.S. 319, 326-27 (1937) (stating that freedom of thought and speech is "the indispensable condition, of nearly every other form of freedom").

199. See *Palko*, 302 U.S. at 326-27.

200. See *id.* at 326-29 (discussing liberties and rights).

201. The exclusionary rule is a judicially developed doctrine that buttresses the Fourth Amendment protection against unreasonable searches and seizures by requiring that evidence obtained in such unreasonable searches and seizures be excluded from evidence at trial. See U.S. CONST. amend. IV; *Mapp v. Ohio*, 367 U.S. 643 (1961); see also U.S. CONST. amend. VI. A recent United States Supreme Court case illustrated the supporting of rights, despite the potential utilitarian consequences. In *Melendez-Diaz v. Massachusetts*, the Court held that the accused had the right to confront the affiant whose affidavit, regarding the results of forensic testing of a substance found to be cocaine, was admitted into evidence. *Mendez-Diaz v. Massachusetts*, 557 U.S. 305 (2009). Despite protestations by the government that such a requirement would create tremendous practical problems for law enforcement authorities, the Court held that the Sixth Amendment's Confrontation Clause mandated this result. *Id.*

202. "Those who won our independence . . . valued liberty both as an end, and as a means. . . They believed that freedom to think as you will and speak as you think are means indispensable to the discovery and spread of political truth." *Whitney v. California*, 274 U.S. 357, 375 (1927) (Brandeis, J., concurring). Justice Holmes' famous dissent in *Abrams v. United States* put forth his position that society is best served by "free trade in ideas" and that truth is best tested in the "competition of the market." *Abrams v. United States*, 250 U.S. 616, 630 (1919) (Holmes, J., dissenting).

203. Liam Seamus O'Melinn, *Neither Contract Nor Concession: The Public Personality of the Corporation*, 74 GEO. WASH. L. REV. 201, 238 (2006) (quoting *Case of Sutton's Hosp.*, 77 Eng. Rep. 960, 973 (K.B. 1612)).

individuals by virtue of their humanity, cannot attach to a corporation.²⁰⁴ As Sir Edward Coke stated, corporations “have no souls.”²⁰⁵ The corporation is a utilitarian construct.²⁰⁶ Nobel Laureate R.H. Coase theorized that the reason firms existed at all was to serve as a mechanism to direct resources in a cost efficient manner.²⁰⁷

The corporate characteristics of unlimited life and limited liability were put in place to facilitate both long-term business endeavors and the deployment of capital to make such endeavors possible.²⁰⁸ Long ago, the Court recognized the instrumental nature of the corporate form.²⁰⁹ In *Trustees of Dartmouth College v. Woodward*, Chief Justice Marshall stated that corporate perpetual life makes possible “a perpetual succession of individuals” capable of acting for the promotion of a particular end, “like one immortal being.”²¹⁰ Chief Justice Taney emphasized that corporations exist to benefit the public in *Charles River Bridge v. Warren Bridge*.²¹¹ Proponents of social responsibility posit that a corporation must take into account the interests of a diverse group of stakeholders such as employees, suppliers, and the community at large.²¹² Even the critics of corporate social responsibility recognize the corporation’s utilitarian purpose because, for such critics, a corporation acts in a socially responsible manner and benefits society by producing goods and services that satisfy the needs or desires of its customers.²¹³ The debate about corporate purpose is over how it meets its social obligation and not over whether it has such an obligation. Consequently, intrusions on corporate rights are justifiable on policy grounds.

Citizens United,²¹⁴ in this author’s opinion, was correctly decided. However, the reason this author believes that it was correctly decided has little to do with

204. *Id.*

205. *Id.* at 207.

206. See R.H. Coase, *The Nature of the Firm*, 4 *ECONOMICA* 386, 392 (1937).

207. *Id.*

208. See O’Melinn, *supra* note 203, at 232-33.

209. See *Tr. of Dartmouth Coll. v. Woodward*, 17 U.S. 518, 636 (1819).

210. *Id.*

211. See *Charles River Bridge v. Warren Bridge*, 36 U.S. 420, 548 (1837).

212. See, e.g., Edwin M. Epstein, *The Good Company: Rhetoric or Reality? Corporate Social Responsibility and Business Ethics Redux*, 44 *AM. BUS. L.J.* 207 (2007); David Hess, *Social Reporting: A Reflexive Law Approach to Corporate Social Responsibility*, 25 *IOWA J. CORP. L.* 41 (1999). Traditionally, boards of directors owed a fiduciary duty to shareholders only. See Janet E. Kerr, *Sustainability Meets Profitability: The Convenient Truth of How the Business Judgment Rule Protects A Board’s Decision to Engage in Social Entrepreneurship*, 29 *CARDOZO L. REV.* 623, 637-38 (2007). However, courts, including the Delaware courts, have sanctioned the consideration by boards and management of outside stakeholder interests. *Id.* Moreover, a number of states have enacted “other constituency” statutes that permit officers and directors to consider the interests of various stakeholders when making decisions. *Id.*

213. See, e.g., Peter Koslowski, *The Limits of Shareholder Value*, 27 *J. BUS. ETHICS* 137, 138 (2000).

214. *Citizens United v. FEC.*, 558 U.S. 310 (2010).

corporate personhood and everything to do with the utility of speech, particularly political speech. From a utilitarian perspective, speech is fundamentally different than religion. The utility of speech is derived principally from its propensity to inform and agitate the citizenry, especially political speech.²¹⁵

Speech is an essential mechanism of democracy, for it is the means to hold officials accountable to the people. . . . The right of citizens to inquire, to hear, to speak, and to use information to reach consensus is a precondition to enlightened self-government and a necessary means to protect it.²¹⁶

Political speech has inherent social value that is not diminished because it originates from corporate lips.

The constitutional protection afforded commercial speech evidences utilitarian considerations. Commercial speech, defined as speech that does no more than propose a commercial transaction, has enjoyed constitutional protection at a lesser level than political speech for almost fifty years.²¹⁷ Restrictions imposed upon commercial speech are not subject to exacting scrutiny but instead are examined under an intermediate standard.²¹⁸ Moreover, it is the content of the speech, and not its motivation, that controls the classification of such speech.²¹⁹

Neither a labor leader's exhortation to strike, nor an economist's dissertation on the money supply, should receive any lesser protection because the subject matter concerns only the economic interests of the audience. Nor should the economic motivation of the speaker qualify his constitutional protection; even Shakespeare may have been motivated by the prospect of pecuniary reward.²²⁰

In contrast, the free exercise of religion is firmly rooted in natural law justifications.²²¹ Admittedly, the exercise of religion has some utilitarian consequences. For example, free exercise that takes the form of aid for the poor, kindness to strangers, and other laudable behaviors has salutary effects on the public at large.²²² However, this is not why we protect religious freedom. We

215. *Id.* at 339.

216. *Id.*

217. *See, e.g.,* *Cent. Hudson Gas & Elec. Corp. v. Pub. Serv. Comm'n*, 447 U.S. 557, 562 (1980); *Va. Pharmacy Bd. v. Va. Consumer Council*, 425 U.S. 748, 760-61 (1976); *Bigelow v. Virginia*, 421 U.S. 809, 822 (1975).

218. Commercial speech restrictions must be supported by a substantial, as opposed to a compelling, government interest, and such restrictions must be proportional to that interest. *See Cent. Hudson Gas & Elec. Corp.*, 447 U.S. at 564.

219. *See id.*

220. *Id.* at 579-80 (Stevens, J., concurring).

221. *See generally* Michael W. McConnell, *The Origins and Historical Understanding of Free Exercise of Religion* 103 HARV. L. REV. (1990).

222. *Id.*

value the ability to freely exercise our faith because it is a quintessential human activity that provides personal meaning to our lives.²²³ Religious ideas have a significant utilitarian aspect to them, and the dissemination of such ideas is protected as speech and not as free exercise. Moreover, as discussed subsequently, I do not concede that the law in question in this case, or laws of similar import, will diminish the utility of religion to society.²²⁴ Religious adherents are free to put their beliefs in action to an undiminished extent. Undoubtedly, there is a utilitarian effect of having a clear conscience. However, the protection that the First Amendment grants even the most repulsive speech—including speech offensive to religious sensibilities—is evidence that a serene mindset is not an individual entitlement.²²⁵ Finally, the utilitarian aspect of conscientious purity for one party must be weighed against the disutility of the resentment felt by those persons who believe, not unjustifiably, that the religious beliefs of others have been foisted upon them. Offensive speech merely offends. Religious exemptions to generally applicable laws can and often do have direct, actionable effects on third parties.

The Court's resort to the Dictionary Act definition of a person implies that all for-profit corporations are persons for purposes of RFRA.²²⁶ However, the Court later took great pains to emphasize that its decision was limited to the three closely-held corporations that were before it.²²⁷ If religious freedom had a utilitarian underpinning, then the nature of the corporation should be irrelevant to the issue of whether it enjoyed protection to exercise its beliefs. In contrast, *Citizens United* contained no such caveats.²²⁸ All corporations, from Microsoft to the sole-shareholder corporation, enjoy the rights upheld in that case.²²⁹ Moreover, the Court's holding in *Smith* belies any utilitarian concern for free exercise.²³⁰ Constitutionally, no accommodation for religion is required by any law of general applicability.²³¹ This standard provides religion with less protection than commercial speech and hardly supports the notion that individual religious freedom serves a societal function similar to speech.²³²

A consequential analysis of speech has led to restrictions imposed on corporations that go beyond the traditional justifications for commercial speech

223. *Id.*

224. *See infra* notes 274-80, 285-88 and accompanying text.

225. *See* McConnell, *supra* note 221.

226. *See supra* notes 80-84 and accompanying text; *see also infra* notes 240-44 and accompanying text for a discussion of this issue in the context of associational rights.

227. *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751, 2774-75 (2014).

228. *See* *Citizens United v. FEC*, 558 U.S. 310 (2010).

229. *Id.*

230. *See* *Emp't Div. v. Smith*, 494 U.S. 872, 879 (1990).

231. *See supra* notes 52-53 and accompanying text.

232. At least two scholars would disagree with my opinion about the consequential importance of religion in society. *See* Alan J. Meese & Nathan B. Oman, *Hobby Lobby, Corporation Law, and the Theory of the Firm: Why For-Profit Corporations are RFRA Persons*, 127 HARV. L. REV. F. 273, 288 (2014).

restrictions and would not be tolerated if imposed upon an individual. For example, the federal securities laws mandate quiet periods for issuers of new securities, thereby prohibiting truthful speech and regulations, compelling corporations to provide certain information and dictate to whom such information is to be directed.²³³ This author knows of no instance in which the government can compel someone to exercise religious beliefs in order to serve some societal goal. Despite whatever protestations may arise from government-compelled speech, it would likely pale in comparison to the outcry that would ensue against compelled religious acts.

2. *Corporate Rights Derived from the Freedom of Association.*—Religious rights for corporations may be supported by a rationale that shifts such rights toward the fundamental rights end of the spectrum—individual rights of freedom of association. The opinion of the Court in *Citizens United* did not resort to this rationale.²³⁴ Although Justice Scalia’s spirited concurrence in that case supported corporate speech rights on textual grounds, it also resorted for support to the shareholders’ freedom of association.²³⁵ Justice Scalia stated that institutional speech is the speech “of many individual Americans, who have associated in a common cause. . . .”²³⁶ He also stated, in true Scalia fashion, that:

[t]he dissent says that when the Framers “constitutionalized the right to free speech in the First Amendment, it was free speech of individual Americans that they had in mind.” . . . That is no doubt true. All the provisions of the Bill of Rights set forth the rights of individual men and women—not, for example, of trees or polar bears. But the individual person’s right to speak includes the right to speak *in association with other individual persons*.²³⁷

Leaving aside the Court’s employment of the Dictionary Act, its rationale for supporting corporate free exercise rights was attached firmly to individual rights to freely associate.²³⁸

As we will show, Congress provided protection for people like the Hahns and Greens by employing a familiar legal fiction: It included corporations within RFRA’s definition of “persons.” But it is important to keep in mind that the purpose of this fiction is to provide protection for human beings. A corporation is simply a form of organization used by human beings to achieve desired ends. An established body of law specifies the rights and obligations of the *people* (including shareholders, officers, and employees) who are associated with a corporation in one way or another. When rights, whether constitutional or

233. See Adam Winkler, *Corporate Personhood and the Rights of Corporate Speech*, 30 SEATTLE U. L. REV. 863, 871 (2007) (citing to 15 U.S.C. § 77e (2006); 17 C.F.R. § 240.14a-8 (2006)).

234. See *Citizens United v. FEC*, 558 U.S. 310 (2010).

235. See *id.* at 392 (Scalia, J., concurring).

236. *Id.*

237. *Id.* at 391-92 (emphasis in original) (internal citation omitted).

238. *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751, 2767 (2014).

statutory, are extended to corporations, the purpose is to protect the rights of these people. For example, extending Fourth Amendment protection to corporations protects the privacy interests of employees and others associated with the company. Protecting corporations from government seizure of their property without just compensation protects all those who have a stake in the corporations' financial well-being. And protecting the free-exercise rights of corporations like Hobby Lobby, Conestoga, and Mardel protects the religious liberty of the humans who own and control those companies.²³⁹

The Court's resort to the associational rights of individuals to support recognition of a corporate right appears inconsistent with its concomitant reliance on the Dictionary Act to justify its recognition of corporate personhood for RFRA purposes. The Court made clear that personhood status for some, but not all, corporations could not be squared with the Dictionary Act's language.²⁴⁰ But surely associational rights are not implicated in all corporate structures. The Court's decision, in theory, would support an RFRA claim by any corporation, including publicly traded corporations. Although the majority limited its holding to the three particular closely-held corporations it had before it, whether other corporations are successful in their RFRA claims would be predicated on whether their ownership structure cast doubt on the sincerity of their beliefs.²⁴¹ By the Court's reasoning, ownership structure is not a *per se* bar to bringing an RFRA claim.²⁴² For example, publicly traded corporations may have classes of stock with voting stock concentrated in the hands of the founder.²⁴³ Google, Facebook, and Viacom are three of the more prominent examples of such equity structures.²⁴⁴ It is not inconceivable that a public corporation, whose vote is controlled by a founding family, can make a legitimate RFRA claim based on the founding family's religious beliefs. For that matter, Hobby Lobby Stores could offer shares to the public—it is quite a substantial company—and the Green family could retain the voting shares.

In *Citizens United*, Justice Scalia did not clarify which individuals' associational rights are to be given succor.²⁴⁵ In *Hobby Lobby Stores*, the Court made it clear that corporate personhood is designed to protect "the humans who own and control those companies."²⁴⁶ In other words, only shareholders have the

239. *Id.* at 2768 (emphasis in original).

240. *See supra* note 84 and accompanying text.

241. *See supra* notes 107-09 and accompanying text.

242. *Burwell*, 134 S. Ct. at 2774-75.

243. *See* Miriam Gottfried, *Investors Beware Powers of Supervoting Shares*, WALL ST. J., Dec. 17, 2012, at C8.

244. *See id.* The ability to retain control had a significant effect on the decision by Alibaba Group Holdings, Ltd.'s management to list its shares in the United States after the conclusion of its initial public offering. Hong Kong stock exchange rules would not permit the share structure desired by the company. *See* Matt Jarzemsky & Juro Osawa, *Alibaba Jabs at Hong Kong Bourse*, WALL ST. J., Sept. 27, 2013, at C3.

245. *Citizens United v. FEC*, 558 U.S. 310, 385-394 (2010).

246. *Burwell*, 134 S. Ct. at 2756.

associational rights that protect religious liberty derivatively.²⁴⁷ This ignores, however, the fact that the individuals who choose to associate in corporate form include employees, customers, suppliers, debt holders, and other constituencies. Just what is their common cause?

Unlike members of religious organizations, the common cause of shareholders and other constituencies is commercial in nature. Although the Court rightly noted that the profit motive in and of itself does not preclude a purpose to advance other values, it is highly unlikely that such other values are shared by all constituents who choose to associate under a corporate umbrella. In *NAACP v. Alabama*, the Court held that the right of association, regardless of whether the beliefs sought to be advanced pertain to political, economic, religious, or cultural matters, is protected against state actions that go beyond the establishment of direct impediments to the ability of individuals to associate.²⁴⁸ However, indirect restraints are examined to determine their likelihood of imposing a substantial restraint upon the exercise of members' rights to freely associate.²⁴⁹ Consequently, the nexus between the group's common cause and the derivative right in question—in this case free exercise—is relevant to whether the state's impediment significantly and meaningfully stifles members' ability to associate.²⁵⁰ Members do not associate in a for-profit corporate form to advance religious beliefs. The advancement of such beliefs speaks to the method in which the common cause of the for-profit corporation is attained but it is not the *raison d'être* of the entity. If it were, then the corporation should have been organized as a religious non-profit entity. The fact that non-profit status may come at the price of foregoing lobbying and political activity should not be license to mask the true nature of an organization to avoid legal restrictions that the organization's promoters find distasteful.²⁵¹

The nature of the modern corporation casts doubt on the legitimacy of corporate personhood as a tool to vindicate individual associational rights. Restrictions imposed on a single shareholder corporation do not implicate any associational rights.²⁵² Opposition to such restrictions is based on the notion that it is unfair to make a person choose between religious liberty and the legal benefits of incorporation.²⁵³ However, if a corporation is a person then the focus should be solely on the corporation in this respect.²⁵⁴ The corporation did not sacrifice any religious liberty because it never had any such liberty to sacrifice.²⁵⁵ At the other end of the spectrum, associational rights weaken considerably in a

247. *See id.*

248. *NAACP v. Alabama*, 357 U.S. 449, 460-61(1958).

249. *See id.* at 462.

250. *See id.* at 460-63.

251. *See supra* note 90 and accompanying text.

252. Meese & Oman, *supra* note 232, at 287.

253. *Id.* at 292-93.

254. *Id.* at 288.

255. *Id.* at 291.

large publicly traded corporation.²⁵⁶ The notion that associational rights are implicated in a corporation with several hundred thousand or millions of shareholders, the identity of whom changes by the minute, is nonsense. Moreover, the prevalence of institutional shareholders begs the question of just how far removed may individuals be from the corporate entity in question before the right to association with other individuals becomes too attenuated to be taken seriously.²⁵⁷ The law has recognized that rights to freely associate are more likely to give way to other competing goals as the number of members in the association grows larger.²⁵⁸ Title VII of the Civil Rights Act of 1964 is a case in point.²⁵⁹

Associational rights in the context of closely held corporations that are owned by a limited number of like-minded shareholders are also problematic. For example, should a corporation whose ownership is diffused among family members, like the three corporations in this case, be considered a single shareholder corporation? If ownership was allocated among family members for wealth transfer tax purposes, then perhaps associational interests weaken considerably. In such cases, the dilemma for the founding member is not her inability to associate with others but her inability to attain the legal benefits of incorporation without any effect on religious exercise. Other related questions arise. For instance, what effect does trust ownership of stock have on associational rights if not all of the trust beneficiaries share the same religious fervor or if the trust beneficiaries are yet unborn?

Finally, a single minded focus on the associational rights of the owners of a corporation would appear to preclude any RFRA claim by other corporate constituents. For example, it is quite possible that the religious sensibilities of an employee benefits manager of a closely held corporation, whose responsibilities include the communication of contraception benefits to participants, are offended to a greater degree than the owners of the corporation. At best, such an employee could take refuge in Title VII's reasonable accommodation provisions.²⁶⁰ It is difficult to find a principled distinction between the heightened religious protections for the owners of the corporation and the modest religious protections afforded to employees under Title VII.²⁶¹ The fact that an employee voluntarily chose such employment is not satisfactory; the owners voluntarily chose their form of business.

256. *Id.* at 289.

257. Individuals are at least two levels removed from the corporation in question to the extent that corporate shares are held by mutual funds, pension plans, hedge funds, and other institutional investors. To the extent that such funds are aggregates of other funds—a fund of funds, for example—individuals are even more remote from the corporation in question.

258. Meese & Oman, *supra* note 232, at 285.

259. The freedom to associate with persons of one's choosing is overcome by the state's interest in a workplace free from discrimination on the basis of race, color, gender, religion, and national origin if fifteen or more persons are employed by the employer for a statutorily determined period. *See* 42 U.S.C. §§ 2000e(b), 2000e-2(a) (2010).

260. *See infra* notes 303-04 and accompanying text.

261. 42 U.S.C. § 2000e (2014).

The Court's rationale for not extending to corporations the Fifth Amendment right against self-incrimination is instructive:

The right of a person under the Fifth Amendment to refuse to incriminate himself is purely a personal privilege of the witness. It was never intended to permit him to plead the fact that some third person might be incriminated by his testimony, even though he were the agent of such person. A privilege so extensive might be used to put a stop to the examination of every witness who was called upon to testify before the grand jury with regard to the doings or business of his principal, whether such principal were an individual or a corporation. The question whether a corporation is a "person" within the meaning of this Amendment really does not arise, except perhaps where a corporation is called upon to answer a bill of discovery, since it can only be heard by oral evidence in the person of some one of its agents or employes [sic]. The Amendment is limited to a person who shall be compelled in any criminal case to be a witness against *himself*, and if he cannot set up the privilege of a third person, he certainly cannot set up the privilege of a corporation.²⁶²

Leaving aside the differences between the right against self-incrimination and the right of free exercise, the Court's Fifth Amendment jurisprudence makes clear that certain legal protections make no sense in a corporate context.

3. *Individual Shareholder Standing*.—Denial of corporate personhood should not preclude an RFRA claim by the individual shareholders of a corporation. Standing for such a claim should be granted to individuals directly or to the corporation in an associational capacity. Article III standing "enforces the Constitution's case-or-controversy requirement" and "serves to prevent the judicial process from being used to usurp the powers of political branches."²⁶³ Standing will be maintained only if the injury alleged is concrete, particularized, and actual or imminent; is fairly traceable to the challenged action; and is redressable by a favorable ruling.²⁶⁴ Moreover, the fact that denial of standing to a particular party or parties would result in no one with standing to challenge a particular law "is not a reason to find standing."²⁶⁵ It is not clear whether a shareholder can assert a harm that derives from a government requirement

262. *Hale v. Henkel*, 201 U.S. 43, 69-70 (1906).

263. *Clapper v. Amnesty Int'l USA*, 133 S. Ct. 1138, 1146 (2013) (citations omitted); *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 559-62 (1992).

264. *Clapper*, 133 S. Ct. at 1148 (citing to *Monsanto Co. v. Geertson Seed Farms*, 130 S. Ct. 2743, 2752 (2010)); *Lujan*, 504 U.S. at 560-61.

265. *Clapper*, 133 S. Ct. at 1154 (citing to various cases). Despite this statement, the Court disagreed that the warrantless acquisition of intelligence authorized by the Foreign Intelligence Surveillance Act could not be challenged by anyone. *See id.* at 1154-55. The Court may have been too optimistic in this regard. *See Adam Liptak, A Secret Surveillance Program Proves Challengeable in Theory Only*, N.Y. TIMES, July 16, 2013, at A11 (reporting that federal prosecutors have refused to make required disclosures to defendants of information derived from surveillance).

imposed on the corporation that she owns. The court did not reach this issue in this case but several judges in the Tenth Circuit reached opposite conclusions in this respect.²⁶⁶ The court has set forth a three-prong test for associational standing, the ability of an institution to represent its members, and the factors to be considered are: whether its members would otherwise have standing to sue in their own right; the interests the organization seeks to protect are germane to the organization's purpose; and whether neither the claim asserted nor the relief requested requires the participation of individual members in the lawsuit.²⁶⁷ Consequently, whether associational standing would maintain depends on the answer to the question that divided the Tenth Circuit judges.²⁶⁸ It seems anomalous that shareholder standing is not maintained since the cognizable harm visited upon the corporation is premised on the harm inflicted upon the shareholders. In any event, one thing this author has learned about standing is that it is what the Court says it is.²⁶⁹ Shareholders should be able to assert their claims.

An individual RFRA claim brings into stark relief the issues of free exercise and the substantiality of any burden imposed on such exercise at the individual level where it belongs. The Court in *Hobby Lobby Stores* had the opportunity to place some principled boundary on just what is encompassed by the term "exercise of religion."²⁷⁰ Unfortunately, it failed to do so.

B. Free Exercise or Clear Conscience

RFRA protects the *exercise* of religion.²⁷¹ The statute, to the extent it attempts to define exercise, defines the term circularly. The exercise of religion is defined as any exercise of religion, whether or not compelled by, or central to, a system of religious belief.²⁷² Justice Scalia, in the majority opinion in *Smith*,

266. See *Hobby Lobby Stores v. Sebelius*, 723 F.3d 1114, 1152-56 (10th Cir. 2013) (Gorsuch, Kelly, Tymovich, J.J., concurring) (opining that shareholders have standing); *Sebelius*, 723 F.3d at 1161 (Bacharach, J. concurring) (opining that the shareholders do not have standing); *Sebelius*, 723 F.3d at 1177 (Briscoe, Lucero, J.J.) (concurring in part, dissenting in part) (opining that the shareholders do not have standing); *Sebelius*, 723 F.3d at 1185-90 (Matheson, J.) (concurring in part, dissenting in part) (opining that shareholders have standing). The majority opinion did not reach this issue. *Sebelius*, 723 F.3d at 1126 (majority opinion).

267. *Hunt v. Wash. State Apple Adver. Comm'n*, 432 U.S. 333, 343 (1977).

268. *Sebelius*, 723 F.3d 1114.

269. See Matthew A. Melone, *A Leg to Stand on: Is There a Legal and Prudential Solution to the Problem of Taxpayer Standing in the Federal Tax Context*, 9 PITT. TAX REV. 97, 115-45 (2012).

270. *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751 (2014).

271. Religious Freedom Restoration Act of 1993, Pub. L. 103-141, § 5(4), 107 Stat. at 1489.

272. 42 U.S.C. §§ 2000bb-2(4), 2000cc-5(7)(2010). As originally enacted, RFRA defined the exercise of religion as the exercise of religion under the First Amendment. See Religious Freedom Restoration Act of 1993, Pub. L. 103-141, § 5(4), 107 Stat. at 1489. The statute was amended to read in its current form by RLUIPA, Pub. L. 106-274, § 7(a)(3), 114 Stat. 803, 806 (2000)—a fact

stated that

[t]he free exercise of religion means, first and foremost, the right to believe and profess whatever religious doctrine one desires. . . . But the “exercise of religion” often involves not only belief and profession but the performance of (or abstention from) physical acts: assembling with others for a worship service, participating in sacramental use of bread and wine, proselytizing, abstaining from certain foods or certain modes of transportation. It would be true, we think (though no case of ours has involved the point), that a state would be “prohibiting the free exercise [of religion]” if it sought to ban such acts or abstentions only when they are engaged in for religious reasons, or only because of the religious belief that they display. It would doubtless be unconstitutional, for example, to ban the casting of “statues that are to be used for worship purposes,” or to prohibit bowing down before a golden calf.

Respondents in the present case, however, seek to carry the meaning of “prohibiting the free exercise [of religion]” one large step further. They contend that their religious motivation for using peyote places them beyond the reach of a criminal law that is not specifically directed at their religious practice, and that is concededly constitutional as applied to those who use the drug for other reasons. They assert, in other words, that “*prohibiting the free exercise [of religion]*” includes requiring any individual to observe a generally applicable law that requires (or forbids) the performance of an act that his religious belief forbids (or requires). As a textual matter, *we do not think the words must be given that meaning.*²⁷³

As Justice Scalia noted, the exercise of religion means the belief in the tenets of one’s faith, the ability to profess such faith, the performance of physical acts that advance one’s faith, and the abstention from physical acts that contradict one’s faith.²⁷⁴ The objection to the *Smith* decision was based on the fact that government burdens placed on free exercise were not subjected to searching scrutiny and Congress capitulated to this objection by enacting RFRA.²⁷⁵ The free exercise rights of the respondent in *Smith*—his ability to fully participate in a religious ceremony—clearly were burdened. *Smith* does not stand for the proposition that burdens placed on conscience by generally applicable laws, without more, is a burden on free exercise.²⁷⁶ Quite the contrary, it is the requirement (or prohibition) “of an act that . . . religious belief forbids (or requires)” that triggers whatever scrutiny of that requirement or prohibition is

that the majority considered to be significant. *See supra* notes 100-01 and accompanying text.

273. *Emp’t Div. v. Smith*, 494 U.S. 872, 877-78 (1990) (emphasis added).

274. *Id.*

275. *Burwell*, 134 S. Ct. at 2756.

276. *Emp’t Div.*, 494 U.S. at 878.

appropriate.²⁷⁷

To be sure, the intent of Congress in enacting RFRA was to provide statutory protection for religious exercise for which the Court denied constitutional protection.²⁷⁸ *Smith*, however, involved a physical act directly connected to the practice of faith. The payment of health insurance premiums by a corporate enterprise is not an action that has inherent religious connotations. The record in *Hobby Lobby Stores* leaves no doubt that the shareholders believed that the provision of insurance coverage for certain products or services assisted in the commission of an act to which they conscientiously objected.²⁷⁹ However, RFRA guarantees the right to free exercise, not the right to a clear conscience.²⁸⁰ The provision of insurance does not inhibit the shareholders to believe that abortion is morally wrong, to profess that belief, or to pray, take sacraments, and engage in other religious actions that buttress that belief.

RFRA should be inapplicable to government actions that are not targeted at religion and whose only connection to religion is the disturbance of conscience. For example, RFRA protections should extend to environmental laws that prevent the construction or use of a religious facility, trade laws that prevent the purchase of religious objects, narcotics laws that prohibit the use of a product in a religious service, health laws that mandate vaccinations, or animal protection statutes that prohibit ritual sacrifice.²⁸¹ These types of laws do not merely burden the conscience but also burden the exercise of religion because they prohibit or require actions that, in and of themselves, have religious meaning. If, for sake of argument, the religious beliefs of the shareholders of Hobby Lobby Stores, Conestoga Wood Specialties, or Mardel caused them to believe that the provision of health insurance, *per se*, was morally wrong, then the mandate would place a burden on their free exercise rights. The objections to participation in the Social Security system by the Amish in *Lee* were not to the consequences of such participation but to the participation itself.²⁸² At that point it becomes appropriate to employ the substantial burden and least restrictive means tests.

The invocation of RFRA to alleviate the burden of conscience leaves RFRA without a limiting principle, thus exposing the government to the vagaries of the courts in determining whether the burden is substantial and whether there is, or is not, a least restrictive means in achieving an objective. It should not go that

277. *Id.*

278. *Burwell*, 134 S. Ct. at 2768-69.

279. *Id.* at 2757.

280. Religious Freedom Restoration Act of 1993, Pub. L. 103-141, § 5(4), 107 Stat. 1489.

281. In a case decided not long after *Smith*, the Court held that local ordinances prohibiting animal sacrifice in religious ceremonies were unconstitutional. *See supra* note 53. In that case, the Court found that the ordinances targeted a particular religious faith. *Id.* This author does not mean to imply that laws set forth by way of example would fail to pass muster under RFRA. Such laws, so long as they did not target religious practices, very well may meet RFRA's compelling interest and least restrictive means tests. However, such laws unquestionably would burden the *exercise* of religion.

282. *See United States v. Lee*, 455 U.S. 252, 256-57 (1982).

far. *Smith* itself was an attempt by the Court to prevent the constitution from permitting “every citizen to become a law unto himself.”²⁸³ Congress made a political choice to subordinate secular policy objectives to religious freedom to an extent. However, if RFRA is employed to protect conscience and nothing more, then RFRA will have achieved what the Court feared in *Smith*.²⁸⁴

Ironically, the disturbance of conscience is often the catalyst for greater, not less, religious exercise. Particularly controversial actions by the government, be they the use of torture at Guantanamo,²⁸⁵ drone strikes on civilians,²⁸⁶ legislation sanctioning gay marriage,²⁸⁷ or a judicial decision that is solicitous of abortion rights,²⁸⁸ often have a propensity to agitate religious objectors into action. Arguably, such actions encourage, not burden, free exercise. Despite its failure to limit RFRA’s application in this context, the Court had the opportunity to limit the statute’s application by subjecting asserted claims of substantial burdens to some meaningful scrutiny. Again, it declined to do so.

C. Substantial Burden

Because the RFRA requires that any substantial burden placed on religious exercise run the gauntlet of the least restrictive means test, a symbiotic relationship should exist between the interpretation of the terms “exercise” and

283. *Emp’t Div. v. Smith*, 494 U.S. 872, 879 (199) (quoting *Minersville Sch. Dist. Bd. of Ed. v. Gobitis*, 310 U.S. 586, 594-595 (1940)); *Reynolds v. United States*, 98 U.S. 145, 166-67 (1879)).

284. One prominent scholar posits that historical support exists for a broader concept of free exercise in the context of state, as opposed to federal, action. He asserts that the First Amendment right of free exercise, as incorporated into the Fourteenth Amendment, may have taken on a more capacious meaning in the aftermath of the Civil War than the meaning intended almost a century before by the Framers. See AKHIL REED AMAR, *THE BILL OF RIGHTS* 254-57 (1998). I know of no case in which the Free Exercise Clause has been applied more vigorously against the states than it has been applied against the federal government. In any event, RFRA applies only to the federal government. See *supra* note 56 and accompanying text.

285. See generally CTR. FOR CONSTITUTIONAL RIGHTS, *REPORT ON TORTURE AND CRUEL, INHUMAN, AND DEGRADING TREATMENT OF PRISONERS AT GUANTANAMO BAY, CUBA* (2006), available at http://ccrjustice.org/files/Report_ReportOnTorture.pdf, archived at <http://perma.cc/NW9T-DADD> (describing the some of the conditions present at Guantanamo Bay).

286. See generally Matt Sledge, *The Toll of 5 Years of Drone Strikes: 2,400 Dead*, THE HUFFINGTON POST (Jan. 23, 2014, 7:32 PM) http://www.huffingtonpost.com/2014/01/23/obama-drone-program-anniversary_n_4654825.html, archived at <http://perma.cc/HW76-43VZ> (about the civilian impact of drone strikes).

287. See generally *31 States with Legal Gay Marriage and 19 States with Same-Sex Marriage Bans*, PROCON.ORG (last updated Oct. 20, 2014), <http://gaymarriage.procon.org/view.resource.php?resourceID=004857>, archived at <http://perma.cc/UH2L-YWKL> (a list of which states allow same-sex marriage).

288. See generally *Important Supreme Court Cases*, THE PRO-CHOICE PUBLIC EDUC. PROJECT, <http://www.protectchoice.org/section.php?id=16> (last visited Oct. 14, 2014), archived at <http://perma.cc/U8V8-DKDW> (a list of important cases regarding abortion).

“substantial burden.”²⁸⁹ A less capacious construction of what constitutes the exercise of religion very well may justify the Court’s insistence that any judicial inquiry into the substantiality of a burden on such exercise is untoward.²⁹⁰ However, the lack of any principled limitation on the meaning of religious exercise should prompt the courts to examine whether any burden on such exercise is substantial. Otherwise, RFRA becomes anarchical. It is true that under Title VII, sincerely held religious beliefs are not subjected to any objective standard and that beliefs themselves are subject to the statutory protections.²⁹¹ However, Title VII requires only that employers make reasonable accommodations for religion and do require that workplace practices employ the least restrictive means to achieve the employer’s objectives.²⁹² Far reaching religious protection may be appropriate when such protection does not require the offending party to justify her actions under a draconian standard such as the least restrictive means test.

The notion that the judiciary has no business questioning the substantiality of a burden in this context is illogical. The law imposes objective standards on beliefs in other contexts and appears to do so without inordinate difficulty. Many crimes are based on actions that are inherently benign but become criminal when accompanied by criminally negligent beliefs. Justifiable self-defense requires a reasonable belief in the threat of imminent death or serious bodily harm.²⁹³ Why is it appropriate to subject a person’s sincere belief that she faced such a threat to some workable standard but inappropriate to subject a claim that a particular burden on free exercise is substantial?

Such an inquiry would be no more, and would perhaps be even less, intrusive than an inquiry into the sincerity of the religious beliefs in question—an inquiry that the judiciary can and does undertake.²⁹⁴ Moreover, the application of an objective standard does not call into question whether or not the person genuinely believes the burden at issue is substantial. It merely requires a court to distinguish between sensitivities that likely exist generally from those that exist idiosyncratically. Every person has the right to attach whatever religious meaning to an act their conscience demands.²⁹⁵ The law, however, should not be

289. Religious Freedom Restoration Act of 1993, Pub. L. 103-141, § 2000bb, 107 Stat. 1489.

290. See *supra* notes 133-35 and accompanying text.

291. See, e.g., *Redmond v. GAF Corp.*, 574 F.2d 897 (7th Cir. 1978); see also 29 C.F.R. § 1605.1 (2009); *Welsh v. United States*, 398 U.S. 333 (1970).

292. See 42 U.S.C. §§ 2000e(j), 2000e-2(a)(2010). An accommodation is not reasonable if it requires more than a *de minimis* cost to implement. See 29 C.F.R. § 1605.2(e)(1) (2009).

293. “The defender must have believed that he was in imminent peril of death or serious bodily harm, and that his response was necessary to save himself therefrom. These beliefs must not only have been honestly entertained, *but also objectively reasonable* in light of the surrounding circumstances.” *United States v. Peterson*, 483 F.2d. 1222, 1230 (D.C. Cir. 1973) (emphasis added); see generally Re’em Segev, *Fairness, Responsibility and Self-Defense*, 45 SANTA CLARA L. REV. 383 (2005).

294. See *supra* notes 107-09 and accompanying text.

295. *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751, 2804 (2014)

hostage to the vagaries of the hypersensitive.

On the one hand, the Court stated that wherever the line is drawn to demarcate a person's proverbial Rubicon "it is not for us to say that the line he drew was an unreasonable one."²⁹⁶ On the other hand, the Court proceeded to tally up the penalties imposed under the tax code for the failure to provide either health insurance in general or contraception coverage in particular.²⁹⁷ If it is not for the Court to say whether or not the limits of personal tolerance have been reached, then the relevance of the magnitude of financial penalties for noncompliance escapes this author. If, in fact, the Court was testing the substantiality of the burden by some reasonableness or other such standard, then it misunderstood the burden that it was testing.

The contraception mandate is, at its essence, a requirement that a private person indirectly fund an action that she finds religiously objectionable. The burden that should be examined is not the financial penalty for non-compliance but the burden imposed on religious exercise by compliance with the mandate. The burden must arise from *compliance* with the challenged law. For example, the religious burden imposed by the use of tax dollars for objectionable ends does not arise from the fact that the failure to pay taxes subjects a tax evader to fines and possible imprisonment.²⁹⁸ Rather, the burden in such cases is the harm to the conscience that arises from the payment of the taxes.²⁹⁹ This is the burden that RFRA subjects to scrutiny. As previously noted, this author argues that an imposition on conscience, without more, is not a burden on exercise at all.³⁰⁰ Assuming *arguendo* that such a burden is, in fact, a burden on free exercise, it is not substantial by any reasonable standard.

296. *Id.* at 2757 (quoting *Thomas v. Review Bd. of Ind. Emp't Sec. Div.*, 450 U.S. 707, 715 (1981)). The Court distinguished the facts in this case from the facts in *Tilton v. Richardson*, 403 U.S. 672 (1971) and *Board of Education of Central School District No. 1 v. Allen*, 392 U.S. 236 (1968). In those cases the Court rejected the assertion that the use of general tax revenues to subsidize the secular activities of religious institutions violated the Free Exercise Clause. However, the challenges in those cases were not based on the religious beliefs of the challengers but instead on their views of proper church-state relations. *Burwell*, 134 S. Ct. at 2779.

297. *Burwell*, 134 S. Ct. at 2776.

298. Various criminal sanctions are set forth in the Internal Revenue Code. Willful attempts to evade or defeat the imposition or payment of any tax is a felony punishable by a fine of not more than \$100,000, not more than imprisonment for five years, or both. I.R.C. § 7201 (CCH 2014). The willful failure to adhere to any requirement to keep records or supply information is a misdemeanor punishable by a fine of not more than \$25,000, not more than imprisonment for one year, or both. *Id.* § 7203. The making of fraudulent statements, concealment of property, or the withholding, falsification, or destruction of records is a felony that is subject to a fine of not more than \$100,000, up to three years imprisonment, or both. *Id.* § 7206. Finally, the willful filing of a fraudulent or false return is subject to a fine of not more than \$10,000, not more than imprisonment for one year, or both. *Id.* § 7207. In addition a variety of civil penalties may be imposed. *See, e.g., id.* §§ 6662, 6663.

299. *Emp't Div. v. Smith*, 494 U.S. 872, 880 (1990).

300. *See supra* notes 271-84 and accompanying text.

Justice Ginsburg argued that the intervening acts of the insured and medical providers make any such burden too attenuated to be considered substantial.³⁰¹ The independent intervening acts of third parties, by themselves, should not be sufficient to defeat a substantiality claim. For example, a government mandate that an employer must pay for an abortion once the patient has submitted it a bill may go too far despite the intervening acts of the patient and her medical provider. The substantiality of the alleged burden should be tested by reference to unchallenged impositions on free exercise to determine whether the burden at issue differs in kind from such other impositions. If similar burdens have been managed without unduly burdening free exercise rights, then the challenged burden is not substantial. The contraception mandate is similar in kind to a host of other government impositions.

Virtually all government edicts impose a burden on something. Many long-standing legal requirements impose indirect burdens on the exercise of religion. The obligation to pay income taxes reduces the amount of funds that an individual could otherwise use to support institutions that advance her faith. This type of burden is visited not only upon conscience but also upon the ability to act. Title VII of the Civil Rights Act of 1964 not only prohibits religious based discrimination in hiring but also requires that reasonable accommodations be made for employees whose faith may be anathema to the faith of their employers.³⁰² The courts, in recent years, have become more liberal in protecting religious liberty under the reasonable accommodation provisions of Title VII.³⁰³ The expansive religious protections afforded employees can be used analogously to provide support for expansive RFRA protections. That may be so, but the more protective Title VII is of employee religious freedom, the more burdens it places on employers, and these burdens are not necessarily financial in nature.³⁰⁴ It is quite possible that certain religious beliefs or practices that must be accommodated are deeply offensive to the employer's religious beliefs.

The Court addressed the possibility that its decision would lead the country down the slippery slope of multitudinous claims of exemption from a variety of generally applicable laws.³⁰⁵ However, the Court discounted that possibility because many, if not most, of the challenged laws may very well employ the least restrictive means to achieve a compelling government objection.³⁰⁶ However, existing legal requirements of this sort are not substantial burdens to free exercise regardless of whether they achieve their objectives by the least restrictive means.

Rather than categorizing the requirement to comply with legal duties imposed on society at large as a burden, it is just as reasonable to classify an exemption from such duties as a matter of legislative grace and not as an entitlement. The

301. *Burwell*, 134 S. Ct. at 2787 (Ginsburg, J., dissenting).

302. *See supra* notes 291-92 and accompanying text.

303. *See generally* Katz, *supra* note 173, at 110.

304. *Id.*

305. *Adeyeye v. Heartland Sweeteners, LLC*, 721 F.3d 444, 452 (7th Cir. 2013).

306. *Burwell*, 134 S. Ct. at 2779.

Roman Catholic Church is not entitled to tax exempt status.³⁰⁷ Instead, it and other religious institutions are exempted for policy reasons as a matter of legislative grace.³⁰⁸ Similarly, reasonable individuals consider the tax deduction permitted for donations to religious institutions as a benefit that subsidizes religion rather than partial relief from the burden imposed on their free exercise rights by the tax code.³⁰⁹ Reasonable people understand that it is impossible to live in an ordered society without some form of government imposition on their freedom to act—whether religiously or otherwise.

The contraception mandate is similar in kind to a host of other burdens to which persons engaged in for-profit activities have become accustomed. The essence of the shareholders' objections in this case is the fact that they are compelled to part with their funds and that such funds indirectly may be used to facilitate activities to which they object. This type of compelled activity is commonplace in the for-profit world. The income taxes imposed on corporations' profits fund government activities, such as grants for organizations such as Planned Parenthood, that may be morally repugnant to the shareholders.³¹⁰ Perhaps the connection between the payment of income taxes and the government expenditures made possible by taxes is too attenuated to form an apt comparison to the contraception mandate. Other indirect burdens are not so attenuated.

Hobby Lobby Stores employs approximately 13,000 individuals.³¹¹ It is a safe assumption, given Title VII and state anti-discrimination statutes, that many of its employees do not share the same faith as the shareholders or, if they do, do not possess the same fervor as the shareholders. Consequently, unless the shareholders are willfully blind, surely they must be aware that the paycheck that they provide to certain employees will be used to engage in activities that are deeply disturbing to their faith. Do the shareholders genuinely believe that contract law should not enforce their obligation to pay an employee if they can show that the money will be used to pay for an abortion or a damnable lifestyle? If not, then this author fails to see any principled difference between this example and the contraception mandate with respect to the extent of the burdens that each imposes. Wheaton College believes that the accommodations offered by the administration to religiously-affiliated employers do not relieve the substantial burden on its free exercise imposed by the contraception mandate.³¹² The accommodation severs the connection between the employer funds and the objectionable actions.³¹³ In effect, Wheaton's only complicity in the use of the

307. See generally Austin Cline, *Why Taxation of Religion Matters*, ABOUT.COM, <http://atheism.about.com/od/churchtaxexemptions/a/whyitmatters.htm> (last visited Oct. 14, 2014), archived at <http://perma.cc/HS6N-KHHX> (for a general overview of the issue of taxing churches).

308. See I.R.C. §§ 501(a), 501(c)(3) (2014).

309. See *id.* §§ 170(a), 170(c)(2)(B).

310. *Burwell*, 134 S. Ct. at 2784.

311. See *supra* note 66 and accompanying text.

312. See *supra* note 160 and accompanying text.

313. See *supra* note 40, *infra* note 160 and accompanying text for a discussion of these

objectionable products under the accommodation procedures would be its employment of women who someday may choose to use such products. Likewise, direct government funding of contraceptive products for women whose employer does not offer such coverage would be subject to similar objection.

The payment of wages and the provision of contraception coverage are activities that do not prevent the shareholders from actively exercising their faith, result in objectionable activities only through the intervening acts of others, and are disturbing to conscience and nothing more. The shareholders of all three corporations willingly accepted a host of financial obligations that may result in activities that offend their religious sensibilities when they decided to enter into the stream of commerce. The contraception mandate is one of these financial obligations, no different in kind than many other such obligations. The Court's willingness to extend the definition of religious exercise to the entitlement of a clear conscience requires some objective limitation on claims of substantiality. The fact that the shareholders have managed to prosper under similar burdens is objective evidence that the burden imposed by the mandate is not substantial in an objective sense.

D. Least Restrictive Means

Additional support for limitations on the scope of actions that constitute the exercise of religion, or for the employment of some standard by which to test substantiality claims, is that such limitations, or such a standard, will reduce to a significant degree the frequency in which the courts are required to test government actions against other possible alternatives. Thirty years ago the Court recognized the inherent limitations of the judicial branch in policy formulation.³¹⁴

Under the Court's seminal decision in *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, administrative agency actions that had been subject to notice and comment are subjected to a deferential standard of review.³¹⁵ Under that standard, if the statute that is the subject of the agency action does not directly address the precise question at issue then the action will not be disturbed unless it is found to be arbitrary, capricious in substance, or manifestly contrary to the statute.³¹⁶ Such deference is warranted because, according to the Court, "[t]he power of an administrative agency to administer a congressionally created . . . program necessarily requires the formulation of policy and the making of rules to fill any gap left, implicitly or explicitly, by Congress."³¹⁷ Moreover, the modern administrative state often requires agencies, in formulating policy to possess specialized knowledge that goes beyond the "ordinary knowledge"

accommodations.

314. *Chevron U.S.A., Inc. v. Natural Res. Def. Council, Inc.* 467 U.S. 837 (1984).

315. *Id.*

316. *See United States v. Mead*, 533 U.S. 218, 277 (2001).

317. *Chevron*, 467 U.S. at 843.

possessed by the courts.³¹⁸ Justice Ginsburg more recently stated the rationale for judicial deference to agency action: “The expert agency is surely better equipped to do the job than individual judges issuing ad hoc, case by case injunctions. Federal judges lack the scientific, economic, and technological resources an agency can utilize in coping with issues of this order.”³¹⁹

Courts should adjudicate RFRA claims within the spirit of *Chevron* and not lose sight of the fact that their role is not to craft policy—a point apparently lost on the Court in *Hobby Lobby Stores*. The method in which the Court employed the statute’s least restrictive means test appears at odds with its recognition of the inherent limitations of the judiciary in *Chevron*. The Court’s belief that the accommodation made for certain religious non-profit organizations evidenced that the contraception mandate was not the least restrictive means of achieving the government’s asserted objective. Notwithstanding Justice Ginsburg pointed dissent in this regard, the majority’s use of an existing administratively created alternative certainly is understandable and defensible.³²⁰

Problematically, however, the Court also believed that direct government payment for the disputed services was a least restrictive means of achieving the objectives of the contraception mandate: “The most straightforward way of doing this would be for the government to assume the cost of providing the four contraceptives at issue who are unable to obtain them under their health insurance policies due to their employers’ religious objections.”³²¹ The Department of Health & Human Services did not produce cost estimates or other statistics refuting the Court’s assumption that the cost of such coverage to the government would be minor.³²²

This is dangerous ground on which the Court has ventured because the same can be said of various government burdens. For example, the government can bear the cost of insurance coverage for spouses in same-sex marriages if the employer has religious objections to such marriages.³²³ In effect, under the Court’s reasoning, for any program not expressly exempted from RFRA’s requirements, the government either must anticipate religious objections and score the cost of providing direct government funding or be prepared to do so in litigation. Moreover, the short-term costs of government funding do not take into

318. *Id.* at 844.

319. *Am. Elec. Power Co. v. Conn.*, 131 S. Ct. 2527, 2539-40 (2011).

320. Whether this alternative will function smoothly is questionable. *See, e.g.*, Louise Radnofsky, *Coverage Alternatives Face Hurdles*, WALL ST. J., July 2, 2014, at A6; Lauren Weber, *Hiring Process Just Got Dicier*, WALL ST. J., July 2, 2014, at B7.

321. *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751, 2780 (2014).

322. *Id.* at 2781.

323. It is inevitable perhaps that such a challenge will be made. Religious groups already have begun to pressure the Obama Administration to provide religious exceptions to his executive order that prohibits federal contractors from discriminating against gay and transgender individuals. *See* Exec. Order No. 13672, 79 Fed. Reg. 42971 (July 23, 2014) (amending Exec. Order Nos. 11246 and 11478); *see also* Laura Meckler, *Contractors Face Obama Ban Against LGBT Bias*, WALL ST. J., July 19, 2014, at A4; Op-ed, *Taxpayer-Financed Bigotry*, N.Y. TIMES, July 12, 2014, at A16.

account dynamic factors such as the effect that modifications to existing programs will have on market prices and on the behavior of the market participants. Such factors often are beyond the predictive ability of the administrative agencies with specialized expertise in the area in question. The financial meltdown in 2008 was caused, in part, by government policies that changed the behavior of market participants.³²⁴ It is doubtful that the combination of federal backing for mortgages, federal insurance for bank deposits, and the repeal of the Glass-Steagall Act, among other federal actions, would conspire someday to almost destroy the economy was foreseen by most policy experts.³²⁵ *Chevron* was an exercise in judicial humility. *Hobby Lobby Stores* was not.

Finally and ironically, *Hobby Lobby Stores* may inhibit agencies from voluntarily devising accommodations for religious organizations. After all, the Court in this case hung the Department of Health & Human Services by its own petard. The very accommodation that the agency developed for religious organizations was used by the Court as proof that the agency's contraception mandate was not the least restrictive means of achieving the objectives of the Patient Protection and Affordable Care Act. It is quite possible that this lesson is not lost on this or other agencies when they draft rules to implement provisions that may burden religious practices.

CONCLUSION

It is beyond dispute that the Patient Protection and Affordable Care Act, whether or not one agrees with its public policy rationale or the manner in which it seeks to achieve its objectives, inserts the government squarely into the employer-employee relationship with respect to health care. RFRA is a broad law that is extremely solicitous of religious freedom. These two statutes will collide often and, most likely, over insurance coverage requirements that go beyond contraception coverage. Constitutionally, the Court, in the clash between generally applicable duties and religious freedom, gave the nod to the former. RFRA changed the ground rules but without nuance or context. *Hobby Lobby Stores* offered the Court the opportunity to place some principled limitations on RFRA. Unfortunately, it was a missed opportunity.

324. A detailed discussion of the causes of the 2008 financial crisis is well beyond the scope of this work and this author's expertise. For an entertaining examination of the factors that contributed to the financial crisis, including greed, misaligned incentives, misguided government programs, and hubris, see generally ANDREW ROSS SORKIN, *TOO BIG TO FAIL* (2011).

325. *Id.*

FINANCING INNOVATION: LEGAL DEVELOPMENT OF INTELLECTUAL PROPERTY AS SECURITY IN FINANCING, 1845-2014

XUAN-THAO NGUYEN*

INTRODUCTION

Commentators have repeatedly raised questions about the United States' ability to continue to be an innovative nation.¹ Some complained that compared to other countries with higher rates on innovation, the United States has fallen behind due to lack of funding for research.² Small businesses, known for being incubators of new ideas and job creation, continue to face major obstacles in obtaining government funding and financing from lenders.³ While lenders are willing to extend credit to large businesses, they often ignore small businesses.⁴

* Professor Xuan-Thao Nguyen is the Gerald L. Bepko Chair in Law and Director of Center for Intellectual Property & Innovation, Indiana University Robert H. McKinney School of Law. Special thanks to all the participants at the Vietnam Ministry of Science and Technology and Vietnam Institute of Intellectual Property Research at the workshop on financing innovation. Many thanks to Reid E. Dodge, Editor in Chief of the *Indiana Law Review*, for inviting me to contribute this article. I dedicate this article to Erik Darwin Hille and Khai-Leif Nguyen-Hille; their unconditional love and support allowed my smooth transition to Indiana University.

1. See U.S. DEP'T OF COMMERCE, THE COMPETITIVENESS AND INNOVATIVE CAPACITY OF THE UNITED STATES (2012), available at http://www.commerce.gov/sites/default/files/documents/2012/january/competes_010511_0.pdf, archived at <http://perma.cc/Z7QP-NV5W> [hereinafter COMMERCE REPORT] (“[A]larms began to sound about the U.S. economy’s ability to remain [in its past position]. . . . Observers have expressed concern that the scientific and technological building blocks critical to our economic leadership have been eroding”); see generally NAT’L ECON. COUNCIL, THE WHITE HOUSE’S STRATEGY FOR AMERICAN INNOVATION (2009), available at <http://www.whitehouse.gov/administration/eop/nec/StrategyforAmericanInnovation>, archived at <http://perma.cc/G26Q-E7J9> (attempting to address the innovation issue with a grand plan to set the country on a multi-approach path); Harold L. Sirkin, *Has the U.S. Lost Its Innovation Edge*, BLOOMBERG BUSINESSWEEK (Jan. 21, 2014), <http://www.businessweek.com/articles/2014-01-21/has-america-lost-is-innovation-edge>, archived at <http://perma.cc/MN7V-LY9Y> (noting that “only one in five of the 1,500 executives who participated in the fall 2013 survey rated their company’s innovation performance as strong”).

2. See generally Eamonn Fingleton, *America the Innovative?*, N.Y. TIMES, Mar. 30, 2013, <http://www.nytimes.com/2013/03/31/sunday-review/america-the-innovative.html?pagewanted=all>, archived at <http://perma.cc/X8Q4-7QVM> (stating that funding for research was the reason for American’s mid-twentieth Century rise in innovation and lacking funding today will negatively impact American’s innovation pace).

3. See, e.g., COMMERCE REPORT, *supra* note 1.

4. Karen Gordon Mills & Brayden McCarthy, *The State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game* 4-6 (Harvard Business School, Working Paper No. 15-004), available at [http://www.hbs.edu/faculty/Publication%](http://www.hbs.edu/faculty/Publication%20)

The dire financing situation faced by small businesses today is similar to the credit squeeze during and after the epic financial crisis in 2009.⁵

Without funding from both public and private sectors, small businesses cannot operate their companies, innovate for new ideas, and foster employment growth.⁶ The United States may soon lose its edge in innovation. How can financing be made available for small businesses that most often own neither real property nor tangible assets?

Small businesses have ideas, trademarks, content, know-hows, and other intangible assets.⁷ These intangible properties can be used as collateral to obtain financing from the private sector.⁸ Lenders must be willing to accept this type of property as collateral in order for credits to be extended to small businesses. Creditors must overcome their reluctance in these commercial transactions. This Article argues that lenders should take great comfort in making loans to small businesses with intellectual property assets serving as collateral. The United States has a long legal history of paving the path for financing innovation, as seen through the development of decisional law spanning from 1845 to the present.⁹ The established history of lending with intellectual property collateral is uniquely American.¹⁰ Recourses and remedies under strong rules of law system are readily available for secured lenders and creditors who are willing to finance innovation.¹¹

The Article proceeds as follows. Part I traces the development of embracing patents, copyrights and trademarks in chattel mortgages. This part analyzes early cases, including the seminal case, *Waterman v. Mackenzie*,¹² in patent mortgages, and their significance in recognizing the incorporeal property and the right of the mortgagee. Additionally, Part I focuses on the development in copyright statutes in relation to the use of copyrights in mortgages. Most importantly, the arrival of new technologies necessitated the increase of financing for the creation and distribution of copyrighted content and legal developments in the area of foreclosure of copyright mortgages.¹³ Part I also examines whether trademarks were used in chattel mortgages during the similar period of patent and copyright

20Files/15-004_09b1bf8b-eb2a-4e63-9c4e-0374f770856f.pdf, archived at <http://perma.cc/8PUS-SZ97>.

5. See *id.* at 8-10 (studying the lending patterns to small businesses before and after the 2008 economic recession).

6. See, e.g., COMMERCE REPORT, *supra* note 1, at 3-6.

7. See, e.g., *id.*

8. See, e.g., *id.*

9. See *Wilson v. Rousseau*, 30 F. Cas. 162, 182 (Cir. Ct. N.D.N.Y. 1845).

10. See Jay M. Mattappally, *Goliath Beats David: Undoing the Leahy-Smith America Invents Act's Harmful Effects on Small Businesses*, 58 LOY. L. REV. 981, 987-91 (2012).

11. See *Van Well Nursery, Inc. v. Mony Life Ins. Co.*, 362 F. Supp. 2d 1223, 1224 (E.D. Wash. 2005).

12. *Waterman v. Mackenzie*, 138 U.S. 252 (1891).

13. See *Republic Pictures Corp. v. Security-First Nat'l Bank of L.A.*, 197 F.2d 767, 770 (9th Cir. 1952).

mortgages. Due to the nature of trademarks, the stricter view of trademarks and their attached goodwill, trademark mortgages faced certain limitations.¹⁴ Recognizing the limitations of trademark mortgages, this section compares how patent, copyright and trademark provisions differ statutorily in their recording requirements for mortgages.

Part II moves to the post-war period of robust economic growth and commercial law reform nationwide. The adoption of Article 9 of the Uniform Commercial Code marks a new era of creating uniform law for states to encourage financing based on personal property as the backbone of economic growth.¹⁵ Paralleling the development in uniform commercial law, historic milestones in intellectual property law are seen through the overhauls in trademark law, patent law, and copyright law that modernized intellectual property law.¹⁶ Part II traces the intersection of Article 9 of the Uniform Commercial Code and intellectual property law. This intersection led to new approaches to patent collateral, copyright collateral, and trademark collateral.¹⁷ Particularly, the old mortgages were replaced with a new understanding and practice of security interest in modern secured transactions.¹⁸ In addition, challenging issues relating to whether federal or state law will govern perfection of intellectual property must be resolved in order for financing based on intellectual property to flourish.¹⁹

Part III looks beyond financing based on intellectual property in the private sector. This part will examine the United States' government's role in financing small businesses with intellectual property assets. The United States Small Business Administration has a history of extending loans to small businesses and accepting intellectual property as security for the repayment of loans.²⁰ This section will analyze decisional law for a comprehensive understanding of both the practice and legal development of the government's financing for small business innovation.

Part IV shifts to contemporary issues arising in financing innovation. Specifically, this part dissects the recourse and remedies available to secured creditors in financing innovation when the borrower could not fulfill payment obligations. This part analyzes recent Federal Circuit decisions determining whether a secured party of intellectual property collateral becomes the owner of the intellectual property by operation of law in post default. Predictability as to ownership of intellectual property collateral in post default will enhance financing

14. See *In re Leslie-Judge Co.*, 272 F. 886, 887-88 (2d Cir. 1921).

15. See Adam J. Levitin, *The Paper Chase: Securitization, Foreclosure, and the Uncertainty of Mortgage Title*, 63 DUKE L.J. 637, 697 (2013).

16. See Harold R. Weinberg & William J. Woodward, Jr., *Easing Transfer and Security Interest Transactions in Intellectual Property: An Agenda for Reform*, 79 KY. L.J. 61, 62-65 (1990).

17. Xuan-Thao Nguyen, *Collateralizing Intellectual Property*, 42 GA. L. REV. 1, 5 (2007).

18. *Id.* at 16.

19. *Id.* at 25.

20. *Railex Corp. v. Joseph Guss & Sons, Inc.*, 40 F.R.D. 119, 121 (D.D.C. 1966).

of innovation.²¹

There are some risks associated with financing innovation.²² Part V identifies and assesses the risks. Notably, the risks include whether a grant of security interest in some circumstances is deemed a fraudulent transfer and whether the secured creditor is liable for infringement.²³ However, these risks are rare in financing innovation by the private sector.²⁴

Learning from the development of financing innovation from 1845 to the present, Part VI offers observations and discusses implications for future financing of innovation. There is a need for both traditional and online lenders to appreciate the intellectual property assets held by small businesses.²⁵ The intellectual property assets should be included in the analytics in assessing the overall health of a business seeking a loan or a line of credit for its new innovative product, idea, or vision.²⁶ The Article ends with a brief conclusion that in order to maintain the United States' innovative edge, attention to the access to financing by small businesses must be at the center of the discussion, and intellectual property must be recognized as part of that center.

I. EMBRACING INTELLECTUAL PROPERTY MORTGAGES

In 1790, Congress passed the first patent and copyright statutes during its very first year of governing the new country.²⁷ Appreciating the importance of intellectual property in the development of the new nation, the new statutes and subsequent amendments provided a uniform system relating to the eligibility for receiving legal protection, duration of protection, infringement, remedies and transfers of ownership.²⁸ The idea of using patents, copyrights and trademarks

21. See *Aptix Corp. v. Quickturn Design Sys., Inc.*, 148 F. App'x 924, 928-30 (Fed. Cir. 2005).

22. *Id.*

23. *Id.*

24. See Nguyen, *supra* note 17, at 36.

25. Mills & McCarthy, *supra* note 4, at 4.

26. *Id.* at 42-44.

27. See generally Camilla A. Hrды, *State Patent Laws in the Age of Laissez Faire*, 28 BERKELEY TECH. L.J. 45 (2013) (stating that Congress passed the first federal Patent Act of 1790 providing inventors with a term of protection for fourteen years); Dotan Oliar, *Making Sense of the Intellectual Property Clause: Promotion of Progress as a Limitation on Congress's Intellectual Property Power*, 94 GEO. L.J. 1771 (2006) (tracing the development of the patent and copyright clause in the Constitution and congressional power in enacting federal laws on patents and copyrights); Edward C. Walterscheid, *Understanding the Copyright Act of 1790: The Issue of Common Law Copyright in America and the Modern Interpretation of the Copyright Power*, 53 J. COPYRIGHT SOC'Y U.S.A. 313 (2006) (analyzing the early debate of whether the rights associated with the patent and copyright clause were inherent or created rights).

28. See Patent Act of 1790, ch. 7, 1 Stat. 109-112 (1790), available at http://ipmall.info/hosted_resources/lipa/patents/Patent_Act_of_1790.pdf, archived at <http://perma.cc/M5VU-C9B7> (current version at 35 U.S.C. §§ 1 to -2071 (2014), available at <http://www.uspto.gov/web/offices/>

as security for payment obligations did not exist during the late eighteenth century, but the use of chattel or personal property²⁹ as security for debt or chattel mortgage was common practice.³⁰

Chattel mortgage transactions and law developed during the Colonial America period.³¹ In a chattel mortgage, the mortgagor conveyed to the mortgagee the right, title and interest in the chattels to secure the payment of a debt, upon condition that the transfer would be voided by the mortgagor's subsequent timely payment of the debt.³² The chattel mortgage financing allowed

pac/mpep/consolidated_laws.pdf, archived at <http://perma.cc/YF75-3F9V>). Some critics have argued that the United States government has recognized the importance of intellectual property and purposefully created patent law and amendments to protect the interests of domestic businesses and inventors. See William Hubbard, *Competitive Patent Law*, 65 FLA. L. REV. 341, 356-58 (2013) (observing specific patent statutory provisions that protect domestic interests in patents against foreign businesses and inventors).

29. See, e.g., George Lee Flint, Jr., *Secured Transactions History: The Fraudulent Myth*, 29 N.M. L. REV. 363, 398 (1999) (tracing the history of chattel mortgage as far back as in "1682 the Connecticut General Court upheld a chattel mortgage, a nonpossessory secured transaction but with possession in a third party, the debtor's agent, on a tannery's inventory and equipment against a levying judgment lien."); George Lee Flint, Jr. & Marie Juliet Alfaro, *Secured Transactions History: The Impact of Southern Stable Agriculture on the First Chattel Mortgage Acts in the Anglo-American World*, 30 OHIO N.U. L. REV. 537, 542-43 (2004) (asserting that early Colonial America adopted various chattel mortgage statutes for nonpossessory secured transactions with filing requirements); see also *Conard v. Ins. Co.*, 26 U.S. 386, 391-92 (1828) (discussing the existence of mortgage practices in which property served as security that was not real estate).

30. Andrew R. Berman, "Once a Mortgage, Always a Mortgage"—*The Use (and Misuse of) Mezzanine Loans and Preferred Equity Investments*, 11 STAN. J.L. BUS. & FIN. 76, 89 (2005) (stating that "all of the British North American colonies that later became states adopted the wholesale use of mortgages and based their mortgage law on the common law of England.").

31. See George Lee Flint, Jr. & Marie Juliet Alfaro, *Secured Transactions History: The First Chattel Mortgage Acts in the Anglo-American World*, 30 WM. MITCHELL L. REV. 1403, 1406-07 (2004) (providing a historical account of chattel mortgage statutes adopted by states in early Colonial American period and noting that a striking feature of these chattel mortgage acts adopted by various states was the filing requirement); see also *Mortgage, Chattel—Title to Increase*, 1 HARV. L. REV. 306, 306 (1888) (noting that under the then Maryland Code a chattel mortgage is good without possession if it is recorded).

32. *Farnum v. Metcalf*, 62 Mass. 46, 46 (1851) ("A mortgage, made by A. to B., was assigned by B. to C., to secure a debt, upon condition that if B. should pay the debt, the assignment should determine and become void, and the assigned premises should revert in B., his heirs and assigns."); *Carter v. Rewey*, 22 N.W. 129, 129 (Wis. 1885) (recognizing a chattel mortgage in the following transaction: "It is in the usual form of a chattel mortgage. For the purpose of securing the payment of \$1,000, Charles H. McLean bargained, sold, and transferred to the plaintiffs all of his stock in trade—consisting of a quantity of jewelry—and other personal property named, upon the condition that if McLean should forthwith pay the three debts specified, amounting to the sum of \$385, also to secure such other claims against him as might come into the hands of the plaintiffs for collection, and a claim of Aiken, Lambert & Co. of \$127, then the sale to be void."); see also *Erskine v.*

individuals and businesses to gain access to financing and reduced the lender's risks.³³

After the American Revolution, intellectual property assets slowly became important and valuable, and lenders began to accept them in chattel mortgages.³⁴ Questions regarding the scope of a mortgagee's right in the mortgaged intellectual property arose in due course.³⁵ The mortgagee wanted to know whether they could bring an infringement suit against others during the time period when the mortgagor had not fulfilled the payment obligations³⁶ and whether recording a patent mortgage would vest the mortgagee with the entire title in the patent.³⁷ Another unanswered question was, under federalism separating the jurisdictions of federal and state courts, which law would govern the foreclosure of mortgaged patents and copyrights.³⁸ In addition, there was not a settled opinion as to whether trademarks should be mortgaged like patents and copyrights.³⁹ Early cases addressed these questions, thereby widening the path for financing with the use of intellectual property in mortgages.⁴⁰

A. Patent Mortgages

The United States Supreme Court widely opened the door for financing with the use of patent assets as security in the famous *Waterman v. Mackenzie* decision in 1891.⁴¹ In that case, Mrs. Waterman borrowed \$6500 from Asa L. Shipman

Townsend, 2 Mass. 493, 494 (Mass. 1807) (recognizing a land mortgage wherein the defendant "pleads a bond dated the same day, in the penal sum of 500 dollars, with a condition—after reciting that the defendant, owing the plaintiff 241 dollars 30 cents, and for the better securing the payment of the same, had conveyed to the plaintiff fifty acres of land—that, if the defendant should pay the plaintiff that sum in six months, and the plaintiff shall then reconvey the land to the defendant, the bond was to be void.").

33. Flint & Alfaro, *supra* note 31, at 562, 570 (demonstrating how oversea merchants from England and the Netherlands were eager to lend to planters in Virginia and took security in personalty, including "indentured servants, goods and bills of exchange" and that the booming plantation economy paved the way for small planters to seek "greater wealth through expansion based on secured loans").

34. *See infra* Part I.A-C.

35. *See generally* *Waterman v. Mackenzie*, 138 U.S. 252 (1891).

36. *Id.*

37. *Id.*

38. *See generally* *Republic Pictures Corp. v. Security-First Nat'l Bank of L.A.*, 197 F.2d 767 (9th Cir. 1952).

39. *See generally* *Morgan v. Rogers*, 19 F. 596 (Cir. Ct. D.R.I. 1884).

40. *Id.*

41. *Waterman*, 138 U.S. at 258. Patents as security for loans occurred for quite some time before the United States Supreme Court decided its *Waterman* decision. *See* *Wilson v. Rousseau*, 30 F. Cas. 162, 182 (Cir. Ct. N.D.N.Y. 1845) (observing that "[a] patentee having mortgaged the patent-right, continued in the notorious use of it, until he became bankrupt"); *Hollins & Napier v. Mallard*, 10 How. Pr. 540 (N.Y. Sup. Ct. 1854) (holding that the mortgagee has a lien on the patents

& Son on November 25, 1884.⁴² To secure the payment on the promissory note, Mrs. Waterman mortgaged the patent relating to inventions of fountain pens obtained by her inventor-husband by executing a conditional assignment, which contained an express provision that the assignment should be null and void if the payment obligation was paid on the due date.⁴³ As mortgagee, Asa L. Shipman & Sons and its subsequent assignee, Asa L. Shipman, timely recorded the patent mortgage with the Patent Office.⁴⁴ Mr. Waterman transferred the ownership in the patents to his wife on February 13, 1884, received a license to manufacture under the patents from his wife on November 20, 1884, and brought a patent infringement action against an alleged infringer.⁴⁵ The alleged infringer in turn challenged the plaintiff for lack of standing to maintain the suit, as the patents had already been mortgaged.⁴⁶ At the time of the infringement suit, Mrs. Waterman had not fulfilled the payment obligation to Asa L. Shipman.⁴⁷

By recording the patent mortgage with the Patent Office, the Court ruled that the entire title in the patent, both in law and equity, was acquired by the mortgagee, Asa L. Shipman.⁴⁸ Therefore, the mortgagee enjoyed all rights in the mortgaged patents, including the right to maintain a patent infringement action.⁴⁹ The Court began its analysis by first recognizing that the executed “assignment” between Mrs. Waterman and Asa L. Shipman was an “instrument, being a conveyance made to secure the payment of a debt, upon condition that it should be avoided by the subsequent payment of that debt at a time fixed, was a mortgage, in apt terms, and in legal effect.”⁵⁰

The Court then distinguished mortgages in personal property, like patents, from those of real estate.⁵¹ The Court observed that in real estate financing, the mortgagor has possession of the land and is the equitable owner of the property and the mortgagee has either bare legal title or merely a lien on the property, depending on state laws.⁵²

for a regulator and an improvement in gas burners); *Moran v. Strauss*, 6 Ben. 249 (S.D.N.Y. 1872) (mentioning that the patents were assigned to the defendants as security for the loan).

42. *Waterman*, 138 U.S. at 257.

43. *Id.*

44. *Id.*

45. *Id.*

46. *Id.* at 252.

47. *Id.* at 257-58.

48. *Id.* at 260.

49. *Id.* at 261.

50. *Id.* at 258.

51. *Id.* at 258-60.

52. *Id.* at 258-59 (“A mortgage of real estate has gradually, partly by the adoption of rules of equity in courts of common law, and partly by express provisions of statute, come to be more and more considered as a mere security for the debt, creating a lien or encumbrance only, and leaving the title in the mortgagor, subject to alienation, levy on execution, dower, and other incidents of a legal estate; but the rules upon the subject vary in different states, and a mortgage is everywhere considered as passing the title in the land, so far as may be necessary for the protection

In personalty mortgages, however, the Court noted that “it is not merely the possession or a special property that passes; but, both at law and in equity, the whole title is transferred to the mortgagee, as security for the debt.”⁵³ That meant the personalty mortgagee enjoyed both the equitable title and the legal title to the personal property.⁵⁴ The whole title is subject “only to be defeated by performance of the condition” described in the mortgage instrument.⁵⁵ In other words, the law for personalty mortgage is clearly different from the law for pledges and realty mortgage.⁵⁶ Although the personalty mortgagee does not have possession of the property like in pledges, the entire title to the property has already passed to the mortgagee to secure the loan provided to the mortgagor from the mortgagee.⁵⁷

Moreover, the Court stated, “a recording of the mortgage is a substitute for, and (unless in case of actual fraud) equivalent to, a delivery of possession, and makes the title and the possession of the mortgagee good against all the world.”⁵⁸ That meant if the mortgagee adheres to the recording statute for personalty mortgage, the mortgagee will be accorded with possessory rights and the recording serves as notice to all for priority purposes.⁵⁹

Applying to the case at hand, noting that a patent right is “incorporeal property,” the Court commented that neither actual delivery nor possession could occur.⁶⁰ Therefore, the recording of the patent mortgage with the United States Patent Office in accordance with patent law “is equivalent to a delivery of possession, and makes the title of the mortgagee complete towards all other persons, as well as against the mortgagor.”⁶¹

In deciding the scope of the patent mortgagee’s rights, the Court analogized

of the mortgagee, and to give him the full benefit of his security.”).

53. *Id.* at 258.

54. *Id.* at 260-61.

55. *Id.* (observing the right of the mortgagee in the patented mortgage is “only to be defeated by performance of the condition, or by redemption on bill in equity within a reasonable time, and the right of possession, when there is no express stipulation to the contrary, goes with the right of property.”).

56. *Id.*

57. *Id.* (citing Story, Bailm § 287; 2 Story, Eq. Jur. §§ 1030, 1031; *Casey v. Cavaroc*, 96 U.S. 467, 477 (1877); *Conard v. Atl. Ins. Co. of N.Y.*, 26 U.S. 386 (1828); *Brackett v. Bullard*, 53 Mass. 308 (1847); *Boise v. Knox*, 51 Mass. 40 (1845)).

58. *Id.* at 260; *see also* Patent Act of 1870, Ch. 230, 16 Stat. 198-217 (1870), *available at* http://ipmall.info/hosted_resources/lipa/patents/Patent_Act_of_1870.pdf, *archived at* <http://perma.cc/8B2Z-LEJR> (prescribing that the recording requirement for “assignment, grant, or conveyance” and these transactions “shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the patent office within three months from the date thereof”).

59. *Waterman*, 138 U.S. at 260.

60. *Id.*

61. *Id.*

and distinguished patent mortgages from land mortgages.⁶² The Court observed that, in a land mortgage transaction, even without possession of the land, the mortgagee may obtain an “action for an injury to his interest,” an injunction or damages for activities as “tends to impair the value of the mortgage security, or as is not allowed by good husbandry or by express or implied license from the mortgagee.”⁶³ Most importantly, only the mortgagee had standing to maintain suit, “and not by the mortgagor or any one claiming under a subsequent conveyance from him.”⁶⁴ In a patent mortgage, however, the Court is concerned about patent rights.⁶⁵ Unlike land rights, the right conferred by a patent is limited in years, and the patent’s value is primarily “in the profits derived from royalties and license fees.”⁶⁶ The Court therefore declared:

In analogy to the rules governing mortgages of lands and of chattels, and with even stronger reason, the assignee of a patent by a mortgage duly recorded, whose security is constantly wasting by the lapse of time, must be held (unless otherwise provided in the mortgage) entitled to grant licenses, to receive license fees and royalties, and to have an account of profits or an award of damages against infringers.⁶⁷

Accordingly, the Court held that the patent mortgagee is accorded the status of “the party interested, either as patentee, assignee, or grantee,” and has the right to bring suit against others at law and suit in equity “to recover damages for an infringement.”⁶⁸ Consequently, in the present case, the patent mortgagee, Asa L. Shipman, was entitled to maintain an infringement action against others.⁶⁹ Mrs. Waterman therefore had no standing because she had already mortgaged the patents to Asa L. Shipman.⁷⁰ In reaching a conclusion, the Court explicitly rejected the law propounded under the English Judicature Act of 1873 and the Patent Act of 1883 wherein only the mortgagor of a patent was allowed to maintain a suit for infringement.⁷¹

62. *Id.* at 258-59.

63. *Id.* at 259.

64. *Id.* at 259 (citing *Wood v. Weimar*, 104 U. S. 786 (1881); *Conard v. Atl. Ins. Co. of N.Y.*, 26 U.S. 386 (1828); *Clapp v. Campbell*, 124 Mass. 50 (Mass. 1877)).

65. *Id.*

66. *Id.* at 260.

67. *Id.* at 261.

68. *Id.* at 260 (ruling that the patent mortgagee is the person of interest and further asserting that “it cannot have been the intention of congress that a suit in equity against an infringer to obtain an injunction and an account of profits, in which the court is authorized to award damages, when necessary to fully compensate the plaintiff, and has the same power to treble the damages as in an action at law, should not be brought by the same person”).

69. *Id.* at 260-61.

70. *Id.* at 261.

71. *Id.* (“In the light of our legislation and decisions, no weight can be given to the case of *Van Gelder v. Society*, 44 Ch. Div. 374, in which, upon pleadings and facts similar to those now before us, the mortgagor of a patent was treated as a mortgagor in possession, and was allowed to

Waterman v. Mackenzie is significant for several reasons. First, land and real estate are no longer the only security property for secured financing.⁷² Second, creditors are willing to extend loans to debtors with patents and other personal property served as security.⁷³ Third, the mortgagee can enjoy all of the debtor's rights, title, and interest in the patent if the mortgagee properly recorded the patent mortgage.⁷⁴ The rights in the patents cover the right to grant licenses, to collect fees and royalties, and to receive damages and accounting of profits against infringers.⁷⁵ Fourth, the patent mortgagee has standing to maintain suit against others for infringement of the mortgaged patent.⁷⁶ Consequently, the mortgagee would be able to reduce its exposure in the event the debtor fails to make payment.⁷⁷ Also, the mortgagee's rights in the patent mortgage accords it with the status of "the party interested" similar to patentee, assignee, or grantee during the entire time while the patent serves as collateral for the mortgage transaction.⁷⁸ Overall, *Waterman v. Mackenzie* encourages the financial industry to provide financing to individuals and entities with patents that could be used in chattel mortgage financing.⁷⁹

B. Copyright Mortgages

Patents were not the only type of intellectual property eligible for mortgages in the nineteenth century.⁸⁰ Copyright mortgages were associated with book and music publishing.⁸¹ Moreover, copyright laws during this time mentioned

maintain a suit for infringement, under the provisions of the English Judicature Act of 1873 and Patent Act of 1883. St. 36 & 37 Vict. c. 66, § 25; 46 & 47 Vict. c. 57, §§ 23, 46, 87. Whether, in a suit brought by the mortgagee, the court, at the suggestion of the mortgagor, or of the mortgagee, or of the defendants, might, in its discretion, and for the purpose of preventing multiplicity of suits or miscarriage of justice, permit or order the mortgagor to be joined, either as a plaintiff or as a defendant, need not be considered, because no such question is presented by this record.").

72. *Id.*

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.*

77. *Id.*

78. *Id.*

79. Notably, in cases decided post-*Waterman*, the mortgages increased from large amount of loans involving intellectual property collateral. *See, e.g.,* United Lines Tel. Co. v. Boston Safe-Deposit & Trust Co., 147 U.S. 431, 433-38 (1893).

80. *See* Thompson v. Hubbard, 131 U.S. 123, 131 (1889).

81. *See id.* ("[I]f Thompson should go out of business, or cease to prosecute the sale of the Manning book, then, unless the successor of Thompson would continue the same, Hubbard Bros. should have the exclusive right to sell said book; and that, on the execution of such contract, Thompson would assign the copyright to Hubbard Bros., and they would execute a mortgage to him on such plates, cuts, and stamps, to secure to him the performance of the contract."); Dorf v. Denton, 17 F. Supp. 531, 532-33 (S.D.N.Y. 1937) (discussing infringement action relating to the

copyright mortgages in the recordation provision.⁸² Indeed, in 1834, Congress included the recordation requirement for assignments of copyright.⁸³ If an assignment was not recorded within 60 days of the execution, it was to be “judged fraudulent and void against any subsequent purchaser or mortgagee for valuable consideration without notice.”⁸⁴ Also, in 1909, Congress consolidated and created the comprehensive Copyright Act.⁸⁵ Under the 1909 Copyright Act, section 42 permitted copyrights to be assigned and mortgaged.⁸⁶ Section 44 required that assignments of copyrights must be recorded within three months of execution in order for it to be valid against subsequent purchasers and mortgagees.⁸⁷

Mortgages on copyrights became more prevalent with the arrival of technologies for new mediums of expression, copying, and distribution, especially in the area of motion pictures and television.⁸⁸ *Republic Pictures Corp. v. Security-First National Bank of Los Angeles* provides a closer look at the practice of mortgages on copyrights in the motion picture industry.⁸⁹

In that case, Pre-Em Pictures owned the story, treatment, script, continuity,

mortgage of copyrights in music compositions); *Buss Mach. Works v. Watsontown Door & Sash Co.*, 2 F. Supp. 758, 758 (E.D. Penn. 1933) (explaining that typically, in most chattel mortgage transactions, the mortgage would be broad and cover “all plants, factories and structures now or hereafter erected upon or attached to any of the lands which, or interest in which, are hereby conveyed or intended so to be, and all fixtures, equipment, machinery, apparatus, tools, implements and appliances, materials and supplies at present or in the future belonging thereto, whether or not the same be affixed to the freehold or be used in the operation of any of said premises or as a part of said plants or any of them, and patents, application for patents, trademarks, trade names, copyrights, formulae and the good will of the business now or hereafter carried on by the Company”).

82. See Copyright Amendment, Act of June 30, 1834, 23d Cong., (1st Sess.), 4 Stat. 728. Section 205(a) (1834) (“[A]ll deeds or instruments in writing for the transfer or assignment of copyrights, being proved or acknowledged in such manner as deeds for the conveyance of land are required by law to be proved or acknowledged in the same state or district, shall and may be recorded in the office where the original copyright is deposited and recorded; and every such deed or instrument that shall in any time hereafter be made and executed, and which shall not be proved or acknowledged and recorded as aforesaid, within sixty days after its execution, shall be judged fraudulent and void against any subsequent purchaser or mortgagee for valuable consideration without notice.”).

83. *Id.*

84. *Id.*

85. Copyright Act of 1909, Pub. Law 60-349, 35 Stat. 1075 (1909), available at <http://www.copyright.gov/history/1909act.pdf>, archived at <http://perma.cc/4TA3-C9D6> (repealed in 1976).

86. *Id.*

87. *Id.*

88. *Republic Pictures Corp. v. Security-First Nat’l Bank of L.A.*, 197 F.2d 767, 771 (9th Cir. 1952).

89. *Id.* at 768.

and manuscript composition of a motion picture photoplay based on a story entitled, "A Song For Miss Julie."⁹⁰ Pre-Em Pictures received certain advances from the Security-First National Bank of Los Angeles and provided the bank with the copyright in the motion picture as security for the advances.⁹¹ Later, Pre-Em Pictures defaulted on the loans and the bank sued Pre-Em Pictures in federal court to foreclose on the mortgaged copyright.⁹² The district court ordered the foreclosure, and the copyright was sold to the bank at public auction by the United States Marshal.⁹³

Republic Pictures was the distributor of the motion picture under an agreement with Pre-Em Pictures.⁹⁴ Republic Pictures refused to recognize the title in the copyrights purchased by the bank at public auction.⁹⁵ The bank then sued Republic Pictures for declaratory relief to determine the rights in the copyright acquired by the bank.⁹⁶ The case was appealed to the Ninth Circuit.⁹⁷

The Ninth Circuit held that federal courts have no jurisdiction over foreclosure of copyright mortgages even though they have subject matter jurisdiction over copyrights.⁹⁸ Foreclosures on mortgaged copyrights are within the provenance of state courts and state law.⁹⁹ The court indicated that it was merely following other courts' decisions on foreclosures of mortgaged patents.¹⁰⁰

The reasoning in *Republic Pictures* further aided the development of intellectual property financing law. It followed federalism principles by recognizing that certain areas of law, such as copyrights and patents are within federal subject matter jurisdiction, and other areas of law, such as commercial law, are within state subject matter jurisdiction.¹⁰¹ The court in *Republic Pictures* exercised restraint as dictated by the Constitution.¹⁰² By so doing, it respected the development of secured transactions law at the state level despite the fact that the collateral property involved federally granted rights.¹⁰³

C. Trademark Mortgages

The development of trademark mortgages began roughly the same time as

90. *Id.* at 771 n.1.

91. *Id.*

92. *Id.*

93. *Id.*

94. *Id.*

95. *Id.*

96. *Id.*

97. *Id.*

98. *Id.* at 770.

99. *Id.*

100. *Id.* (citing *Keiper v. Amico*, 20 N.Y.S.2d 480, 481 (1940) (holding that federal courts have no jurisdiction over foreclosure of patent mortgages)).

101. *Id.*

102. U.S. CONST. art. III § 2, cl. 1.

103. *Republic Pictures*, 197 F.2d at 770.

patent and copyright mortgages.¹⁰⁴ Trademark mortgages, however, faced limitations.¹⁰⁵ The view of courts at that time was that trademarks could not be transferred without the underlying business; therefore, trademarks could not by themselves, apart from the business, be used as security in mortgages.¹⁰⁶ Consequently, unlike patent mortgages, where a simple recording with the Patent Office would bestow the mortgagee with rights similar to those of the patentee or grantee while the patent mortgagor continued to use the mortgaged patents in the operation of its business,¹⁰⁷ mortgages with trademarks were more cumbersome.¹⁰⁸

For example, in *Morgan v. Rogers*, J. Miller & Sons (“Miller & Sons”) manufactured and distributed certain medicines under a specific trademark.¹⁰⁹ The mortgagee, Morgan, made a very large loan in the amount of \$48,500 to Miller & Sons in 1875.¹¹⁰ He executed a chattel mortgage to secure the debt, took possession of the property under the mortgage through agency, and operated Miller & Sons’ business of the manufacture and sale of medicines.¹¹¹ Two years later, Miller & Sons granted the defendant, Rogers, the exclusive rights to use the same trademarks to sell their medicinal compounds.¹¹² The mortgagee brought a suit to enjoin the defendant’s use of the trademarks.¹¹³

The court addressed whether the mortgagee had a mortgage in Miller & Sons’ trademarks.¹¹⁴ The pertinent provision in the chattel mortgage provided:

The following articles of personal property, now in our possession, and now in and upon the premises known and designated as numbers (8) eight and (12) twelve High street, in said city of Providence, viz.: The entire property, stock, furniture, and fixtures, and other articles, now in and upon said premises, together with all debts and book accounts, assets, and effects of every kind and nature, belonging to said firm of J.

104. See *Morgan v. Rogers*, 19 F. 596, 597-98 (Cir. Ct. D.R.I. 1884) (Both copyright and trademark mortgages began developing in the late nineteenth century).

105. See *In re Leslie-Judge Co.*, 272 F. 886, 887-88 (2d Cir. 1921).

106. *Id.* at 888 (“[A] further and conclusive reason for holding that the instrument does not cover the good will and trade-marks is that they are not property which can be owned in gross. They arise out of a particular business, and do not exist apart from that business. . . . As the mortgage in question does not pretend to cover the company’s business and franchises, it confers no lien whatever upon the good will and trade-marks. If the company could not have sold its good will and trade-marks apart from its business, it evidently could not mortgage them.”).

107. See *Waterman v. Mackenzie*, 138 U.S. 252, 261 (1891).

108. See *Morgan*, 19 F. at 597-98.

109. *Id.* at 596.

110. *Id.* at 597.

111. *Id.* at 596-97.

112. *Id.* at 596.

113. *Id.*

114. *Id.* at 597-98.

Miller & Sons.¹¹⁵

The court found that the language was broad in its terms and covered the trademarks in the mortgage grant.¹¹⁶ Given that the loan was large in value at the time of the conveyance, the court stated there was no reason that Miller & Sons' entire property was not inclusive of the trademarks for security purposes.¹¹⁷ Moreover, although trademarks were "an abstract right" and could not be sold apart from the associated business, trademarks may be bought and sold like other property if the underlying business was included.¹¹⁸ Here, the mortgagee succeeded to all of the rights in Miller & Sons' business, took possession of the business through agency, and gained rights to "use the trade-marks, and to manufacture and sell the medicinal compounds."¹¹⁹ Therefore, the court declared that "[t]o hold that the trade-mark is not included in this mortgage, is to say the most valuable part of the partnership property is not covered by the words assets and effects of every kind and nature."¹²⁰

Because the mortgagee would only turn over the property to Miller & Sons after they had fulfilled their obligation, the mortgage "cannot operate to divest [the mortgagee] of the exclusive right to the trade-marks if they had acquired such under the mortgage."¹²¹ Accordingly, only the mortgagee had the exclusive right to the trademarks and the defendant had no right to use them.¹²²

The *Morgan* decision demonstrated that a typical trademark mortgage at that time required the mortgagee's possession of the mortgagor's entire business associated with the trademark.¹²³ The mortgagee employed an agent to succeed to the mortgagor's business.¹²⁴ There was no recording of the trademark mortgage.¹²⁵ Consequently, unlike patents, trademarks could not be easily mortgaged because the mortgagor must transfer the associated business to the mortgagee as part of the transaction, and the mortgagee must then take possession of the mortgagor's business.¹²⁶

115. *Id.* at 597.

116. *Id.* ("The clause of conveyance in the mortgage is very broad in its terms.")

117. *Id.*

118. *Id.* ("There is no reason why a trade-mark cannot be conveyed with the property with which it is associated. As an abstract right, apart from the article manufactured, a trade-mark cannot be sold, the reason being that such transfer would be productive of fraud upon the public. In this respect it differs from a patent or a copyright. But in connection with the article produced, it may be bought and sold like other property. It constitutes a part of partnership assets, and is properly sold with the firm property.")

119. *Id.* at 598.

120. *Id.*

121. *Id.*

122. *Id.*

123. *Id.* at 597.

124. *Id.* at 598.

125. *Id.* at 597.

126. *Id.* at 598.

Moreover, while both patent and copyright statutory provisions explicitly allowed patents¹²⁷ and copyrights¹²⁸ to be used in chattel mortgages, the trademark statute did not include a similar provision.¹²⁹ Trademarks themselves, apart from the associated business, were excluded from mortgages.¹³⁰

The rationale for the exclusion was due to the strong belief that a trademark cannot be transferred in gross without the associated business.¹³¹ For example, in *Mendes v. New England Duplicating Co.*, the plaintiff, owner of the Paddy Company, had developed the Paddy mark in connection with the manufacturing and selling of collating machines.¹³² The plaintiff brought a trademark infringement claim against New England Duplicating Co. for the use of the Paddy mark in advertisements in trade periodicals.¹³³ The defendant asserted that it had the right to use the mark, relying on the mortgage on all of the Paddy Company's assets, trademarks, and goodwill as the basis of its authority to use the Paddy trademark.¹³⁴ Specifically, the defendant had entered into an agreement with a third party, Herbits, for the distribution and advertisement of collating machines to be produced by Herbits under the Paddy mark.¹³⁵ “[Herbits] purported to have the right to use the Paddy name by virtue of a chattel mortgage executed by [Paddy] on all its assets and goodwill.”¹³⁶ The district court stated that trademarks and goodwill are “species of property [that] cannot be owned in gross and therefore cannot be sold or transferred apart from the franchise and the business of the company.”¹³⁷ Therefore, the mortgage on the trademarks themselves was held invalid.¹³⁸

The court in *Mendes* strictly followed an earlier case, *In re Leslie-Judge Co.*, decided by the Second Circuit in 1921.¹³⁹ The relevant provision for property

127. 35 U.S.C. § 261 (2014) (“[A]n assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.”).

128. Copyright Act, 17 U.S.C. § 101 (2014) (defining “transfer of copyright ownership” as “an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.”).

129. See *In re Leslie-Judge Co.*, 272 F. 886, 888 (2d Cir. 1921) (discussing the absence of trademark statutory provisions for mortgages on trademarks).

130. *Id.*

131. *Id.*

132. *Mendes v. New England Duplicating Co.*, 94 F. Supp. 558, 559 (D. Mass. 1950).

133. *Id.*

134. *Id.* at 561.

135. *Id.* at 560.

136. *Id.*

137. *Id.* at 561.

138. *Id.* (holding that the chattel mortgage did not and could not convey any trade-mark rights of the Paddy Machine Company).

139. See *In re Leslie-Judge Co.* 272 F. 886 (2d Cir. 1921).

covered by the mortgage transaction in that case stated:

All goods and chattels wherever situated, including plant, machinery, equipment, supplies of all kinds, furniture, and all personal and other property, property rights, good will, copyrights, trade-marks, and choses in action of every kind whatsoever, as now owned or which may hereafter be acquired or owned by the company, and also all the estate, right, title, interest, property, possession, income, and demand whatsoever, as well in law as in equity of the company, to have and to hold the same and every part thereof.¹⁴⁰

The mortgagor later filed for bankruptcy.¹⁴¹ The district court ordered the bank's property to be sold free of the mortgage that the mortgagor company had signed on August 1, 1909, to the Title Guarantee & Trust Company to secure an amount of \$700,000.¹⁴² The Second Circuit affirmed the district court's decision because mortgages on trademarks were not permissible due to the fact that trademarks "are not property which can be owned in gross," as "[t]hey arise out of a particular business, and do not exist apart from that business."¹⁴³ Therefore, "[i]f the company could not have sold its good will and trade-marks apart from its business, it evidently could not mortgage them."¹⁴⁴

The early prohibition of trademark mortgages began to dissipate as courts adopted a modern view of goodwill and allowed transfers and assignments of trademarks apart from the business.¹⁴⁵ For example, in *Glamorene Products Corp. v. Procter & Gamble Co.*, Stauffer Chemical Company assigned the mark "BOUNCE" for dry-cleaning detergent to Procter & Gamble.¹⁴⁶ The grant recited that the assignment was together with the goodwill of the business.¹⁴⁷ There was no transfer of the associated business as Stauffer continued to operate and retain the tangible assets of the business.¹⁴⁸ Upon receiving the assignment, Procter & Gamble used the mark on its own dry-cleaning detergent.¹⁴⁹ The court found the assignment valid; the trademarks along with attached goodwill can be assigned

140. *Id.* at 887.

141. *Id.*

142. *Id.*

143. *Id.* at 888; *see also* *President Suspender Co. v. MacWilliam*, 238 F. 159, 162 (2d Cir. 1916) ("A trade-mark right cannot exist independently of some business in which it is used. The sole function of a trade-mark being to indicate the origin or ownership of the goods, it cannot exist apart from the business to which its use is incident. There is no such right known to the law as an exclusive ownership in a trade-mark apart from the right to use it in a business. It cannot exist as a right in gross.")

144. *In re Leslie-Judge*, 272 F. at 888.

145. *See* *Glamorene Prods. Corp. v. Procter & Gamble Co.*, 538 F.2d 894, 895 (C.C.P.A. 1976); *see also* *Money Store v. Harris Corp. Fin. Inc.*, 689 F.2d 666, 678 (7th Cir. 1982).

146. *Glamorene Prods.*, 538 F.2d at 895.

147. *Id.*

148. *Id.*

149. *Id.*

separately from the business.¹⁵⁰ Consequently, trademarks and their attached goodwill can also be used as security in mortgages without the associated business.¹⁵¹

II. MOVING FROM IP MORTGAGE TO SECURED TRANSACTIONS

From the end of World War II to 1970, the United States experienced significant economic growth.¹⁵² Not surprisingly, the nation also embarked on major changes in the law in order to facilitate the postwar boom.¹⁵³ The Uniform Commercial Code was promulgated in 1952 in an effort to bring uniformity to commercial law across the states and to facilitate and increase daily transactions in commerce.¹⁵⁴ In 1962, with the promulgation of the Official Text of Article 9 of the Uniform Commercial Code (“UCC-9”), modern financing law was born.¹⁵⁵ Article 9 eliminated antiquated distinctions among security devices, including mortgages, pledges, conditional sales, factor, warehousing and others, with a

150. *Id.*

151. *Id.* at 895-96 (stating that “transfer of tangible assets (inventory, labels, customer lists, formulas, etc.) is not necessary to an effective trademark assignment”) (citing *Sterling Brewers, Inc. v. Schenley Indus., Inc.*, 441 F.2d 675 (C.C.P.A. 1971); *Hy-Cross Hatchery, Inc. v. Osborne*, 303 F.2d 947 (C.C.P.A. 1962)). Moreover, the liberal trends relating to trademark assignments without the transfer of tangible assets spill over to the area of trademark licensing. Xuan-Thao Nguyen, *Bankrupting Trademarks*, 37 U.C. DAVIS L. REV. 1267, 1281 (2004) (stating that courts have relaxed the requirement on quality control and allowed trademark owners to satisfy the quality control requirement by choosing various means for indirect and direct control without fear of trademark abandonment).

152. *See, e.g.*, CHARLES GEISST, *THE LAST PARTNERSHIPS: INSIDE THE GREAT WALL STREET MONEY DYNASTIES* 274-85 (2002) (describing the economic growth in the 1950s and 1960s). The economic growth in the post-war years also impacted real estate transactions, as more people moved to suburban houses. *See* Nicole Stelle Garnett, *Suburbs as Exits, Suburbs as Entrance*, 106 MICH. L. REV. 277, 282 (2007) (stating that the “postwar economic boom enabled more people than ever before to choose a suburban life”).

153. *See* Miek Berends, *An Elusive Profession? Lawyers in Society*, 26 LAW & SOC’Y REV. 161, 181 (1992) (stating that the “postwar economic boom and the resulting economic and legal expansion led to dramatic changes in the scale of markets, industries, commerce, and economic relations. These increased the market for legal work as did the growth of welfare states, their subsequent expansion of legislation, and the need for legal services”).

154. Robert Braucher, *Uniform Commercial Code—Documents of Title*, 102 U. PA. L. REV. 831, 831 (1954) (indicating that Article 7 of the UCC “deals comprehensively with documents of title; it is designed to replace the Uniform Warehouse Receipts Act, the Uniform Bills of Lading Act, and sections 27-40 of the Uniform Sales Act”).

155. Although the UCC was promulgated in 1952, the official text of Article 9 became official in 1962 for states to adopt. Donald W. Baker, *The Ambiguous Notification Requirement of Revised UCC Section 9-312(3): Inventory Financers Beware!*, 98 BANKING L. J. 4, 4 (1981) (noting that the 1962 official text of Article 9 “was in force in every state except one”).

unitary system of secured transaction law.¹⁵⁶ The unitary system covers all transactions, regardless of form, that create security interests in personal property (that is, property other than real estate).¹⁵⁷ Prior to the adoption of UCC-9, there was no single body of law that governed liens in personal property.¹⁵⁸ Each state had its own statutes and common law doctrines governing liens.¹⁵⁹ There was no uniformity across the United States.¹⁶⁰ Article 9's unitary system has been an enormous success and a crowning achievement for the National Conference of Commissioners on Uniform State Laws ("NCCUSL") as all states have adopted it.¹⁶¹

The success of UCC-9 meant a reduction in transaction costs caused by overlapping, opaque, and confusing security devices.¹⁶² The success of the law meant the proliferation of secured transactions in the United States.¹⁶³ It also meant an increase in financing using all different types of intellectual property, including patents, copyrights and trademarks—increasingly valuable assets for a company in modern time.¹⁶⁴ Consequently, gone was the conditional

156. Appeal of Copeland, 531 F.2d 1195, 1203 (3d Cir. 1976) (noting that "Article 9 simplifies pre-Code secured financing by providing for the unitary treatment of all security arrangements. It eliminates many of the antiquated distinctions between various security devices in favor of a single security interest, §§ 9-102, 1-201(37), and a single set of rules regarding creation and perfection, designed to govern any transaction (regardless of its form) which is intended to create a security interest in personal property or fixtures."); see also Eric J. Pullen, *Revised Article 9 of the Uniform Commercial Code and Agricultural Liens in Texas*, 40 TEX. J. BUS. LAW 1, 8 (2004) (providing a brief history of Article 9 and how it supplanted antiquated security devices of pledges, chattel mortgages, conditional sales, trust receipts and others with a single standardized security device).

157. See U.C.C. § 9-109 (2014).

158. Pullen, *supra* note 156, at 8.

159. *Id.* at 9.

160. *Id.* (noting that Article 9 "explicitly superseded all previous legislation, which had up to that point been a morass of security devices that had piled up over the years, in the states where it was adopted. With the implementation of Article 9, a state would now have a single, comprehensive system for the regulation of security interests in personal property.").

161. *Id.* ("Article 9 was adopted by almost every state with minimal modification by the end of the 1960s.").

162. Levitin, *supra* note 15, at 695 ("By avoiding demonstrative formalities, Article 9 reduces the transaction costs involved in securitizing mortgages."); Charles W. Mooney, Jr., *The Mystery and Myth of 'Ostensible Ownership' and Article 9 Filing: A Critique of Proposals to Extend Filing Requirements to Leases*, 39 ALA. L. REV. 683, 745-52 (1988) (discussing the benefits of UCC-9 system, including veracity of filing information, priority order, and reduction of discovery cost).

163. Steven L. Harris & Charles W. Mooney, Jr., *How Successful Was the Revision of UCC Article 9?: Reflections of the Reporters*, 74 CHI.-KENT L. REV. 1357, 1397 (1999) ("[T]he very success of Article 9 has resulted in a substantial increase in the sophistication of secured transactions since the early years of the UCC.").

164. See generally Xuan-Thao Nguyen, *Collateralizing Intellectual Property*, 42 GA. L. REV. 1, 16 (2007) (discussing the use of intellectual property assets as collateral in financing).

assignment of patents and copyrights.¹⁶⁵ The cumbersome practices discussed in *Waterman v. Mackenzie* were no longer necessary;¹⁶⁶ the secured party or lender need not demand assignments of patents or copyrights upfront with subsequent return of the patents or copyrights to the borrower upon satisfaction of the payment obligations.¹⁶⁷ Likewise, the practice of appointing an agent to take over the possession of the borrower's business for purposes of trademark mortgages became impractical and unnecessary.¹⁶⁸ Under modern UCC-9 law, the borrower or debtor continues to own and use the intellectual or other personal property for the business operation.¹⁶⁹ In doing so, the debtor would be able to make payments to the secured party.¹⁷⁰ There was no need for the secured party to have assignment either directly or via an agent.¹⁷¹ UCC-9 law protects the secured party's interest without the antiquated, cumbersome practices.¹⁷²

During a period of major change in state commercial law across the nation, Congress overhauled trademark law in 1946, patent law in 1952, and copyright law in 1976.¹⁷³ These historic milestones brought intellectual property law to modern time, recognizing the significant role of intellectual property in the economy.

Soon, modern UCC-9 law intersected with modern intellectual property law, raising new questions that required courts to address intellectual property issues within the spirit of UCC-9's functional approach.¹⁷⁴ Because UCC-9 is a creature

165. Weinberg & Woodward, *supra* note 16, at 65-66 ("Although pre-U.C.C. law was in some respects similar to the traditional methods for employing patents and trademarks as collateral, Article 9 changed the very vocabulary of secured lending. For example, no longer would one get security from a 'chattel mortgage' or 'conditional sale'; 'security interest' became the term to embrace all forms of secured lending on personal property.").

166. *See supra* Part I.A.

167. *In re Cybernetic Servs., Inc.*, 239 B.R. 917, 920-21 (B.A.P. 9th Cir. 1999) ("The UCC created a single security device, which was not dependent on who had title to the property. [Article 9] applies to secured transactions involving personal property regardless of 'whether title to collateral is in the secured party or in the debtor.' Because transferring title no longer has significance in creating a security interest in personal property, most security interests created after adoption of the UCC do not involve the transfer of title.") (citations omitted).

168. Weinberg & Woodward, *supra* note 16, at 65-66 (explaining how UCC-9's new approach differs from the traditional conditional assignments of intellectual property).

169. *Id.* at 66 (noting that under UCC-9 "the location of title is immaterial").

170. *Id.* at 122.

171. *Id.* at 65-66.

172. *Id.*

173. Congress enacted the Lanham Act in 1946, the Patent Act in 1952, and the Copyright Act in 1976. ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 127, 433, 764 (Walters Kluwer Law & Business eds., 6th ed. 2012).

174. Weinberg & Woodward, *supra* note 16, at 62-64. ("Uncertainty and confusion probably always have existed about the employment of intellectual property as collateral for a loan. Since the drafting of Article 9 of the Uniform Commercial Code, an uneasy coexistence of state and federal law has developed. Both state and federal law now arguably apply when a debtor attempts

of state law, questions arose related to the manner to perfect the security interests in patents, copyrights and trademarks as collateral.¹⁷⁵ Specifically, the question arose as to whether federal or state recording regimes would be applicable to govern security interests in intellectual property.¹⁷⁶ These questions have direct impact on the secured party's rights against other secured parties, lenders, and third parties.¹⁷⁷ How courts addressed these questions would either encourage or hinder access to credit for businesses and individuals with intellectual property as collateral.

A. A New Approach to Perfection of Patents Collateral

In *Waterman v. Mackenzie*, the United States Supreme Court enunciated that patent conditional assignments or mortgages recorded with the Patent Office have the equivalent of possession of the patents.¹⁷⁸ The practice to protect security interests in patents at that time was to file the conditional assignment or mortgages with the Patent Office.¹⁷⁹ Financing practices, however, have changed substantially in modern time.

In modern time, the grant of a security interest in personal property, including patents, is understood as not an outright transfer of ownership in the property.¹⁸⁰ Secured financing no longer requires title or ownership of the collateral property.¹⁸¹ Indeed, Article 9 of the Uniform Commercial Code comment to section 9-101 provides:

This article does not determine whether “title” to the collateral is in the secured party or in the debtor and adopts neither a “title theory” nor a “lien theory” of security interests. Rights, obligations and remedies under the Article do not depend on a location of title.¹⁸²

Several courts, which understood that the functional approach to modern financing law was that the grant of a security interest would not effectuate a transfer of present ownership in the patent, held that such a grant is not required to be recorded with the Patent Office.¹⁸³ The Patent Office's filing system is for

to use a patent or trademark to secure a loan. The extent to which each body of law is applicable and the interaction between the two systems was left unclear by the drafters of Article 9 and has not been clarified by Congress. The radical differences between the state and federal systems, both conceptually and as implemented, further complicate the uncertainty in the law.”)

175. *Id.*

176. *Id.* at 73-74.

177. *Id.* at 65-67.

178. *Waterman v. Mackenzie* 138 U.S. 252, 260-61 (1891).

179. *Id.* at 260.

180. *See* U.C.C. § 9-202 (2014).

181. *Id.* (stating that “the provisions of this article with regard to rights and obligations apply whether title to collateral is in the secured party or the debtor”).

182. U.C.C. § 9-101 cmt. 9 (1973).

183. *See, e.g., In re Cybernetic Servs., Inc.*, 239 B.R. 917, 920 (B.A.P. 9th Cir. 1999); *City*

assignments or transfer of titles.¹⁸⁴

For example, in *City Bank & Trust Co. v. Otto Fabric, Inc.*, the bank provided loans to Otto Fabric and received a security interest in “all contract rights, receivables and general intangibles” in 1983.¹⁸⁵ The bank immediately filed a financing statement with the Secretary of State in Kansas.¹⁸⁶ Two years later Otto Fabric and the bank signed a new security agreement wherein the debtor provided to the bank security interest in several assets, including three patents.¹⁸⁷ As part of the secured transaction, the debtor promised to assign the patents for collateral purposes.¹⁸⁸ The bank recorded the financing statement with the Secretary of State in Kansas in early January 1985 and filed the patent assignments with the Patent Office a few days later.¹⁸⁹ In April 1985, the debtor filed for bankruptcy, and the trustee sought to set aside the bank’s security interest in the patents because the assignment was filed outside the ninety day preference period.¹⁹⁰ The bankruptcy court granted the bank relief on the other assets, except the three patents serving as collateral, because the bank timely perfected the security interest in the other assets within the ninety day preference period.¹⁹¹ The bank appealed.¹⁹²

The district court reversed the bankruptcy court’s decision.¹⁹³ The court noted that the relevant federal patent statutory provision does not completely preempt the recording of a security interest in patents.¹⁹⁴ Specifically, the statute does not expressly require the filing of an assignment with the Patent and Trademark Office in order to perfect a security interest in patents.¹⁹⁵ Also, the court observed Congress has amended patent law numerous times “since the advent of modern commercial law” but chose not to completely preempt the field of filing.¹⁹⁶

Most importantly, the Court observed that if the filing requirement with the Patent Office exists, “which is considered an absolute assignment,” it would

Bank & Trust Co. v. Otto Fabric, Inc., 83 B.R. 780, 782-83 (D. Kan. 1988).

184. *In re Cybernetic*, 239 B.R. at 920; *Otto Fabric*, 83 B.R. at 782.

185. *Otto Fabric*, 83 B.R. at 780.

186. *Id.*

187. *Id.*

188. *Id.*

189. *Id.* at 781.

190. *Id.*

191. *Id.*

192. *Id.*

193. *Id.* at 782.

194. *Id.* (“[W]hile the federal statute may preempt in part the system for perfecting security interests in patents, it is only a partial preemption. It leaves open a state filing to protect one’s security interest in a patent against a lien creditor.”).

195. *Id.* (“[T]he federal statute does not expressly state that one must file an assignment with the Patent and Trademark Office to perfect a security interest.”).

196. *Id.* (“The [patent] statute has been amended since the advent of modern commercial law. If Congress intended to preempt the field of filing, it could have said so.”).

reduce the financing with patents as collateral.¹⁹⁷ For example, the court provided, “a patentee or his assigns could not grant a license after using the patent as collateral for a loan if the secured lender filed the security agreement with the Patent Office.”¹⁹⁸ The only way for the patentee to be able to license to others is to request permission from the lender.¹⁹⁹ Also, without the rights to the patent after the assignment, the only way the patentee could bring a lawsuit is to join the lender as an indispensable party.²⁰⁰ In summary, the court asserted that the desire to impose a rule for a federal, central filing system of patent collateral will not be rational, convenient, or consistent with modern financing and Article 9 of the Uniform Commercial Code.²⁰¹ That means the single, federal system will diminish financing with patents as collateral.²⁰² Therefore, City Bank & Trust Co. indeed had perfected its security interest in the patents within the ninety days preference, like the other collateral in the transaction.²⁰³

B. New Approaches to Copyright Collateral

The growth in the entertainment and software industries spurred financing for the creation and distribution of new content.²⁰⁴ A number of court cases focused on the perfection of security interests in copyrights of films in these industries, forcing a close examination of whether federal law or state law governs when the secured creditors file the security interest in copyrights.²⁰⁵ The filing question is significantly important.²⁰⁶ Filing in the wrong office renders the security interest

197. *Id.* at 783.

198. *Id.*

199. *Id.*

200. *Id.*

201. *Id.* at 780.

202. *Id.*

203. In later years, courts continued to rule that perfection of security in patents collateral is with UCC-9. *See, e.g., In re Cybernetic Servs., Inc.*, 239 B.R. 917, 920 (B.A.P. 9th Cir. 1999).

204. Banks have been providing financing in the movie industry since the 1920's. *See* Anousha Sakoui, *Star-Struck Bankers Return to Hollywood to Finance Movies*, BLOOMBERG (June 19, 2014), <http://www.bloomberg.com/news/2014-06-19/star-struck-bankers-return-to-hollywood-to-finance-movies.html>, archived at <http://perma.cc/LJ6J-FUSX> (reporting that JPMorgan has been working with the studios since the 1920s).

205. *See, e.g.,* Paul A. Baumgarten, *Copyrights as Collateral: Perfection Finally Perfected After Peregrine?*, 71 U. DET. MERCY L. REV. 581 (1994); Lorin Brennan, *Financing Intellectual Property Under Federal Law: A National Imperative*, 23 HASTINGS COMM. & ENT. L.J. 195 (2001); Gary O. Concoff, *Motion Picture Secured Transactions under the Uniform Commercial Code: Problems in Perfection*, 13 UCLA L. REV. 1214 (1966); Steven Weinberger, Note, *Perfection of Security Interest in Copyrights: The Peregrine Effect on the Orion Pictures Plan of Reorganization*, 11 CARDOZO ARTS & ENT. L.J. 959 (1993).

206. *See* Justin M. Vogel, Note, *Perfecting Security Interests in Unregistered Copyrights: Preemption of the Federal Copyright Act and How Filing in Accordance with Article 9 Leads to the Creation of a Bankruptcy “Force Play,”* 10 AM. BANKR. INST. L. REV. 463, 466 (2002)

unperfected, losing priority to other creditors.²⁰⁷ In other words, the secured creditor without proper perfection cannot recover on the money loaned to the borrower; other creditors would get paid first from the pool that is already small due to the borrower's dire financial condition.²⁰⁸

A line of court decisions on perfection of copyright collateral began with the controversial decision *In re Peregrine Entertainment, Ltd.*²⁰⁹ In that case, National Peregrine, Inc. ("NPI") filed for bankruptcy under Chapter 11 in 1989.²¹⁰ Prior to the bankruptcy filing, NPI was in the entertainment industry, developing and distributing television programs.²¹¹ NPI's principal assets consisted primarily of copyrights, distribution rights and licenses of films, and account receivables arising from the licensing of the films.²¹² To obtain financing for its business, NPI's predecessor by merger entered into a credit line agreement with Capitol Federal Savings and Loan Association of Denver ("Cap Fed") for \$6,000,000 in June 1985.²¹³ The credit was secured by NPI's assets, including "[a]ll inventory consisting of films and all accounts, contract rights, chattel paper, general intangibles, instruments, equipment, and documents related to such inventory, now owned or hereafter acquired by the Debtor."²¹⁴

Cap Fed filed its UCC-1 financing statement in California, Colorado, and Utah to perfect its security interest in NPI's assets.²¹⁵ It did not file with the United States Copyright Office with respect to the copyrights.²¹⁶

As debtor-in-possession under Chapter 11, NPI filed a complaint against Cap Fed, asserting that the bank failed to file its security interest in the copyrights and the account receivables generated by the licensing and distribution of the films with the Copyright Office.²¹⁷ Due to the bank's lack of perfection of the security interest, NPI claimed that it enjoyed a judicial lien on the copyrights and account receivables thereunder.²¹⁸ The bankruptcy court held for Cap Fed, and NPI appealed to the district court.²¹⁹ Kozinski, Circuit Judge, sitting by designation, reversed.²²⁰ The judge cited to the federal copyright policy for a central, uniform system of recording security interests in copyrights and held that Cap Fed's filing

(discussing the importance of perfection of security interest in copyrights).

207. *See id.*

208. *Id.*

209. *In re Peregrine Entm't, Ltd.*, 116 B.R. 194 (Bankr. C.D. Cal. 1996).

210. *Id.* at 198.

211. *Id.* at 197.

212. *Id.*

213. *Id.*

214. *Id.* at 197-98.

215. *Id.* at 198.

216. *Id.*

217. *Id.*

218. *Id.*

219. *Id.*

220. *Id.* at 207.

in the states' offices failed to provide notice to third parties.²²¹ Accordingly, NPI, as debtor-in-possession, avoided Cap Fed's unperfected security interest.²²²

The *National Peregrine* decision was controversial because the security interest in that case included intangibles related to copyrights, which both commentators and courts called into doubt.²²³ Subsequent decisions, however, narrowed and modified the *National Peregrine* holding.²²⁴

The court in *National Peregrine* did not distinguish between registered copyrights and unregistered copyrights.²²⁵ The majority of copyrights are not registered with the United States Copyright Office.²²⁶ That does not mean that the unregistered copyrights are not protected under federal copyright law.²²⁷ Copyright protections begin at the time of completion, regardless of registration,²²⁸ and it is not practical to require authors to register all works of authorship.²²⁹ Consequently, copyright owners do not feel the need to register their copyrights, as they are still able to exploit their copyrights and use them as collateral in secured transactions.²³⁰

In *Aerocon Engineering Inc. v. Silicon Valley Bank* (also known as *In re World Auxiliary Power Co.*), the debtors borrowed money from Silicon Valley

221. *Id.* at 201-02.

222. *Id.* at 207.

223. *See In re World Auxiliary Power Co.*, 303 F.3d 1120, 1131 (9th Cir. 2002); MCEG Sterling, Inc. v. Phillips Nizer Benjamin Krim & Ballon Eyeglasses, 646 N.Y.S.2d 778, 780 (N.Y. Sup. Ct. 1996); *In re Together Dev. Corp.*, 227 B.R. 439, 441 (Bankr. D. Mass. 1998); Schuyler M. Moore, "Entertainment Bankruptcies: The Copyright Act Meets the Bankruptcy Code," 48 BUS. LAW. 567, 571-72 (1993) (stating that the holding in *National Peregrine* was "somewhat questionable because the assets in question were not themselves copyrights. A license and related receivable seem analogous to an installment note for the sale of land. Security interests in such installment notes are perfected under the U.C.C., not under real property recording statutes").

224. *See In re World Auxiliary*, 303 F.3d at 1131; *In re World Auxiliary Power Co.*, 244 B.R. 149, 253-56 (Bankr. N.D. Cal. 1999).

225. *See In re World Auxiliary*, 303 F.3d at 1129 (noting that the *Peregrine* court did not specify that the copyrights for collateral were registered or unregistered).

226. *Id.* at 1131 (stating that the Copyright Act contemplates that most copyrights will not be registered).

227. *Id.*

228. *Id.* (noting that the Copyright Act provides "copyrights 'may' be registered, implying that they don't have to be, and since a fee is charged and time and effort is required, the statute sets up a regime in which most copyrights won't ever be registered") (citations omitted). Typically, registration is necessary for litigation and remedies purposes. 17 U.S.C. § 411(a) (2014).

229. *See id.* ("Since copyright is created every time people set pen to paper, or fingers to keyboard, and affix their thoughts in a tangible medium, writers, artists, computer programmers, and web designers would have to have their hands tied down to keep them from creating unregistered copyrights all day every day.").

230. *Id.* (noting that the Copyright Act contemplates that most copyrights will not be registered); *see also* 17 U.S.C. § 208(a) (2014) (permitting, but not requiring, registrations of copyrights).

Bank and signed a security agreement to secure the loan.²³¹ The security agreement granted the bank a security interest in copyrights embodied in drawings, blueprints, and computer software.²³² The debtors did not register their copyrights with the Copyright Office.²³³ The bank then filed a UCC-1 financing statement with the Secretary of State of California where the debtors were located.²³⁴ Thereafter, the debtors filed for bankruptcy, and the bankruptcy court approved the trustee's sale of the bankruptcy estate's assets, including the copyrights and the trustee's avoidance power to Aerocon Engineering.²³⁵ Aerocon brought an action against the bank, seeking to avoid the security interest of the bank in the copyrights.²³⁶ The bankruptcy court ruled for the bank.²³⁷ Aerocon appealed to the Ninth Circuit.²³⁸

The Ninth Circuit distinguished *National Peregrine*²³⁹ and rejected two other lower court's decisions that had extended *National Peregrine*'s holding to perfection of security interest in unregistered copyrights²⁴⁰ for several reasons.²⁴¹ *National Peregrine* and subsequent decisions concerned only the manner of perfection of security interest in copyrights; they did not address unregistered copyrights.²⁴² Also, the Copyright Office's recordation system is only for registered copyrights; none is available for unregistered copyrights.²⁴³ Moreover, the Copyright Act contains no express provision prohibiting a secured party from perfecting its security interest in unregistered copyrights under the state law system.²⁴⁴ Therefore, the court held that there was no federal preemption of perfection of security interests in unregistered copyrights.²⁴⁵

Consequently, if a copyright is registered, the recording of a security interest in the registered copyright is with the Copyright Office.²⁴⁶ If the copyright is unregistered, UCC-9 filing system applies.²⁴⁷ Most importantly, the court warned

231. *Id.* at 1123.

232. *Id.*

233. *Id.*

234. *Id.*

235. *Id.* at 1123-24.

236. *Id.* at 1124.

237. *Id.*

238. *Id.*

239. *Id.* at 1125.

240. *Id.* at 1130 (rejecting *In re AEG Acquisition Corp.*, 127 B.R. 34 (Bankr. C.D. Cal. 1991), *aff'd*, 161 B.R. 50 (9th Cir. B.A.P. 1993); *In re Avalon Software Inc.*, 209 B.R. 517 (Bankr. D. Ariz. 1997)).

241. *Id.* at 1127-28.

242. *Id.* at 1128-30.

243. *Id.* at 1131.

244. *Id.*

245. *Id.* at 1128.

246. *Id.* at 1128 (adopting *Peregrine*'s holding applicable only to registered copyrights collateral).

247. *Id.*

that without an approach for perfecting security interests in unregistered copyrights, “no lender would lend against unregistered copyrights if they couldn’t perfect their security interest.”²⁴⁸ Unregistered copyrights “have value as collateral,” but without a system to perfect their security interest “they would have no value at all.”²⁴⁹

The Ninth Circuit also noted that the boom in the software industry means that more copyrights in software will be used as collateral and after-acquired collateral in secured transactions.²⁵⁰ Imposing the burden of registration for copyrights before they can be used as collateral in financing would cause a heavy burden on software developers:

If software developers had to register copyrights in their software before using it as collateral, the last half hour of the day for a software company would be spent preparing and mailing utterly pointless forms to the Copyright Office to register and record security interests. Our reading of the law “promote[s] the Progress of Science and useful Arts” by preserving the collateral value of unregistered copyrights, which is to say, the vast majority of copyrights.²⁵¹

Accordingly, the court affirmed the lower court’s decision in favor of Silicon Valley Bank.²⁵²

In summary, the cases discussed above allow both registered and unregistered copyrights to serve as collateral in financing.²⁵³ The courts recognized the growth in a new medium of copyrights, particularly software copyrights, and refined its approaches to ensure the ease of financing for both existing and new creative content industries.²⁵⁴

C. A New Approach to Trademarks Collateral

Modern commercial law, especially Article 9 of the Uniform Commercial Code in which old security devices were replaced with a simple and unified structure for secured transactions in order to encourage secured financing across the United States, has an impact on the use of trademarks as collateral in financing.²⁵⁵ Also, as courts adopted modern trends in permitting the assignments of trademarks without the underlying business, trademarks can be transferred separately.²⁵⁶ These new developments opened the door for trademarks to be

248. *Id.* at 1132.

249. *Id.*

250. *Id.*

251. *Id.*

252. *Id.*

253. *In re Peregrine Entm’t, Ltd.*, 116 B.R. 194, 207 (Bankr. C.D. Cal. 1996); *World Auxiliary*, 303 F.3d at 1128.

254. *In re Peregrine*, 116 B.R. at 207; *World Auxiliary*, 303 F.3d at 1128.

255. *See Harris & Mooney*, *supra* note 163, at 1397; *Pullen*, *supra* note 156, at 9.

256. *See Glamorene Prods. Corp. v. Procter & Gamble Co.*, 538 F.2d 894, 895-96 (C.C.P.A.

used as collateral in financing.²⁵⁷ Soon, cases involving security interests in trademarks reached the court.²⁵⁸

The first case that addressed the perfection of trademark collateral was *In re Roman Cleanser Co.*²⁵⁹ The Roman Cleanser Company, a Michigan corporation, was in the business of manufacturing, packaging and marketing household cleaning products under the trademark “Roman” and other marks.²⁶⁰ All of the marks were federally registered.²⁶¹ Roman then filed for bankruptcy.²⁶² The bankruptcy trustee sold the federally registered trademarks, formulas, and customer lists to Michlin Chemical Corporation for \$180,000.²⁶³ After the sale, National Acceptance Company of America (“NAC”) sought to intervene, claiming that it had senior, perfected security interest in the trademarks.²⁶⁴ The facts revealed that a few years before bankruptcy, Roman granted NAC a security interest “in and to all of Roman Cleanser’s then owned and thereafter acquired goods, equipment, and general intangibles and the proceeds thereof as collateral for the payment of all indebtedness and liabilities then existing or thereafter arising of Roman Cleanser to NAC.”²⁶⁵ This grant was part of a loan and security agreement.²⁶⁶ NAC timely filed a financing statement with the Michigan Secretary of State.²⁶⁷ The trustee opposed on the ground that NAC did not file a conditional assignment of the federally registered trademark with the United States Patent and Trademark Office and that NAC’s security interest was therefore unperfected.²⁶⁸

The bankruptcy court held for NAC.²⁶⁹ The court distinguished an assignment from a security interest of a trademark.²⁷⁰ On the one hand, an assignment means absolute transfer of all right, title and interest to the trademark, whereas a security interest is not.²⁷¹ Indeed, on the other hand, a security interest is “merely what the term suggests—a device to secure an indebtedness . . . [i]t is a mere agreement to assign in the event of a default by the debtor.”²⁷²

1976); *see also* Money Store v. Harriscorp Fin. Inc., 689 F.2d 666, 678 (7th Cir. 1982).

257. *See generally* *In re Roman Cleanser*, 802 F.2d 207 (6th Cir. 1986) (discussing trademarks used as collateral in financing).

258. *See id.*

259. *Id.*

260. *Id.* at 208.

261. *Id.*

262. *Id.*

263. *Id.*

264. *Id.*

265. *Id.*

266. *Id.*

267. *Id.*

268. *Id.* at 210.

269. *Id.* at 208.

270. *Id.*

271. *Id.* at 210.

272. *Id.* (Thomas, J., concurring) (alteration in original) (quoting the Bankruptcy Court’s

Consequently, a promise to assign a trademark is not an absolute transfer of the trademark covered by the federal trademark law.²⁷³ Federal trademark law governs the transfers of trademarks and requires filing such transfers.²⁷⁴ State law, not federal trademark law, governs the manner of perfecting a security interest in trademarks.²⁷⁵

In the original bankruptcy proceedings, the court also noted that if Congress intended to provide “a means for recording security interests in trademarks in addition to assignments, it would have been simple to so state.”²⁷⁶ Moreover, the court reasoned that a federal, central filing for all security interests in trademarks would not further Congress’ concern in passing the federal Lanham Act trademark law for protecting the public from the deceptive use of trademarks because a secured creditor with only a security interest in the trademark collateral does not have the right to use the trademark absent debtor default on the loan.²⁷⁷ The Sixth Circuit subsequently affirmed the lower court’s decision.²⁷⁸

Subsequent cases have adopted both “the logic and holding” of the *Roman Cleanser* court.²⁷⁹ Some courts offered strong public policy reasons for how a federal filing system under the Lanham Act for security interests in trademarks would not encourage financing.²⁸⁰

III. U.S. SMALL BUSINESS ADMINISTRATION AND IP MORTGAGES

Following the *Waterman v. Mackenzie*²⁸¹ decision, intellectual property mortgages began to flourish, which was evidenced by the fact that not only private creditors, but the United States Small Business Administration (“SBA”) provided loans secured by intellectual property.²⁸² In 1953, Congress passed the Small Business Act to create SBA whose function was to “aid, counsel, assist and protect, insofar as is possible, the interest of small business concerns.”²⁸³ SBA

observation).

273. *Id.*

274. *Id.* at 212.

275. *In re Roman Cleanser Co.*, 43 B.R. 940, 946 (Bankr. E.D. Mich. 1984).

276. *Id.*

277. *Id.*

278. *In re Roman*, 802 F.2d at 208.

279. *See Trimarchi v. Together Dev. Corp.*, 255 B.R. 606, 611-12 (Bankr. D. Mass. 2000) (noting cases).

280. *See id.*; *In re TR-3 Industries*, 41 B.R. 128, 131 (Bankr. C.D. Cal. 1984); *In re C.C. & Co., Inc.*, 86 B.R. 485, 487 (Bankr. E.D. Va. 1988); *In re Chattanooga Choo-Choo Co.*, 98 B.R. 792, 795-96 (Bankr. E.D. Tenn. 1989); *In re 199Z, Inc.*, 137 B.R. 778, 781-82 (Bankr. C.D. Cal. 1992).

281. *Waterman v. Mackenzie*, 138 U.S. 334 (1891).

282. *See* Brian W. Jacobs, *Using Intellectual Property to Secure Financing after the Worst Financial Crisis Since the Great Depression*, 15 MARQ. INTELL. PROP. L. REV. 449, 451 (2011).

283. *Our History*, U.S. SMALL BUS. ADMIN., http://www.sba.gov/about-sba/what_we_do/history (last visited Oct. 10, 2014), archived at <http://perma.cc/J3Y2-3EJQ>.

provides loans, loan guarantees, and counseling to small businesses across the countries.²⁸⁴ *Railex Corp. v. Joseph Guss & Sons, Inc.* is an illustrative example of lending to small businesses and taking intellectual property assets, including patent applications, as security.²⁸⁵

On November 21, 1961, Railex borrowed money from SBA and signed a document wherein it transferred title of the patent applications to the SBA.²⁸⁶ The document provided that the assignment would be null and void if Railex fulfilled its payment obligations pursuant to the promissory note.²⁸⁷ The note was due to mature on November 21, 1971.²⁸⁸ Railex, however, repaid the loan in full on July 31, 1964.²⁸⁹ On August 21, 1964, Railex brought a patent infringement suit against Joseph Guss & Sons, Inc.²⁹⁰ The defendants sought to dismiss the suit, arguing that SBA was the indispensable party to the suit.²⁹¹

The court observed that the conditional assignment of the patent applications for security of the note was a mortgage transaction similar to the patent mortgage transaction in the *Waterman v. Mackenzie* case.²⁹² The court recognized that under *Waterman*, the mortgagee holding a patent enjoys the entire title, both equitable title and legal title, to the patent collateral and can bring an infringement suit against others.²⁹³ The court, however, distinguished its facts from *Waterman*, noting that the mortgagor in *Waterman* did not repay the loan at the time it filed the patent infringement suit, whereas the mortgagor in the present case, Railex, had paid the loan in full prior to filing the patent infringement law suit.²⁹⁴

Consequently, Railex reacquired equitable title to the mortgaged patents on

284. *Id.*

285. *Railex Corp. v. Joseph Guss & Sons, Inc.*, 40 F.R.D. 119 (D.D.C. 1966) *aff'd*, 382 F.2d 179 (D.C. Cir. 1967); *see also* *Magnuson Indus., Inc. v. Co-Rect Prods., Inc.*, No. 4-78-112, 1981 WL 48193, at *5 (D. Minn. Jan. 14, 1981) (finding that the transaction between Conry did not “involve usual type of patent assignment because the SBA held title to the patent only as a mortgagee. When the loan debt was compromised, it relinquished its rights as mortgagee by returning to Conry the written instrument of assignment.”).

286. *Railex Corp.*, 40 F.R.D. at 122.

287. *Id.* at 121 (noting that the document signed by Railex contained relevant provisions for the conditional assignment of the patent applications: “Provided always, and this assignment is made upon the express condition that if the Assignor shall punctually and fully pay or cause to be paid unto SBA the full amount payable upon or with respect to said note, according to its terms, together with interest thereon * * * this assignment shall be null and void, and said Letters Patent and applications for Letters Patent shall be reassigned to the Assignor but shall otherwise remain in full force and effect.”).

288. *Id.*

289. *Id.* at 122 (noting that the promissory note “was stamped ‘PAID’, signed, and dated by the authorized SBA certifying officer on that date”).

290. *Id.* at 121.

291. *Id.* at 122-23.

292. *Id.* at 122.

293. *Id.*

294. *Id.*

July 31, 1964, when the loan from the SBA was repaid in full.²⁹⁵ SBA continued to hold the bare legal title in the mortgaged patents until April 26, 1965.²⁹⁶ SBA held the bare legal title after Railex paid off the loan and before the total release of the “assignment” pursuant to the instrument, “as constructive trustee for the benefit of plaintiff-mortgagor, but no longer as security for the SBA loan, which had been repaid in full on July 31, 1964.”²⁹⁷ Therefore, Railex had standing to bring the infringement suit against the defendants and SBA, “as holder of bare legal title to the patents in suit” as of the complaint filing date, “is neither an indispensable nor a necessary party in the present” patent infringement suit “in the nature of a suit in equity.”²⁹⁸

This case is important on several fronts. It shows that small businesses are in need of financing.²⁹⁹ Access to credit is crucial to the survival of the business.³⁰⁰ It demonstrates that small businesses do not have the real estate property for security of loans.³⁰¹ What small businesses do have is intellectual property.³⁰² When making loans to small businesses, SBA and private lending institutions recognize this reality and take intellectual property, including patent applications, as security for loans.³⁰³ In addition, this case follows *Waterman v. Mackenzie* to vest the intellectual property mortgagee with the entire title in the mortgaged intellectual property during the time the intellectual property serves

295. *Id.*

296. *Id.* (“Legal title, however, continued to be held by mortgagee SBA until April 26, 1965, at which time legal title was reassigned to the plaintiff-mortgagor by SBA with a provision in this second assignment that ‘this assignment includes the right to sue and recover for past infringements, against all persons or parties except the United States Government and its Agencies.’”).

297. *Id.* at 122-23.

298. *Id.* at 126; *see also id.* at 123 (“In the present case plaintiff has prayed for injunctive relief and for an equitable accounting for profits, as well as incidental legal relief in the form of an award of money damages, and this case is, therefore, essentially a civil non-jury action for patent infringement in the nature of a suit in equity.”).

299. *See generally id.* (showing that the SBA, in providing financing to smaller businesses, resorted to the intellectual property of said companies as securities for their loans).

300. The United States government recognized that businesses were hurt by the Great Depression. *Our History*, *supra* note 283. In 1932, which was before the SBA was in existence, the government created the Reconstruction Finance Corporation (RFC) to lend to big businesses. *Id.* (explaining early versions of SBA). RFC, in its lending practices, took intellectual property assets, among other property, as security for loans. *See Horowitz v. Kaplan*, 193 F.2d 64, 69 (1st Cir. 1951) (“RFC loan was reduced to the sum of \$1,500,000 by payments on account, the balance of the loan being extended to December 31, 1960, secured solely by a mortgage on the plant, machinery, equipment, good will, trade-marks and patents of the debtor.”).

301. *See Railex Corp.*, 40 F.R.D. at 121-22.

302. *See id.*

303. *See generally Horowitz*, 193 F.2d at 69 (demonstrating that RFC issued a loan which was secured in part by a mortgage on the trademarks and patents of the debtor).

as security for the outstanding loan.³⁰⁴ In other words, the ruling in this case encourages financing secured by intellectual property assets.³⁰⁵

IV. SECURED PARTY OF IP COLLATERAL AS OWNER BY OPERATION OF LAW

Modern secured transactions law specifies what the secured party's rights are in the event the debtor fails to fulfill payment obligation or is in default.³⁰⁶ The secured party can foreclose on the collateral and dispose of the collateral for purposes of recovering as much as it can on the loan.³⁰⁷ With tangible collateral, the secured party can enter the debtor's premise and seize the collateral as long as the repossession is conducted without breaching the peace.³⁰⁸ Alternatively, the secured party can obtain a judicial order to repossess the collateral, but this process is both costly and inefficient.³⁰⁹ Upon having the possession of the collateral, the secured party can conduct either a public or private sale of the collateral.³¹⁰ With intellectual property collateral, foreclosure has its own challenges.³¹¹ Repossession with the self-help method for tangible property cannot be applied to intellectual property as they are intangible in nature.³¹² The question, then, is must the secured party request that the debtor execute an assignment of the foreclosed intellectual property to the secured party and record the assignment with the Patent Office before the secured party can transfer the intellectual property to a purchaser? What should the law be in addressing the above challenge in order to encourage financing with intellectual property as collateral?

The case *Sky Technologies v. SAP* is both instructive and contributive in the

304. See *supra* note 29 and accompanying text (explaining that the mortgagee holds entire title to the patents acting as a security).

305. See *Railex Corp.*, 40 F.R.D. at 121-22.

306. See generally U.C.C. § 9, Pt. 6 (2000).

307. *Id.* § 9-610 (“After default, a secured party may sell, lease, license, or otherwise dispose of any or all of the collateral in its present condition or following any commercially reasonable preparation or processing.”).

308. *Id.* § 9-609 (providing that after default, “a secured party: (1) may take possession of the collateral” . . . “pursuant to judicial process; or without judicial process, if it proceeds without breach of the peace”).

309. Mark G. Yudof, *Reflections on Private Repossession, Public Policy and the Constitution*, 122 U. PA. L. REV. 954, 964-65 (1974) (reporting that the cost of replacing self-help repossession with judicial means would be \$143 million per year); James White, *The Abolition of Self-Help Repossession: The Poor Pay Even More*, 1973 WIS. L. REV. 503, 520-22 (conducting seminal cost-benefit study of self-help repossession).

310. U.C.C. § 9-610(b) (2000) (“If commercially reasonable, a secured party may dispose of collateral by public or private proceedings”).

311. See Julie E. Cohen, *Copyright and the Jurisprudence of Self-Help*, 13 BERKELEY TECH. L.J. 1089, 1120 (1998).

312. *Id.*

development of the intellectual property secured financing law.³¹³ In *Sky Technologies*, Ozro, Inc. owned a portfolio of patents and sought financing from Silicon Valley Bank (“SVB”).³¹⁴ On April 1, 2001, Ozro executed an Intellectual Property Security Agreement with SVB, granting the bank a “security interest in all of Grantor’s right, title, and interest, whether presently existing or hereafter acquired in, to and under all of the Collateral.”³¹⁵ The collateral included the patent portfolio, and SVB filed the agreement with the United States Patent and Trademark Office on the same day.³¹⁶

On the next day, Ozro signed a similar security agreement with Cross Atlantic Capital Partners, Inc. (“XACP”).³¹⁷ The security agreement contained identical provisions as the agreement between Ozro and SVB.³¹⁸ In both agreements, Ozro used the patent portfolio as collateral to secure the loans.³¹⁹ In the event of default by Ozro on the loans, both SVB and XACP have “the right to exercise all the remedies of a secured party upon such default under the Massachusetts UCC,” including the right to repossess and dispose the intellectual property collateral.³²⁰ In addition, Ozro was required to “assemble the Intellectual Property Collateral and any tangible property in which [SVB or XACP] has a security interest and to make it available to [SVB or XACP].”³²¹

A year and a half later, in December 2002, SVB assigned its security interest under the SVB Agreement with Ozro to XACP through a non-recourse assignment, giving XACP all of the “right, title, and interest” formerly held by SVB.³²² XACP recorded the assignment with the United States Patent and Trademark Office.³²³ XACP still held its own existing security interest in Ozro’s patent portfolio collateral.³²⁴

A few months later, Ozro defaulted on the loan, and XACP foreclosed on the assets, including the patents.³²⁵ On July 14, 2003, upon foreclosure and after notifying all parties with interest in the patents, XACP sold the patents at public

313. *Sky Techs. LLC v. SAP AG*, 576 F.3d 1374 (Fed. Cir. 2009).

314. *Id.* at 1376.

315. *Id.*

316. *Id.*

317. *Id.* at 1377.

318. *Id.*

319. *Id.*

320. *Id.* (noting that both agreements provide that the secured party: “(i) to take possession of all or any portion of the Intellectual Property Collateral, (ii) to sell, lease, or otherwise dispose of any or all of the Intellectual Property Collateral . . . and (iii) to exercise all or any of the rights, remedies, powers, privileges and discretions under all or any of the documents relating to the Secured Obligations”).

321. *Id.* (alteration in original).

322. *Id.*

323. *Id.*

324. *Id.*

325. *Id.* at 1378.

auction.³²⁶ XACP was the only bidder and purchased all of the assets, including the patents.³²⁷ During the foreclosure and disposition process, Ozro never executed a written agreement assigning all of its rights, title or interests in the assets, including the patents to XACP.³²⁸ Subsequently, XACP assigned the patents to Sky Technologies.³²⁹ Three years later, in 2006, Sky Technologies brought a patent infringement suit against SAP who then moved to dismiss the suit, asserting that Sky Technologies had no standing because Ozro had never assigned its rights in the patents to XACP.³³⁰

The district court held for Sky Technologies and granted SAP's Motion for Certification of Question for Interlocutory Appeal to the Federal Circuit based on a finding that "substantial grounds for difference of opinion exist regarding the question of whether a transfer of title through operation of law without a written assignment may apply in situations that do not involve heirs or probate law."³³¹

The Federal Circuit emphasized that the central question was whether XACP had right, title, and interest in the patents to transfer all of those rights to Sky Technologies.³³² The court looked to Massachusetts UCC Article 9 to determine XACP's ownership in the patents.³³³ The court determined that under Massachusetts UCC section 9-610, XACP, as a secured party, had the right to dispose of the collateral in a commercially reasonable manner after the debtor, Ozro, was in default.³³⁴ XACP was allowed under Article 9 to purchase the collateral at a public disposition.³³⁵ Further, under UCC section 9-617, upon acquiring the collateral at the disposition, the transferee for value takes all of the debtor's rights in the collateral.³³⁶ Accordingly, "[b]ecause XACP foreclosed on the patents-in-suit in conformity with these provisions, XACP obtained title to the patents on July 14, 2003."³³⁷ XACP became the new owner of the patents as "[n]othing in the language of [Article 9] evinces the requirement that a writing must exist to transfer patent rights through operation of law," and it properly transferred its ownership to Sky Technologies.³³⁸ The Federal Circuit affirmed the district court's decision that Sky Technologies had indeed become the new owner of the patents through operation of law.³³⁹

The Federal Circuit provided policy justifications for permitting transfers of

326. *Id.*

327. *Id.*

328. *Id.*

329. *Id.*

330. *Id.*

331. *Id.*

332. *Id.* at 1379.

333. *Id.* at 1380.

334. *Id.*

335. *Id.*

336. *Id.* at 1380-81; MASS. GEN. LAWS ANN. ch. 106, § 9-617 (West 2014).

337. *Sky Techs.*, 576 F.3d at 1380.

338. *Id.* at 1381 (alteration added).

339. *Id.* at 1382.

patent ownership through operation of law (i.e., foreclosure, disposition, and purchase of patents under UCC Article 9) without the parties having to memorialize the transaction in writing.³⁴⁰ Notably, the writing requirement would negatively impact existing secured financing with patents as collateral, hinder future financing with patent collateral, and impose burden on transactions:

First, if foreclosure on security interests secured by patent collateral could not transfer ownership to the secured creditor, a large number of patent titles presently subject to security interests may be invalidated. Any secured creditor who maintained an interest in patent collateral would be in danger of losing its rights in such collateral. Second, by restricting transfer of patent ownership only to assignments, the value of patents could significantly diminish because patent owners would be limited in their ability to use patents as collateral or pledged security. Lastly, it would be impractical to require secured parties to seek out written assignments following foreclosure from businesses that may have ceased to exist.³⁴¹

The Federal Circuit's legal and public policy explanations mark an important development in the law relating to financing with the use of intellectual property as collateral.³⁴² With certainty, a secured party now can expect that in the event the debtor is in default, the secured party can become the owner of the intellectual property collateral by operation of law as long as the secured party properly disposes and purchases the collateral in accordance with Article 9 of the Uniform Commercial Code.³⁴³ The secured party's ownership of the intellectual property by operation of law reduces unnecessary costs in searching and demanding for the debtor's signature.³⁴⁴ The recognition also enhances the value of the intellectual property because the purchaser can trust that the chain of title of the intellectual property has not been broken.³⁴⁵ The purchaser is the new owner, as it has bought from the secured party with ownership of the intellectual property by operation of law.³⁴⁶ In summary, *Sky Technologies v. SAP* recognizes the importance of secured transactions today with intellectual property collateral and adheres to the purposes of UCC Article 9 in encouraging secured financing.³⁴⁷

340. *Id.* at 1381-82.

341. *Id.*

342. *See id.* at 1380-81.

343. *Id.* (“[C]onsistent with sections 9–610 and 9–617, XACP received all of Ozro’s rights in the Collateral, making XACP the title-holder of the patents-in-suit after foreclosure.”).

344. *See id.*

345. *See id.*

346. *See id.*

347. If the secured party in a foreclosure sale of the patent collateral failed to properly list the patents in the sale notice, some courts may not approve the validity of the sale. *See Mayfair Wireless LLC v. Celico P’ship*, No. 11-772-SLR-SRF, 2013 WL 4657507, at*6 (D. Del., Aug. 30, 2013) (finding that “[n]one of the above-listed evidence identifies the ‘441 patent application specifically, and as a result, the court declines to assume that the rights to the application for the

V. SECURED PARTY'S RISKS RELATED TO IP COLLATERAL

Providing financing to businesses involving intellectual property assets does present some risks to secured creditors.³⁴⁸ As intellectual property assets have become increasingly valuable corporate assets, many companies aggressively assert infringement against third parties.³⁴⁹ The cost of infringement litigation is high and a disruptive threat to the operation of the business.³⁵⁰ From the secured creditor's perspective, in addition to the risk of nonperforming loans and the difficulty of obtaining an accurate valuation of intellectual property assets, there are at least two additional types of risks: (1) whether a grant of a security interest in some circumstances can be deemed a fraudulent transfer; and (2) whether the secured creditor is liable for infringement.³⁵¹

A. Fraudulent Transfers

Aptix Corp. v. Quickturn Design Systems, Inc. is a cautionary tale for all investors who pour their own financial resources to finance their own startups and take a security interest in the startup's intellectual property.³⁵² Dr. Amr Mohsen developed hardware-logic-emulation technology and was the inventor of certain patents.³⁵³ Dr. Mohsen founded the company, Aptix, and was the majority shareholder, chief executive officer, and chairman of the company.³⁵⁴ Like many other startups, the company was in financial trouble due to unsuccessful attempts to borrow money, raise equity financing from outside investors, and merge with another company.³⁵⁵ Dr. Mohsen used his own financial resources to make at least \$2 million in loans to the company.³⁵⁶ These loans were unsecured; they did

'441 patent were included in the foreclosure sale").

348. See *Aptix Corp. v. Quickturn Design Sys., Inc.*, 148 F. App'x 924 (Fed. Cir. 2005); *Van Well Nursery, Inc. v. Mony Life Ins. Co.*, 362 F. Supp. 2d 1223, 1224 (E.D. Wash. 2005); Lex Machina, *Releases First Annual Patent Litigation Year in Review*, LEXMACHINA (May 13, 2014), <https://lexmachina.com/2014/05/patent-litigation-review/>, archived at <http://perma.cc/8XHX-ZXE7>; Jim Kerstetter, *How Much is that Patent Lawsuit Going to Cost You?*, CNET (Apr. 5, 2012, 10:00 AM), <http://www.cnet.com/news/how-much-is-that-patent-lawsuit-going-to-cost-you/>, archived at <http://perma.cc/7L89-UF44>.

349. See Machina, *supra* note 348 (explaining that over 6,000 patent lawsuits were filed in 2013, which is a twelve percent increase from the previous year).

350. See Kerstetter, *supra* note 348 (noting that according to the American Intellectual Property Law Association, the average legal costs for a patent infringement claim between \$1 million and \$25 million dollars is approximately \$2.5 million).

351. See *Aptix*, 148 F. App'x at 929-30; *Van Well Nursery*, 362 F. Supp. 2d at 1224.

352. *Aptix*, 148 F. App'x at 924.

353. *Id.* at 925.

354. *Id.* at 926.

355. *Id.*

356. *Id.*

not have any property as security.³⁵⁷ The company's situation did not improve and Dr. Mohsen then loaned at least \$9.7 million between July 2000 and September 2003 to the company.³⁵⁸ These loans were secured by the company's assets, including the patents; Dr. Mohsen received a grant of security interest in the collateral.³⁵⁹ The company used these loans to pay employees, vendors, and creditors and to "keep the company alive and operating."³⁶⁰ During the time of the security interest grant, the company was in a patent infringement action against a competitor and expected to receive an adverse judgment.³⁶¹ The competitor sought to levy against the company's assets that had already been encumbered to Dr. Mohsen's security interest.³⁶²

However, the Federal Circuit's majority panel held that "the making of a secured loan instead of an unsecured loan in anticipation of an adverse judgment establishes deliberate wrongful conduct" and concluded that Dr. Mohsen's security interest in the patents was a fraudulent transfer by the company.³⁶³ The majority panel affirmed the district court's decision to void Dr. Mohsen's security interest in the patents.³⁶⁴

Whether one agrees with the panel's majority is not material here. What is important is accessing potential risks to the secured party. As seen in this case, routine business financing can be disregarded and labeled as a fraudulent transfer to the detriment of the lenders.³⁶⁵ In providing financial resources to a startup, an investor-as-secured-creditor must be aware of how courts view the investor's conduct in determining whether the financing with intellectual property used as collateral is legitimate.³⁶⁶

B. Infringement Liability

Another type of risk is infringement liability.³⁶⁷ This risk occurs if the secured lender extends credit to a borrower, takes a security interest in the borrower's property and assets, and then forecloses on collateral, which includes products that are the subject of a patent infringement suit asserted by the patentee

357. *Id.*

358. *Id.*

359. *Id.*

360. *Id.*

361. *Id.*

362. *Id.* at 927.

363. *Id.* at 932 (Newman, J., dissenting) ("The moneys obtained and the security interest granted for the loan were routine business practice. The secured nine million dollars here loaned provided essential funds to pay employees, vendors, and creditors. The facts of record do not establish fraud under California statute and precedent.").

364. *Id.* at 930.

365. *Id.* at 931-32.

366. *See id.* at 930-32.

367. *See Van Well Nursery, Inc. v. Mony Life Ins. Co.*, 362 F. Supp. 2d 1223 (E.D. Wash. 2005).

against others, including the borrower.³⁶⁸ The question arises whether the secured creditor is liable for infringement, either under the direct infringement or contributory infringement theory.³⁶⁹

Van Well Nursery, Inc. v. Mony Life Insurance Co. illustrates a secured creditor's potential patent infringement liability risk.³⁷⁰ Van Well owned a particular patent for a new apple tree variety and sold the patented trees to the public.³⁷¹ On July, 9, 2004, Van Well brought a patent infringement action against A/B Hop Farm and Mony Life Insurance ("Mony Life").³⁷² Mony Life had periodically made large loans to A/B Hop Farm from 1991 to 1996.³⁷³ In February, 1996, Mony Life loaned \$2.5 million to A/B Hop Farm for the purchase of Wallula Orchard Properties and the loan was secured by the Wallula Orchard Properties.³⁷⁴ The parties signed the mortgage agreement.³⁷⁵ Thereafter, A/B Hop Farms defaulted on the loan and Mony Life foreclosed on all property collateral, including Wallula Orchard Properties.³⁷⁶

Van Well asserted that because Wallula Orchard Properties had planted apple trees that infringed on the patent at issue, Mony Life was liable based on the mortgage document between A/B Hop Farm and Mony Life.³⁷⁷ Van Well relied on certain provisions in the mortgage document to advance its infringement theory against Mony Life.³⁷⁸ Specifically, the mortgage agreement provided that the mortgagor, in order to secure the payment of the \$2.5 million dollar loan, "mortgages, assigns and warrants" to the mortgage lender, Mony Life, the Wallula land

together with numerous other interests including for example the buildings, improvements, fixtures, permanent plantings, crops and other farm products, rents, profits, income and proceeds therefrom, contract rights, water rights, all judgments, awards of damages, settlements and payments made for any taking of the property or damage to the property, and a security interest in all irrigation, frost control and orchard cooling facilities.³⁷⁹

The mortgage agreement also stated that the conveyances would be null and void, but only if the mortgagor made all payment obligations and performed all

368. *Id.* at 1225.

369. *Id.* at 1226.

370. *Id.* at 1224.

371. *Id.*

372. *Id.*

373. *Id.*

374. *Id.*

375. *Id.* at 1225.

376. *Id.*

377. *Id.*

378. *Id.* at 1227 (noting that "Van Well did allege in its complaint the theory of contributory infringement").

379. *Id.* at 1225.

covenants in the agreement.³⁸⁰ In the event that the mortgage was in default, the mortgage agreement provided Mony Life with recourse to protect its security interests in the property.³⁸¹ Mony Life countered that these provisions were “standard” in agricultural secured lending business.³⁸²

The court analyzed the direct infringement claim after it quickly disposed the contributory infringement claim for lack of evidence.³⁸³ The court first noted that Van Well raised an issue of first impression of a mortgage lender’s liability for patent infringement.³⁸⁴ This issue required an examination of whether the mortgage lender’s conduct falls within “use” of the patent.³⁸⁵

The inquiry on “use” of the patent is a factual inquiry on case-by-case basis.³⁸⁶ Van Well advanced a theory of direct infringement on the part of the mortgage lender by urging the district court to interpret the term “use” broadly and accept the theory of “constructive use” that Mony Life “should be held liable because it had an ability to act with respect to the infringing trees and it possessed sufficient rights that it ‘could [have affected] the infringing activity if it so chose.’”³⁸⁷ Van Well cited to a number of cases to support its argument, but the district court rejected them because their facts were distinguishable from the case at bar.³⁸⁸ Crucially, the cited cases involved actual conduct involving the infringing product, actual control over, and possession of the infringing product.³⁸⁹ Here, the district court noted that Mony Life “did not have, nor could have had” the infringing apple trees.³⁹⁰ Therefore, Mony Life could not “use” the patent because “how could one use an item it does not have?”³⁹¹ More specifically, Mony Life could, as a secured creditor to secure the loans it made to the borrower, “demand rights and performance of obligations in order to assure the collateral pledged is maintained.”³⁹² The district court observed that “[i]f having these rights, without their actual exercise, was considered ‘use’ of the property itself then no secure creditor would ever be protected.”³⁹³

The court emphasized that holding a lending institution liable for direct infringement under the facts in this case would threaten the foundation of a dynamic, competitive, and stable economy and other threats:

380. *Id.*

381. *Id.*

382. *Id.*

383. *Id.* at 1227-30.

384. *Id.* at 1228 (noting that “Van Well is correct in acknowledging the issue of a mortgage lender’s liability for plant patent infringement is one of first impression”).

385. *Id.* at 1227-28.

386. *Id.* at 1229.

387. *Id.*

388. *Id.*

389. *Id.*

390. *Id.*

391. *Id.*

392. *Id.*

393. *Id.*

[A]t a minimum it would create tremendous apprehension and uncertainty in lending, instill additional disincentives to lend and discourage productive enterprises, and perhaps threaten the very foundation of the agricultural lending industry and the economy it serves. The costs associated with defending against an intellectual property infringement suit and any liability associated therewith could easily exceed the amount originally at stake in the underlying transaction.³⁹⁴

Congress, not courts, was the appropriate body for Van Well to seek the extension of its patent protection against mortgage lenders.³⁹⁵ Accordingly, Mony Life's authority to control Wallula Orchard property pursuant to the mortgage agreement failed to support Van Well's claim of direct infringement against Mony Life.³⁹⁶

The court clarified that its decision was not dictated by Mony Life's argument that the provisions in the mortgage agreement were merely "standard" in the agricultural secured lending business.³⁹⁷ The court warned that "standard" lender behavior is "a mutable concept, and it will respond to the liability rules the Courts and Congress put into place."³⁹⁸ However, "[i]n this context, while lenders may offer deep-pocket appeal to the patent holder, lender liability has not been met with widespread judicial acceptance in most tort-liability scenarios."³⁹⁹

Moreover, the court rejected Van Well's request for a declaration that Mony Life's security interest in any of the allegedly infringing trees in Wallula Orchard be voided and the infringing trees ordered destroyed.⁴⁰⁰ The court denied the request for lack of support in patent law.⁴⁰¹

In summary, there are two identifiable risks that a secured creditor may face in financing innovation.⁴⁰² First, a grant of security interest in some circumstances could be deemed as a fraudulent transfer.⁴⁰³ This risk can be minimized in self-financing cases by routinely taking a security interest when the self-financier provides a loan to his or her company. This consistent behavior will reduce the inference of fraudulent conveyance stemming from selective granting and receiving security interests. Second, the secured creditor is liable for infringement.⁴⁰⁴ This risk is very rare in financing innovation by the private

394. *Id.* at 1230.

395. *Id.*

396. *Id.*

397. *Id.* at 1229-30.

398. *Id.* at 1229.

399. *Id.*

400. *Id.* at 1230.

401. *Id.*

402. *See Aptix Corp. v. Quickturn Design Sys., Inc.*, 148 F. App'x 924, 931-32 (Fed. Cir. 2005); *Van Well*, 362 F. Supp. 2d at 1229-30.

403. *Aptix Corp.*, 148 F. App'x at 931-32.

404. *See Van Well*, 362 F. Supp. 2d at 1223.

sector and can be minimized through careful drafting of the security agreement.⁴⁰⁵

VI. SOME IMPLICATIONS FROM HISTORICAL FINANCING INNOVATIONS

Technological advancements in the United States have profoundly changed every sector of the economy since the United States Supreme Court decided *Waterman v. McKenzie*, recognizing the use of intellectual property assets as security in business financing.⁴⁰⁶ The loan secured by two patents in 1891 represents the quintessential American system of supporting small businesses, as patents are major contributors to innovation and job creation.⁴⁰⁷

Along with technical advancements, not surprisingly, there are new means for businesses today to obtain financing.⁴⁰⁸ Equity financing and crowdfunding are two examples.⁴⁰⁹ In broad terms, in equity financing, investors will acquire shares or equity in the business in exchange for the investment provided by the investors to the business.⁴¹⁰ Equity financing allows businesses to have access to capital on a small and large scale.⁴¹¹ Equity financing has its shortcomings; founders of businesses in equity financing are generally concerned about their loss of control or direction of the company.⁴¹² Crowdfunding leverages the ease

405. See Nguyen, *supra* note 17, at 36 n.186 (discussing suggested language for security agreements).

406. *Waterman v. Mackenzie*, 138 U.S. 252, 260 (1891).

407. Jay M. Mattappally, *Goliath Beats David: Undoing the Leahy-Smith America Invents Act's Harmful Effects on Small Businesses*, 58 LOY. L. REV. 981, 983 (2012) ("small businesses have been the stabilizing force in the economy for years, as well as its primary economic growth stimulator" and "are very important to innovation").

408. See C. Steven Bradford, *Crowdfunding and the Federal Securities Laws*, 2012 COLUM. BUS. L. REV. 1, 5 (2012); John Floegel, *Equity Financing for Public Corporations: Reasons and Methods to Encourage It*, 138 U. PA. L. REV. 1411, 1418 (1990).

409. See Floegel, *supra* note 408, at 1418 ("Equity financing enables corporations to raise money by selling ownership interests (represented by shares of stock) to investors"); Bradford, *supra* note 408, at 5.

410. See George Deeb, *Comparing Equity, Debt and Convertibles for Startup Financings*, FORBES (Mar. 19, 2014, 2:25 PM), <http://www.forbes.com/sites/georgedeeb/2014/03/19/comparing-equity-vs-debt-vs-convertibles-for-startup-financings/>, archived at <http://perma.cc/V94L-RGWX> (discussing advantages and disadvantages of equity financing).

411. See *Debt vs. Equity Financing: Which Is the Best Way for Your Business to Access Capital?*, NAT'L FED'N OF INDEP. BUS. (Oct. 17, 2009), <http://www.nfib.com/article/ital-50036/>, archived at <http://perma.cc/5EKU-YALE> (discussing advantages of equity financing, which include having more money on hand to expand one's business).

412. See, e.g., *Small Business Financing: Debt vs. Equity*, ADVISOR SQUARE (Mar. 2013), http://www.advisorsquare.com/new/LPL_Library/March_2013_Independent_Investor.pdf?advis-orid=3005068, archived at <http://perma.cc/3P8B-22ZJ> (providing pros and cons of small business financing relating to debt versus equity); *Financing a Small Business: Equity or Debt?*, FORBES (Jan. 1, 2007, 4:30 PM), http://www.forbes.com/2007/01/05/equity-debt-smallbusiness-ent-fin-cx_nl_0105nolofinancing.html, archived at <http://perma.cc/NWQ6-3VRU> (providing advantages

of mobile online communication to enable businesses to present their nascent ideas for funding from the crowd or supportive online users.⁴¹³

Despite these new methods to obtain financing, small businesses in the United States have been struggling to gain access to credit.⁴¹⁴ The recent financial crisis and its aftermath continue to limit the ability of businesses to obtain credit.⁴¹⁵ Banks are still not eager to lend to small businesses, as the numbers show a twenty percent decline in small business lending since the financial crisis.⁴¹⁶ Most troubling, access to credit for small businesses was already in steady decline prior to the financial crisis.⁴¹⁷

A few online lenders have begun to enter the small business lending sector and utilize technological sophistication to ration their loans to small businesses.⁴¹⁸ They use innovative software and data metrics from social media interactions and Yelp comments to analyze a potential borrower's application for a loan.⁴¹⁹ Their analytic system, however, ignores the borrower's intellectual property assets.⁴²⁰

The lessons learned from the history of legal development for financing innovation suggests that there is a need for both traditional and online lenders to appreciate the intellectual property assets held by small businesses. The intellectual property assets should be included in the analytics in assessing the overall health of a business seeking a loan or a line of credit. Lenders should take comfort in decisional laws that have consistently encouraged financing when intellectual property assets serve as collateral.⁴²¹ The long history of courts

and disadvantages of equity financing and borrowing money option); Asheesh Advani, *Choosing Between Debt and Equity Financing*, ENTREPRENEUR (Apr. 3, 2006), <http://www.entrepreneur.com/article/159518>, archived at <http://perma.cc/3NWM-LSQA> (explaining why businesses need to choose investors for equity financing with care).

413. Kickstarter is a major platform for crowdfunding of a wide range of projects. KICKSTARTER, <https://www.kickstarter.com/> (last visited Oct. 8, 2014), archived at <http://perma.cc/9L32-ED2W>. Some promising projects began with crowdfunding then moved on to obtain equity funding from venture capitalists. See Joshua Brustein, *How Kickstarter Turned Into the Venture Capitalist's Best Friend*, BLOOMBERG BUSINESS WEEK (Aug. 11, 2014), <http://www.businessweek.com/articles/2014-08-11/kickstarter-successes-pivot-from-crowdfunding-to-venture-capital>, archived at <http://perma.cc/6WYM-RE6H> (discussing Kickstarter's involvement in both crowdfunding and equity funding).

414. Mills & McCarthy, *supra* note 4, at 4.

415. *Id.*; see also Phyllis Furman, *Loan groan: In Spite of an Improving Economy, NYC Small Businesses Say They Can't Get Bank Loans*, N.Y. DAILY NEWS (May 12, 2014, 10:33 AM), available at <http://www.nydailynews.com/new-york/loan-groan-spite-improving-economy-nyc-small-businesses-bank-loans-article-1.1788874#ixzz3A5sgWsKj>, archived at <http://perma.cc/U6YK-8NP4>.

416. Mills & McCarthy, *supra* note 4, at 4.

417. *Id.*

418. *Id.* at 42-44.

419. *Id.* at 46.

420. *See id.*

421. *Van Well Nursery, Inc. v. Mony Life Ins. Co.*, 362 F. Supp. 2d 1223 (E.D. Wash. 2005);

accepting different types of intellectual property as security in financing, recognizing perfection of security interests in intellectual property, and elevating a secured party as the owner of the foreclosed intellectual property by operation of law demonstrates a favorable legal ecosystem for lenders to extend credit to small businesses with trademarks, copyrights, trade secrets, and patents as parts of their assets available to serve as collateral.

CONCLUSION

Global competition is fierce. Access to financing for small businesses and recognition of intellectual property must be at the center of discussion of how the United States can maintain its innovative edge. Looking across the Pacific Ocean, China has embraced a comprehensive strategy to increase innovation by providing financing based on the intellectual property assets of businesses.⁴²² However, China's intellectual property financing is beyond the scope of this Article and will be discussed in a separate article. The central issue remains: how will the United States fuel its small businesses in need of financing for innovation?

Aptix Corp. v. Quickturn Design Sys., Inc., 148 F. App'x 924 (Fed. Cir. 2005).

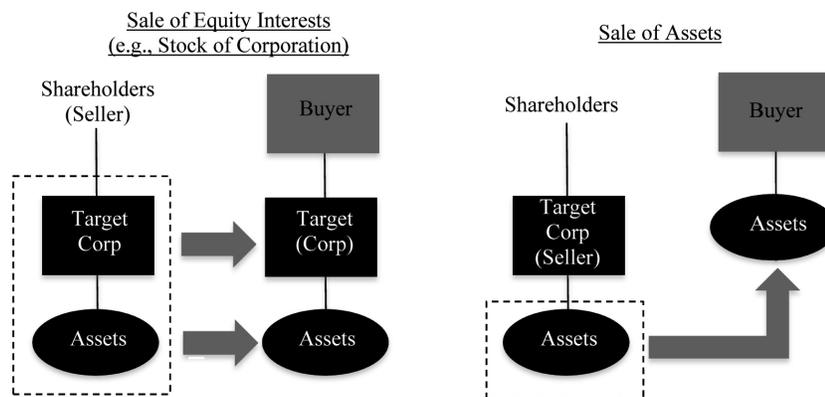
422. Joff Wild, *Chinese Companies Have Secured Over \$10 Billion in Patent-Backed Loans Since 2008*, INTELLECTUAL ASSET MGMT. (Mar. 4, 2014), <http://www.iam-magazine.com/blog/detail.aspx?g=7fd84e0c-af7a-4d28-ba91-746bbb44e318>, archived at <http://perma.cc/G4UD-8XUQ> ("Chinese companies secured over \$4 billion . . . of credit against patent rights in 2013").

ASSET ACQUISITIONS: THINGS THAT MAKE YOU GO HMMMM . . . ARE YOU REALLY ENTITLED TO THAT BELOVED OCCASIONAL SALE EXEMPTION?

ALYSON OUTENREATH*

INTRODUCTION

Transactional attorneys frequently represent clients who are either buying or selling a business. There are a myriad of legal issues that the transactional attorney must assist his or her client with when that client is selling a business. One of these issues is determining whether to structure the deal as a sale of the underlying assets or as a sale of the equity interests. As seen in the illustration below, an asset sale involves only the sale of the assets of a business while excluding the actual entity that owns the assets and operates the business. In contrast, structuring the deal as a sale of equity interests involves both the sale of the underlying assets and the entity.



There are both tax and non-tax related factors that the buyer and seller must consider in determining whether to structure the deal as an asset sale or as a sale of equity interests.¹ The buyer and seller oftentimes have divergent interests causing this decision to be a negotiated one.²

This Article focuses on the sale of a business structured as an asset sale ("Asset Sale"). From a tax perspective, one of the many issues buyers and sellers must address in an Asset Sale is determining whether the transfer of the subject assets will create sales tax implications or, alternatively, whether an exemption

* Associate Professor of Law, Texas Tech University School of Law. Professor Outenreath would like to acknowledge and thank Dean Darby Dickerson and Associate Dean Vickie Sutton for their generous support of this project.

1. See *infra* Part I.
2. See *infra* notes 11-23 and accompanying text.

from sales tax exists.³ Most states impose sales tax on the transfer of tangible personal property (a tax term that generally means assets such as movable equipment and machinery that can be seen, touched, and that are perceptible to the senses).⁴ Many states also offer an exemption from sales tax for what is commonly known as occasional, casual, or isolated sales.⁵ This exemption is commonly referred to as the “occasional sale exemption” and is often relied upon exemption in Asset Sales.⁶ The requirements for the occasional sale exemption vary from state to state, and while some states have broad exemptions for occasional, casual or isolated sales, other states have narrow exemptions.⁷ Further, some states do not have an occasional sale exemption.⁸ In short, there is no uniformity among the states and taxpayers and practitioners cannot be sure the occasional sale exemption applies to their transaction unless they carefully review the statutes, regulations, and other relevant authorities of the subject state.

This Article analyzes the occasional sale exemption with particular emphasis on states that have narrow exemptions, cumbersome or perhaps counterintuitive requirements that must be satisfied in order for the exemption to apply, or do not have an exemption at all for occasional, isolated, or casual sales. Thus, this Article centers on those states considered traps for the unwary. In addition, this Article examines whether there are valid policy reasons that justify the trap for the unwary states having narrow, cumbersome or counterintuitive requirements, or no occasional sale exemption at all. If valid policy reasons do not exist, then this Article will make recommendations as to how the subject state should consider changing its requirements concerning the occasional sale exemption.

I. SALE OF A BUSINESS STRUCTURED AS AN ASSET SALE

When an attorney represents a client who either wants to buy a business (the “buyer”) or sell a business (the “seller”), one of the first questions that must be addressed is whether to structure the sale as a sale of the assets or as a sale of the equity interests.⁹ The decision is typically a negotiated issue and can be significant to both buyer and seller for tax and non-tax reasons.¹⁰

For example, the buyer might prefer an Asset Sale structure for liability

3. See *infra* notes 20-40 and accompanying text.

4. See *infra* notes 24-28 and accompanying text.

5. See *infra* notes 33-38 and accompanying text.

6. See *infra* notes 33-38 and accompanying text.

7. See *infra* Part II.

8. See *infra* Part II.

9. See generally Michael L. Schler, *Basic Tax Issues in Acquisitions Transactions*, 116 PENN ST. L. REV. 879, 886 (2012) (discussing the choice between so-called “stock acquisition” sales and the sale of assets).

10. See *id.* See generally Byron F. Egan, *Asset Acquisitions: Assuming and Avoiding Liabilities*, 116 PENN ST. L. REV. 913, 914-31 (2012) (discussing the reasons to consider an Asset Sale).

protection reasons.¹¹ If the sale is structured as the purchase of equity interests, then all known and unknown liabilities attributable to the business carry over to the buyer.¹² In contrast, if the sale is structured as the purchase of assets, then far fewer liabilities carry over to the buyer; that is one of the most significant non-tax reasons a buyer may attempt to negotiate an Asset Sale structure.¹³ Although the buyer can negotiate protection from potential liabilities in an equity deal by way of indemnification,¹⁴ the buyer may still feel uncomfortable taking on the risk. Furthermore, a buyer may prefer an Asset Sale structure for tax reasons.¹⁵ For example, an Asset Sale structure generally allows the buyer to receive a “stepped-up” basis in the transferred assets.¹⁶

Unlike the buyer, a seller might prefer to structure the deal as a sale of equity interests for tax reasons.¹⁷ For example, if the business is a corporation for federal income tax purposes, an equity sale structure generally would cause gain from the sale, if any, to be taxed only once (to the shareholders) rather than twice (once to the target corporation and then again to the shareholders); the same would occur in the case of an Asset Sale.¹⁸ Further, a seller might also prefer an equity sale structure because it usually requires fewer third party consents as compared to an Asset Sale.¹⁹

Thus, there are many factors that the parties in an acquisition must analyze in making the decision whether to structure the transaction as a sale of assets or as a sale of equity interests.²⁰ From a tax perspective, the parties typically focus on federal income tax consequences.²¹ Oftentimes overlooked are state tax implications, including, but not limited to, sales tax exposure.²² Disregarding

11. See, e.g., Egan, *supra* note 10, at 920-23.

12. See *id.*

13. See *id.*; see also *infra* note 30 (regarding successor liability for certain taxes in Asset Sales).

14. See Daniel Avery & Nicholas Perricone, *Trends in M&A Provisions: Indemnification as an Exclusive Remedy*, BLOOMBERG BNA (Sept. 16, 2013), <http://www.bna.com/trends-in-ma-provisions-indemnification-as-an-exclusive-remedy/>, archived at <http://perma.cc/7VX8-HPQC>.

15. See *infra* note 16 and accompanying text.

16. See I.R.C. § 1012(a) (2014); see also Schler, *supra* note 9, at 887-88.

17. See *infra* note 18 and accompanying text.

18. See I.R.C. §§ 11, 1001, 1221, 1222; see also Schler, *supra* note 9, at 887-88.

19. See *Preparing for a Liquidity Event*, MORGAN LEWIS, http://www.morganlewis.com/documents/erh/ERH_PreparingForALiquidityEvent.pdf, archived at <http://perma.cc/Y3DQ-AES6>.

20. See *supra* notes 9-19 and accompanying text.

21. See generally David L. Huizenga, *Multistate Tax Planning for Mergers, Acquisitions, and Restructuring*, J. MULTISTATE TAXATION & INCENTIVES, Feb. 2002, at 7; Richard L. Lieberman, *Sales and Use Tax Aspects of Acquisitions, Mergers, and Divestitures*, STATE TAX TODAY, Apr. 10, 1995, at 2-3; Andrew W. Swain, *Sales and Use Tax Consequences of Reorganizations, Separations, and Acquisitions*, 32-MAY COLO. LAW. 81 (2003).

22. See, e.g., Huizenga, *supra* note 21, at 8-9; Lieberman, *supra* note 21, at 2; Timothy P. Noonan & Joseph N. Endres, *Sales Tax Considerations in an Asset Purchase*, STATE TAX NOTES, Apr. 11, 2011, at 119, archived at <http://perma.cc/G4ZX-NWN8>; Swain, *supra* note 21, at 81.

sales tax implications can be a costly oversight.²³

As background, states generally impose sales taxes on transfers of “tangible personal property” (“TPP”), a tax term that generally includes assets that can be seen, touched, and that are perceptible to the senses.²⁴ Equity interests are generally not considered TPP, but instead, are considered intangibles the sale of which is typically not subject to sales tax.²⁵ Thus, sales tax implications generally do not arise in acquisitions structured as a sale of equity interests.²⁶ In contrast, because acquisitions structured as Asset Sales typically involve the transfer of TPP (e.g., furniture, movable equipment, vehicles,²⁷ and movable machinery), sales tax implications will result with respect to the portion of the purchase price allocable to such TPP absent an available exemption.²⁸

If the parties to an acquisition ultimately decide on an Asset Sale structure, then one of the many items they will need to negotiate is which party will be responsible for the payment of sales taxes resulting from the transaction.²⁹ The

23. See Huizenga, *supra* note 21, at 8; Lieberman, *supra* note 21, at 2; Swain, *supra* note 21, at 81-87.

24. See WALTER HELLERSTEIN ET AL., STATE & LOCAL TAXATION 614 (2009) (discussing taxable sales, delineating sales of TPP from sales of services); Lieberman, *supra* note 21, at 2; Gregory E. Stern, *State Taxation of Mergers and Acquisitions*, 783-4th TAX MGMT. (BNA) U.S. INCOME, 2010, at 37.

25. See *infra* note 26 and accompanying text.

26. See, e.g., Ethan D. Millar, *Overview of State and Local Taxation*, TAX LAW & PRACTICE (PRACTISING LAW INSTITUTE, TAX LAW AND ESTATE PLANNING COURSE HANDBOOK SERIES), Oct. 1, 2009, at 40 (“The sale of intangible property is not subject to sales tax. Therefore, the sale of stock or interests in partnerships or limited liability companies will generally not trigger sales tax.”); Michael T. Petrik & Ethan D. Millar, *State and Local Aspects of Corporate Acquisitions*, CORPORATE BUS. TAXATION MONTHLY, Dec. 2006, at 23. An exception can arise when the sold equity interest is a disregarded entity for federal income tax purposes. See *id.* Also, certain states impose an intangible transfer tax that can apply to the transfer of stock or other equity interests. See, e.g., Millar, *supra*, at 44. Intangible transfer taxes are beyond the scope of this Article.

27. See *infra* note 45 and accompanying text (regarding Asset Sales that include the transfer of motor vehicles and/or other titled vehicles).

28. See Noonan & Endres, *supra* note 22, at 119. As a general rule, there is no sales tax on the transfer of goodwill because goodwill is considered an intangible; see, e.g., *id.* (“In most states, sales of intangible assets (such as goodwill, intellectual property, trademarks, and so on) are not subject to sales tax.”); see also Eric A. de Moya, *Managing Transaction Taxes When Moving Assets in Connection with Mergers and Acquisitions*, J. MULTISTATE TAXATION & INCENTIVES, May 2007, at 27 (stating that “[t]ransfers of intangible assets such as trademarks, service marks, trade names, logos, copyrights, franchise rights, goodwill, etc., are generally not taxable for sales and transaction tax purposes”). Further, transfers of real property are also not typically subject to sales tax, although certain states do impose separate real estate transfer taxes on sales of real property. See generally Millar, *supra* note 26, at 42-43 (discussing jurisdictions that have real property transfer taxes).

29. See generally Millar, *supra* note 26, at 40; Noonan & Endres, *supra* note 22, at 119. Another important issue the parties must analyze in Asset Sales is successor liability for any unpaid

parties may negotiate that either buyer or seller is 100% responsible for the payment of such taxes.³⁰ Alternatively, the parties might agree to split the liability fifty-fifty, which is thought of as a “deal cost” appropriately shared between the seller and buyer.³¹ In analyzing the sales tax exposure of an Asset Sale, the buyer and seller are usually equally interested in determining whether or not any available exemptions exist.³² This is because many states impose joint and several liability on both the buyer and seller with respect to unpaid sales taxes.³³

Most states have a myriad of exemptions from sales tax.³⁴ One of the most common sales tax exemptions in Asset Sales is the exemption for “occasional,” “isolated,” or “casual” sales (oftentimes collectively referred to hereinafter as the “occasional sale exemption”).³⁵ In the context of an Asset Sale, the occasional sale exemption generally allows all, or at least part, of the TPP to be transferred free of sales tax.³⁶ Thus, in an Asset Sale, the existence of an occasional sale exemption in the state where the assets are located is quite valuable to both the buyer and seller.³⁷ The majority of states have an occasional sale exemption.³⁸ However, even in states that have an occasional sale exemption, such states are not uniform in the situations to which the occasional sale exemption extends, the types of TPP covered by the occasional sale exemption, and/or the requirements that must be satisfied in order for the occasional sale exemption to apply.³⁹ Further, a handful of states do not have an occasional sale exemption.⁴⁰

taxes of the seller, states generally impose this by statute or by regulation. Successor liability rules are beyond the scope of this Article. For a detailed discussion of the successor liability rules in Asset Sales, see generally Stern, *supra* note 24, at 36.

30. See generally Millar, *supra* note 26, at 40 (discussing contractual liability for taxes in Asset Sales). Some states may prohibit a seller from absorbing sales taxes imposed on the purchaser. This Article will not address this issue.

31. See *supra* note 30 and accompanying text.

32. See generally Egan, *supra* note 10, at 922 (discussing liability in Asset Sales for both buyers and sellers).

33. See Millar, *supra* note 26, at 43.

34. See generally Noonan & Endres, *supra* note 22, at 119; Stern, *supra* note 24, at 37.

35. See generally Lieberman, *supra* note 21, at 11; Millar, *supra* note 26, at 37-38 (discussing differences among the states regarding to occasional sale exemptions).

36. See generally Stern, *supra* note 24, at 37. Notably, the transfer of motor vehicles are generally not exempt from sales tax under the occasional sale exemption even though motor vehicles are TPP. See *infra* note 45 and accompanying text.

37. See Stein, *supra* note 24, at 37.

38. See Noonan & Endres, *supra* note 22, at 119.

39. See generally de Moya, *supra* note 28, at 21; Peter L. Faber, *The Impact of Sales and Use Taxes on Corporate Transactions*, PRACTICAL TAX LAW, Fall 2001, at 47; Lieberman, *supra* note 21, at 11 (discussing the many differences among the states regarding tax exemptions); Millar, *supra* note 26, at 41; Petrik & Millar, *supra* note 26, at 24; Stern, *supra* note 24, at 37.

40. See *supra* Part II; see also Noonan & Endres, *supra* note 22, at 119 (naming four states that do not have an occasional sale exemption).

As discussed in the Introduction, this Article analyzes the occasional sale exemption with emphasis on states that have narrow occasional sale exemptions, or cumbersome (perhaps even counterintuitive) requirements that must be satisfied in order for the occasional sale exemption to apply; additionally, it will touch on those states that do not have an occasional sale exemption at all. That is to say—this Article focuses on those states considered traps for the unwary with respect to the occasional sale exemption. The decision to put a state in the trap for the unwary category results from such state significantly deviating from what many taxpayers and practitioners might consider the *typical* occasional sale exemption: an occasional sale exemption that broadly exempts the sale of TPP as long as the seller is not in the business of selling such TPP (referred to herein as the “Baseline Model Exemption”).⁴¹ In addition, this Article examines whether there are policy reasons that justify the trap for the unwary states having narrow, cumbersome, and counterintuitive requirements, or no occasional sale exemption at all. If valid policy reasons do not exist, then this Article will make recommendations as to how the subject state should consider changing its requirements for the occasional sale exemption.

This Article focuses solely on the occasional sale exemption in the context of Asset Sales.⁴² In analyzing the occasional sale exemption, this Article assumes (1) the transaction is a taxable transaction;⁴³ (2) the buyer and seller are unrelated parties; (3) the seller is not in the business of selling the TPP being transferred, except for inventory; (4) the sale is not a reorganization; (5) the sale is not made through an auctioneer; and (6) the sale does not involve a liquidation or foreclosure.⁴⁴ Notably, many occasional sale exemptions do not exempt from tax the transfer of motor vehicles or other TPP for which state law requires a title.⁴⁵ As this is a common type of TPP not generally covered by occasional sale exemptions, this Article does not put a state in the trap for the unwary category simply because such state’s occasional sale exemption does not extend to cover the transfer of motor vehicles or other titled assets.

41. See generally 67B AM. JUR. 2D *Sales and Use Taxes* § 97 (2014) (providing definition of “casual” sale); Noonan & Enders, *supra* note 22, at 119 (“Most states maintain an ‘occasional or isolated sales’ exemption that can be applied to asset purchases. Those exemptions typically apply to transactions that do not regularly occur. For example, if a couple sells an old piece of furniture because they recently purchased a new living room set, the sale may be exempt from tax because the couple does not typically sell their furniture. Similarly, one can apply this exemption to asset sales because businesses are not typically in the business of selling their assets. Rather, they sell their inventory. Thus, because an asset sale is not a typical transaction for most businesses, the isolated or occasional sale exemption may apply.”).

42. For example, this Article does not address sales tax and the occasional sale exemption in the context of tax-free reorganizations. For a detailed discussion of sales tax issues in tax-free transactions, see generally Lieberman, *supra* note 21, at 30-35 and Schler, *supra* note 9, at 882-86.

43. See *supra* note 42 and accompanying text.

44. See *supra* note 42 and accompanying text.

45. See generally HELLERSTEIN ET AL., *supra* note 24, at 715 (discussing miscellaneous exemptions and exclusions from sales and use taxes, including occasional sale exemptions).

Additionally, occasional sale exemptions generally do not operate to exempt TPP sold by the seller as part of the seller's ordinary course of business (e.g., inventory).⁴⁶ Although the transfer of inventory as part of an Asset Sale would not be exempt from sales tax under an occasional sale exemption, states have another exemption, commonly called a "resale exemption," that would exempt the inventory component of an Asset Sale.⁴⁷ Because a resale exemption is generally available in all states, this Article will not analyze the resale exemption.⁴⁸

II. TRAP FOR THE UNWARY STATES

Part II examines the states fitting into the "trap for the unwary" category with respect to the occasional sale exemption either because (1) the state has a narrow occasional sale exemption, or cumbersome or counterintuitive requirements that must be satisfied;⁴⁹ or (2) the state does not have an occasional sale exemption.

A. Alabama

Alabama Code section 40-23-2(1) levies a sales tax "[u]pon every person, firm, or corporation . . . engaged or continuing within this state, in the business of selling at retail any tangible personal property whatsoever."⁵⁰ With respect to occasional sales, the Alabama Administrative Code section 810-6-1-.33(1) provides, "casual or isolated sales by persons not engaged in the business of selling are not required to be reported to the Department of Revenue by the provisions of the Sales Tax Law."⁵¹

One might conclude from the face of this statutory provision that Alabama's occasional sale exemption extends only to transfers of TPP by persons not engaged in the business of selling *anything* in the regular course of business.⁵² This interpretation stems from the language "not engaged in the business of *selling*" as opposed to the language reading "not engaged in the business of

46. See generally Noonan & Endres, *supra* note 22, at 120 (discussing instances in which sale of inventory in an Asset Sale can be taxed); Petrik & Millar, *supra* note 26, at 23.

47. See generally de Moya, *supra* note 28, at 31; Millar, *supra* note 26, at 40; Petrik & Millar, *supra* note 26, at 23; Stern, *supra* note 24, at 37.

48. While a resale exemption is generally available in all states, state procedural and administrative requirements may vary with regard to what must be satisfied in order to claim the exemption. For example, a state may require the buyer to register with the Department of Revenue of the subject state and hold a sales tax permit before the department will issue a resale certificate. See Millar, *supra* note 26, at 40 (discussing similar state requirements).

49. This Article does not address certain procedural/administrative requirements that must be satisfied in order to claim the occasional sale exemption (e.g., certain states may require an exemption certificate be filed with Department of Revenue whereas other states may only require the parties keep exemption certificates in their files).

50. ALA. CODE § 40-23-2(1) (2014).

51. ALA. ADMIN. CODE r.810-6-1-.33(1) (2014) (emphasis added).

52. *Id.*

selling the type of tangible personal property being transferred” or something similar.⁵³ Under this narrow interpretation, for example, TPP sold at a garage sale by a person not regularly engaged in the business of holding garage sales would be exempt from Alabama sales tax under the occasional sale exemption, but the exemption would not extend to an Asset Sale because the seller in an Asset Sale will be involved in selling some type of product or service.⁵⁴

While this narrow interpretation is arguably supported by the plain text of Alabama Administrative Code section 810-6-1-.33(1), a ruling issued by the Alabama Department of Revenue and an Alabama Department of Revenue administrative hearing decision indicate that Alabama’s occasional sale exemption is actually much broader.⁵⁵ Specifically, in 1996, the Alabama Department of Revenue issued Alabama Revenue Ruling 96-002 that involved a company in the communications business that was purchasing substantially all the assets of another communications business.⁵⁶ The seller was in the business of selling services and the seller’s primary assets included TPP used to operate the business.⁵⁷ The question addressed in the ruling was “[w]hether the sale of the entire ongoing business in a single transaction” was considered an occasional sale exempt from Alabama sales tax.⁵⁸ The Alabama Department of Revenue stated, “As [seller’s] regular course of business is not the selling of its assets, the sale of [seller’s] entire business outright to a single purchaser in one transaction is considered isolated or occasional and is therefore exempt from Alabama sales and use tax as a casual sale.”⁵⁹

Further lending support to this broader interpretation is the 1997 administrative ruling in *State of Alabama Department of Revenue v. Raymond Edwards*.⁶⁰ That decision concluded that Alabama’s occasional sale exemption applied to TPP sold by a seller not regularly engaged in the business of selling such TPP, even if the seller was regularly engaged in the business of selling other TPP.⁶¹ The company at issue was regularly engaged in the business of selling roof trusses upon which the company collected and remitted sales taxes.⁶² The company also occasionally sold scrap metal, but not as part of its regular course of business.⁶³ As to the scrap metal sales, the Administrative Law Judge stated:

[T]he sales were only occasional, and not made in the Taxpayer’s regular

53. *Id.*

54. *Id.*

55. *See infra* notes 56-64 and accompanying text.

56. Ala. Rev. Rul. 96-002 (1996), *archived at* <http://perma.cc/LZ93-XCDP>.

57. *Id.*

58. *Id.*

59. *Id.*

60. *State of Ala. Dep’t of Revenue v. Raymond Edwards*, No. S. 90-318 (Admin. Law Div., Apr. 17, 1997).

61. *Id.*

62. *Id.*

63. *Id.*

course of business. See, *State v. Bay Towing and Dredge Company*, 90 So.2d 743 (1956); *State v. U.S. Die Casting and Development Co.*, L. 91-208 (Admin. Law Div. 11/24/93). Consequently, those sales were not subject to sales tax.⁶⁴

Based on these additional authorities, Alabama's occasional sale exemption is generally broad.⁶⁵ However, Alabama still fits into the trap for the unwary category due to certain limitations involving how to structure the Asset Sale in order for the occasional sale exemption to apply.⁶⁶ For instance, the Alabama Department of Revenue appears to interpret the occasional sale exemption as applying to Asset Sales only when the transaction is structured as a *single transaction* to a *single purchaser*.⁶⁷ These requirements would seem to preclude the occasional sale exemption from applying to Asset Sales structured as a series of sales completed over time.⁶⁸ Further, these requirements would seem to preclude the naming of both a parent and subsidiary as the purchaser in the Asset Purchase Agreement, which the parties might otherwise desire for indemnification reasons or reasons associated with the representations and warranties in the Asset Purchase Agreement.⁶⁹ The Alabama Department of Revenue also appears to interpret the occasional sale exemption as applying only when the seller transfers the *entire* assets of the subject business.⁷⁰ This requirement is at odds with the practical nature of many Asset Sales where the seller will negotiate to exclude certain assets from the sale.⁷¹ The foregoing limitations are nuanced, at odds with how some Asset Sales may need to be structured in practice, and are different from the Baseline Model Exemption.⁷²

64. *Id.*

65. See *supra* notes 55-64 and accompanying text.

66. See *infra* notes 67-71 and accompanying text.

67. Ala. Rev. Rul. 96-002 (1996), archived at <http://perma.cc/LZ93-XCDP>.

68. See *id.*

69. See *id.*

70. See *id.* It is unclear from the text of Alabama Revenue Ruling 96-002 whether the term "entire" means all assets of the target business or only all operating assets of the subject business. One could argue that the "entire business," which is the language used in Alabama Revenue Ruling 96-002, only means those assets used to operate the business rather than each and every asset of the business because an "entire business" logically relates to operational assets only. However, because the term "entire" commonly means all, this Article presumes that the Alabama Department of Revenue intended for all assets of the business, both operational and non-operational, to be transferred in order for the occasional sale exemption to apply. Further, it is unclear whether Alabama has a de minimis exception to this requirement. Notably, even though the Alabama Department of Revenue stated in Alabama Revenue Ruling 96-002 that the "entire" assets of the business must be transferred, the facts of Alabama Revenue Ruling 96-002 indicated that only "substantially all" of the assets were purchased in the Asset Sale. See Ala. Rev. Rul. 96-002 (1996), archived at <http://perma.cc/LZ93-XCDP>.

71. See Egan, *supra* note 10, at 917.

72. See *supra* note 39 and accompanying text; see also RIA Checkpoint, State Tax Chart

Accordingly, Alabama fits into the trap for the unwary category.

B. Alaska

Alaska does not have a statewide sales tax system, although many local jurisdictions (cities and boroughs) impose sales tax pursuant to the authority granted in Alaska Statutes.⁷³ Thus, one must consult the local rules of the jurisdiction where the assets are located to determine if an occasional sale exemption exists.⁷⁴ The lack of a statewide rule is different from other states and puts Alaska in the trap for the unwary category.

C. California

The initial inquiry in determining whether California's occasional sale exemption applies to an Asset Sale is whether or not the seller's business is a permitted business; that is, whether a sales tax permit is required to operate the business.⁷⁵ California's regulatory provision relating to the sale of all or part of a *permitted* business provides:

In general, when a person sells a business which is required to hold a seller's permit, tax applies to the gross receipts from the retail sale of tangible personal property held or used by that business in the course of its activities requiring the holding of the seller's permit.⁷⁶

The only exception to the above is when another exemption applies (e.g., the manufacturing exemption),⁷⁷ or the Asset Sale involves the transfer of all, or substantially all, of the assets of a business and the structure is such that, after the transfer, the real or ultimate ownership of the assets transferred "is substantially similar to that which existed before such transfer."⁷⁸ The term "substantially similar" means that "80 percent or more of [the] ownership of the tangible

Results, Tax Type: Sales/Use, *available at* <https://checkpoint.riag.com>.

73. ALASKA STAT. §§ 29.45.650-710 (2013). *See generally* Stern, *supra* note 24, at 43; ALASKA DEP'T OF COMMERCE, COMMUNITY AND ECON. DEV., ALASKA TAXABLE 2012, 15, 18 (2013), *available at* <http://commerce.alaska.gov/dnn/Portals/4/pub/OSA%20TAXABLE%202012%20-%20FINAL%202013-02-05.pdf>, *archived at* <http://perma.cc/R3KK-E7HS> (tables one and two indicate which local jurisdictions impose sales tax).

74. *See id.*

75. *See* CAL. REV. & TAX. CODE § 6367 (2014); CAL. REV. & TAX. § 6006.5(b) (2014); *see also* Stern, *supra* note 24, at 45-46 ("The availability of the occasional sale exemption comes down to whether the seller is required to hold a seller's permit for the activities in which the assets are used."); Faber, *supra* note 39, at 56.

76. CAL. CODE REGS. tit. 18, § 1595(b)(1) (2014).

77. *See generally* Stern, *supra* note 24, at 37 (For example, if certain manufacturing equipment is being transferred as part of the Asset Sales, then a state's manufacturing exemption could apply to the transfer of such assets even if the occasional sale exemption did not apply.).

78. CAL. CODE REGS. tit. 18, § 1595(b)(2) (2014); *see also* RIA Checkpoint, *supra* note 72.

personal property is unchanged after the transfer.”⁷⁹ In a typical Asset Sale where a seller sells a business (or division thereof) to an unrelated third party, this “substantially similar” ownership requirement will not be met.⁸⁰

Consequently, when an Asset Sale involves a permitted business and the purchaser is an unrelated third party, California’s occasional sale exemption is narrow.⁸¹ It applies only to exempt proceeds attributable to TPP not held or used by the business in the course of activities requiring the holding of the seller’s permit.⁸² For example, a business might engage in one activity requiring the holding of a seller’s permit and a second activity that does not require the holding of seller’s permit. If the entire business is sold and structured as an Asset Sale, sales tax would apply to the portion of the purchase price allocated to the TPP held or used in the course of the activity requiring the seller’s permit, but would not apply to the portion of the purchase price allocated to the TPP related to the activity not requiring the seller’s permit as long as the sale is not itself one of a series of sales that would require the holding of a seller’s permit.⁸³ California’s regulations give the following example:

[A] person may own a hardware store at one location and a real estate brokerage business at another location, with no relationship between the two activities except that of common ownership. Under these circumstances, a sale of furniture used in the brokerage business would not be a sale of property held or used in an activity requiring the holding of a seller’s permit unless it was one of a series of sales of the property of the brokerage business. A sale of tangible personal property held or used in the hardware business would be a sale of property held or used in an activity requiring the holding of a seller’s permit.⁸⁴

This same analysis should also apply, for example, to a hotel that also operates a restaurant, the latter being an activity requiring a California seller’s permit.⁸⁵ If the owner sold the hotel and restaurant, the sale of hotel equipment and furnishings should qualify for exempt occasional sale treatment because such

79. CAL. CODE REGS. tit. 18, § 1595(b)(2) (2014).

80. *Id.*

81. *See supra* notes 75-80 and accompanying text; *see also* Marilyn Barrett, *When Is the Sale of a Business Subject to Sales Tax Like an Over-the Counter Retail Sale? In California, Most of the Time*, CEB CAL. BUS. L. REP., June 1995, at 339-40, *archived at* <http://perma.cc/BP8U-69V5> (“This exemption is drawn very narrowly and in most cases will not provide relief.”); Jeffrey S. Blum & William M. Backstrom, Jr., *Staying Out of Trouble—Sales & Use Tax Due Diligence for Mergers and Acquisitions*, Council on State Taxation, 39th Annual Meeting 7-8 (Oct. 22, 2008), *archived at* <http://perma.cc/53EP-9FH6>.

82. *See* Faber, *supra* note 39, at 5622. Notably, however, goodwill is not taxable. *See* Cal. Sales Tax Counsel Rul. 395, 1000 (1965), *archived at* <http://perma.cc/4HL4-DVUZ>; *see also* Stern, *supra* note 24, at 46.

83. CAL. CODE REGS. tit. 18, § 1595 (2014).

84. *Id.*

85. *See id.*

assets are used in an activity not requiring a seller's permit.⁸⁶ However, the sale of TPP used in the restaurant (e.g., movable kitchen equipment) would not be exempt under the occasional sale exemption because such assets are held or used in an activity requiring a seller's permit.⁸⁷

Unlike above, if the Asset Sale involves a *non-permitted* business (e.g., non-taxable service business), then California's occasional sale exemption is much broader.⁸⁸ California's occasional sale exemption will apply as long as the Asset Sale is not one of a series of sales sufficient in number, scope, and character to constitute an activity for which a seller's permit is required.⁸⁹ Generally, the number of sales of TPP requiring a seller to obtain a seller's permit is three or more of substantial amounts within any twelve-month period.⁹⁰

Based on the foregoing, California's occasional sale exemption can be narrow depending upon whether the sale is for a permitted or non-permitted business.⁹¹ The delineation between permitted versus non-permitted businesses is a trap for the unwary for practitioners and taxpayers who are familiar with broader occasional sale exemptions such as the Baseline Model Exemption.⁹² Thus, California fits within the trap for the unwary category.

D. Colorado

Colorado's occasional sale exemption applies only to certain occasional sales made by charitable organizations.⁹³ Thus, the proceeds from the transfer of the non-inventory TPP component of an Asset Sale will be subject to Colorado sales tax unless another exemption applies (e.g., manufacturing exemption).⁹⁴ The lack of any type of occasional sale exemption applicable to Asset Sales is divergent from the Baseline Model Exemption thereby causing Colorado to fit within the trap for the unwary category.⁹⁵

E. Florida

In Florida, there is a distinction between *isolated* versus *occasional* sales, which determines the requirements that must be satisfied for obtaining exempt

86. See CAL. CODE REGS. tit. 18, § 1595(a)(3)-(5) (2014). See generally *Ontario Community Found., Inc. v. State Bd. of Equalization*, 678 P.2d. 378 (Cal. 1984).

87. See *Ontario Community Found.*, 678 P.2d. at 385.

88. See *infra* notes 89-90 and accompanying text.

89. See CAL. REV. & TAX CODE § 6006.5 (2014); CAL. CODE REGS. tit. 18, § 1595(a) (2014); see also Blum & Backstrom, *supra* note 81, at 7.

90. See CAL. REV. & TAX CODE § 6019 (2014); CAL. CODE REGS. tit. 18, § 1595(a)(4)(A) (2014).

91. See *supra* notes 75-90 and accompanying text.

92. See *supra* note 41 and accompanying text.

93. See COLO. REV. STAT. § 39-26-718(1)(b) (2008).

94. See generally Stern, *supra* note 24, at 37.

95. See *supra* note 41 and accompanying text; see also Noonan & Endres, *supra* note 22, at 119; RIA Checkpoint, *supra* note 72. COLO. REV. STAT. § 39-26-718(1)(b).

occasional sale treatment.⁹⁶ With respect to *isolated* sales, subsection (2), section 12A-1.037 of the Florida Administrative Code states:

An exempt isolated sale or transaction occurs when an entity, which for purposes of this rule is a “person,” as defined in s. 212.012(13), F.S., required to be registered as a dealer, either distributes tangible personal property in exchange for the surrender of a proportionate interest in an entity, or transfers all, or substantially all, of the property of a person’s business, or a division thereof. Also the transfer of the property to an entity in exchange for an interest therein in proportion to the tangible personal property contributed is exempt as an isolated sale.⁹⁷

Subsection 2(a), section 12A-1.037 of the Florida Administrative Code then provides that exempt *isolated* sale treatment does not extend to certain transfers, which includes: (1) “[s]ales of aircraft, boats, mobile homes, or motor vehicles . . . required to be registered, licensed, titled, or documented” in Florida;⁹⁸ (2) the “distribution or sale of inventory;”⁹⁹ (3) the “distribution or sale of tangible personal property used in the business, such as salvage, surplus, or obsolete property;”¹⁰⁰ (4) “[s]ales made by or through an auctioneer, agent, broker, factor, or any other person required to be registered and to collect tax on such sales, as provided in Rule 12A-1.066, F.A.C.,” (5) transactions “not completed within 60 days from the date of the first distribution of assets of any entity;” and (6) “transactions where the transferor has not paid applicable sales or taxes” and the statute of limitations for assessment has not passed.¹⁰¹

Subsection 2(d), section 12A-1.037 of the Florida Administrative Code, also related to *isolated* sales, specifically states the following with respect to Asset Sales:

96. See Fla. Tech. Assistance Advisement 99A-080 (Dec. 30, 1999), available at https://revenue.law.state.fl.us/LawLibraryDocuments/1999/12/TAA-102778_ebeef76e-a942-4d3d-96b6-787787661512.pdf#search=, a, archived at http://perma.cc/SB4A-T89V.

97. FLA. ADMIN. CODE ANN. r. § 12A-1.037(2) (2014).

98. See *supra* note 45 and accompanying text.

99. See *supra* notes 46-48 and accompanying text.

100. On its face, this requirement would arguably exclude an Asset Sale from exempt isolated sale treatment because an Asset Sale involves a business selling TPP used in the business. However, the Florida Department of Revenue has ruled that this provision does not apply when the entire assets (or substantially all of the assets) of a business are sold. See Fla. Tech. Assistance Advisement 99A-080, *supra* note 96. Specifically, the Florida Department of Revenue stated:

It is the Department's position that this limitation is not applicable to the Transaction. If the Transaction involved a sale of less than “substantially all” of the assets of the division, and the division was remaining as part of Seller's business, this limitation would be applicable. However, the Transaction is not an individual sale of tangible personal property used in the business, such as salvage, surplus, or obsolete property, but it is rather a sale of the entire division or line of business.

Id.

101. ADMIN. ANN. § 12A-1.037(2)(a) (2014).

The sale of business assets in conjunction with the sale of the business as provided in Rule 12A-1.055(6)(b), F.A.C., other than inventory and aircraft, boats, mobile homes, and motor vehicles, qualifies as an isolated sale provided the sale and the transfer of the assets of the business is completed within 30 days from the date of the agreement for the sale of the business. If the sale of the business is not completed within the 30 day period, the sale may nevertheless qualify as an occasional sale provided the sale complies with the requirements in subsection (3), below, and provided none of the elements set forth in subsection (5), below, are present.¹⁰²

Notably, the provisions discussed above relating to exempt *isolated* sales apply only to sales made by sellers who are dealers engaged in the business of selling TPP or taxable services (i.e., permitted businesses).¹⁰³ The exemption for *isolated* sales does not extend to sales made by non-permitted sellers.¹⁰⁴

If an Asset Sale does not qualify for exempt *isolated* sale treatment (i.e., the seller is a non-permitted seller or the requirements discussed above for exempt isolated sales treatment cannot otherwise be satisfied), the sale can still be exempt if it satisfies the requirements for being an exempt *occasional* sale.¹⁰⁵ The rules for exempt *occasional* sales are set forth in subsection (3), section 12A-1.037 of the Florida Administrative Code.¹⁰⁶ Subsection (3)(a), relating to *occasional* sales, states:

An exempt occasional sale or series of sales occurs when there is a sale by the owner of tangible personal property, which meets the requirements set forth below, regarding the frequency and duration of the sales, the type of tangible personal property sold, the location of the sales, and the status of the parties as it relates to the property being sold.¹⁰⁷

Subsection (3)(b) imposes the following requirements for exempt *occasional* sale treatment: (1) the seller must have paid applicable sales and use taxes on the applicable assets, unless the statute of limitations for assessment has expired; and (2) such sales (or series of sales) must occur no more frequently than two times during any twelve month period.¹⁰⁸

Further, subsection (5) sets forth certain transactions that *per se* cannot be

102. *Id.* § 12A-1.037(2)(d).

103. *See infra* note 104 and accompanying text.

104. FLA. ADMIN. CODE ANN. § 12A-1.037(2) (2014) (stating that “[a]n exempt isolated sale or transaction occurs when an entity, which for purposes of this rule is a ‘person,’ as defined in s. 212.02(13), F.S., required to be registered as a ‘dealer’” transfers all or substantially all of a business).

105. *See infra* notes 106-14 and accompanying text.

106. FLA. ADMIN. CODE ANN. § 12A-1.037(3) (2014).

107. *Id.* § 12A-1.037 (3)(a).

108. *Id.* § 12A-1.037 (3)(b).

exempt from Florida sales tax as an *occasional* sale and, in some instances, an *isolated* sale:¹⁰⁹ (1) a sale (or series of sales) that occurs more than two times within any twelve month period, with tax being imposed on the third sale and on any sales thereafter;¹¹⁰ (2) transfers of property that were originally purchased or acquired for resale;¹¹¹ (3) a transaction where the sale is made on the same commercial premises or from a temporary location that is in competition with other persons required to collect Florida sales and use tax;¹¹² (4) the sale is made by or through an agent, broker, auctioneer, factor, or any other person required to be registered as a dealer in Florida to collect and remit tax on sales as provided in Fla. Admin. Code Rule 12A-1066;¹¹³ and (5) the sale of aircraft, boats, mobile homes, or motor vehicles “of a class or type required to be registered, licensed, titled, or documented” in Florida or by the U.S. government.¹¹⁴

Based on the foregoing, the proceeds from the transfer of the non-inventory TPP component of an Asset Sale should be exempt from Florida sales tax as long as the seller is not in the business of selling its non-inventory TPP, and as long as the other requirements set forth above with respect to either *isolated* sales or *occasional* sales, as the case may be, are satisfied.¹¹⁵

Florida’s delineation between *isolated* and *occasional* sales deviates from the Baseline Model Exemption and puts Florida in the trap for the unwary category.¹¹⁶ Notably, one issue caused by this delineation is the thirty-day transfer requirement that applies to isolated sales, which necessitates the completion of the transfer of the business within thirty days from the “date of the

109. *Id.* § 12A-1.037(5). Even though the text of subsection (5) is phrased to apply only to *occasional* sales and not also to *isolated* sales, certain language in subsection (2)(a)(3) makes the requirements set out in subsection (5) also apply to some transactions where the seller is a dealer (i.e., an *isolated* sale.); see also *id.* § 12A-1.037(3)(b)(3), which states:

Sales by a dealer of tangible personal property that was used in the business, which is not inventory and which was not originally purchased for resale, may qualify as an occasional sale, regardless of the items’ similarity to any items sold in the regular course of the dealer’s trade or business, provided the items are not specifically excluded, as set forth in subsection (5) of this rule, from the occasional sales exemption, and provided all other requirements set forth herein are met.

Id.

110. *Id.* § 12A-1.037(5)(a). This requirement is also set forth in subsections (3)(b)(2) and (3)(b)(3)(a). In the context of Asset Sales, this requirement means that the Seller cannot have engaged in two previous sales of non-inventory business assets in the previous twelve-month period. See Fla. Tech. Assistance Advisement 99A-080, *supra* note 96.

111. FLA. ADMIN. CODE ANN. § 12A-1.037(5)(b) (2014). This requirement is also set forth in subsection (3)(b)(3).

112. *Id.* § 12A-1.037(5)(c).

113. *Id.* § 12A-1.037(5)(e).

114. *Id.* § 12A-1.037(5)(f). This requirement is also set forth in (2)(a) and (2)(d).

115. Fla. Tech. Assistance Advisement 99A-080, *supra* note 96.

116. See *supra* note 41 and accompanying text.

agreement for the sale of the business.”¹¹⁷ Because the language used is “date of the agreement for the sale of the business” rather than “closing date for sale of the business,” Asset Sales having a closing date falling more than thirty days after the signing date would not appear to meet this thirty day transfer requirement.¹¹⁸ Such a requirement is at odds with the practical nature of Asset Sales because it would not be out of the ordinary for a closing date to extend more than thirty days beyond the signing date. However, this is not necessarily fatal as the regulations contain an “out” by way of the exemption for occasional sales, which does not contain the thirty-day transfer requirement.¹¹⁹ Florida also requires the prior payment of sales tax in order for either the isolated sale or occasional sale exemption to apply.¹²⁰ This requirement is also a deviation from the Model Baseline Exemption further causing Florida to fit within the trap for the unwary category.¹²¹

F. Georgia

Casual sales are exempt from Georgia sales tax.¹²² A casual sale is defined by section 560-12-1-.07 of the Official Compilation of Rules and Regulations of the State of Georgia to include:

- a. A sale in which the tangible personal property involved was not acquired or held by the seller for use in the operation of his business or for resale; or
- b. A sale of tangible personal property acquired or held by the seller for use in the operation of his business (not acquired or held for resale) if the total selling price of such sale and all such sales made during the calendar month of such sale and the preceding eleven calendar months does not exceed \$500; or
- c. A sale of tangible personal property acquired or held by the seller for use in the operation of his business (not acquired or held for resale) if such sale is made in a complete and bona fide liquidation of a business of the seller. For purposes of this paragraph the term “business” means a separate place of business subject to registration under the Act; the term “a complete and bona fide liquidation” means the sale of all the assets of such business conducted over a period of time not exceeding thirty days from the date of the first sale of such assets, or a longer time if approved

117. *See supra* note 102 and accompanying text.

118. *See supra* note 102 and accompanying text.

119. *See supra* note 107 and accompanying text.

120. *See supra* note 108 and accompanying text.

121. *See supra* note 41 and accompanying text. However, for the reasons discussed in Part III, subsection J, this requirement should not significantly impede, if at all, the occasional sale exemption from applying in Florida.

122. *See* GA. COMP. R. & REGS. 560-12-1.07(1) (2013).

by the Commissioner as a bona fide liquidation.¹²³

Paragraph (a) above is not applicable to Asset Sales and most, if not all, Asset Sales will not be exempt casual sales under paragraph (b) due to the \$500 limitation.¹²⁴ But the definition of “liquidation” in paragraph (c) appears broad enough to include Asset Sales, including Asset Sales where the buyer will continue operating the purchased business.¹²⁵ Thus, the term “liquidation,” as defined in subsection (c), does not appear to narrowly mean a termination of a business through the sale of assets and the payment of liabilities even though that might be the more common understanding of the term.¹²⁶

While it seems clear that paragraph (c) applies to Asset Sales, it is unclear whether paragraph (c) applies only to exempt sales of businesses that are registered for Georgia sales tax purposes (i.e., businesses ordinarily engaged in the sale of TPP or taxable services where a sales tax permit is required), or if it also applies to sales of businesses that are non-permitted (e.g., a law firm engaged in the business of selling nontaxable services).¹²⁷ This query results from the definition of “business” in paragraph (c), which means a place of business “subject to registration under the Act.”¹²⁸ Notably, paragraph (b) does not define the term business in the narrow way that paragraph (c) does.¹²⁹ This could logically mean that paragraph (c) does not cover Asset Sales involving non-permitted businesses and such sales must meet the narrow \$500 requirement of paragraph (b) in order for the Georgia’s casual sale exemption to apply.¹³⁰ Under this narrow interpretation, it would effectively mean most, if not all, Asset Sales of non-permitted businesses would be ineligible for exempt occasional sale treatment due to the \$500 limitation. Although unclear from the face of the regulations, it is unlikely that Georgia intended this narrow interpretation.¹³¹ In any event, this dichotomy between permitted and non-permitted businesses is a trap for the unwary for taxpayers and practitioners who are more familiar with the Baseline Model Exemption.¹³²

123. GA. COMP. R. & REGS. 560-12-1.07(2) (2103).

124. *Id.*

125. *Id.*

126. Further, Georgia case law indicates that Georgia’s casual sale exemption applies to an Asset Sale, even if the buyer will continue operating the purchased business. *See State v. Dyson*, 81 S.E.2d 217 (Ga. 1954). But some commentators have concluded that the exemption may not apply if the buyer continues the business. *See Faber, supra* note 39, at 5 (concluding that “[i]t is not clear if the exemption applies if the business is continued by the buyer”).

127. *See infra* note 128 and accompanying text.

128. *See supra* note 123 and accompanying text.

129. *See supra* note 123 and accompanying text.

130. *See supra* note 123 and accompanying text.

131. Considering the various rationales for the occasional sale exemption, it would make more sense for stricter requirements to be imposed on permitted sellers versus non-permitted sellers. *See infra* Part III.

132. *See supra* note 41 and accompanying text.

Another trap for the unwary, also involving the definition of “business,” is the proviso that the term “business” means, “*a separate place of business* subject to registration under the Act”¹³³ This requirement could arguably mean that the business sold in the Asset Sale must be at a separate location from any business that the seller will continue to operate post-sale, if any.¹³⁴

A further trap for the unwary is the definition of “complete and bona fide liquidation” meaning, “the sale of *all* the assets of such business.”¹³⁵ It is not uncommon for the parties to an Asset Sale to exclude certain assets from the Asset Purchase Agreement.¹³⁶ If Georgia does not have a *de minimis* policy to allow the exclusion of at least an insignificant amount of assets from the Asset Sale, then Georgia’s requirement mandating the transfer of all assets in an Asset Sale could cause the occasional sale exemption to be lost in its entirety when there are only a few excluded assets (i.e., not simply lost with respect to the excluded assets).

Over the years, courts and commentators have observed the lack of clarity in Georgia’s occasional sale exemption.¹³⁷ Additionally, in some instances, Georgia courts have appeared to recognize a fundamental exemption for casual sales that can apply even if the narrow restrictions discussed above are not satisfied.¹³⁸ This makes the scope of Georgia’s casual sale exemption even less clear because it means the above-discussed dichotomy between permitted and non-permitted businesses and other traps for the unwary may not necessarily be the law in Georgia.¹³⁹

G. Idaho

Occasional sales of TPP are generally exempt from Idaho sales tax.¹⁴⁰ Section 63-3622K(a) of the Idaho Code provides that “[t]here are exempted from the taxes imposed by this chapter occasional sales of tangible personal

133. GA. COMP. R. & REGS. 560-12-1.07(2)(c) (2013) (emphasis added).

134. *See* Blum & Backstrom, *supra* note 81, at 8 (“[T]he business sold must be at a separate location from the assets retained. Therefore, in situations where several businesses are headquartered at the same location for Georgia Sales Tax purposes, the sale of the assets of a single business when the others are retained will not qualify for Georgia’s Casual Sale Exemption.”).

135. GA. COMP. R. & REGS. 560-12-1.07(2)(c) (2013) (emphasis added).

136. *See generally* Egan, *supra* note 10, at 917.

137. *See* *Newscopters v. Blackmon*, 186 S.E.2d 759 (Ga. Ct. App. 1971); *Chilivis v. Bradley*, 237 S.E.2d 200 (Ga. Ct. App. 1977); *see also* John L. Coalson, Jr. & Kendall L. Houghton, *Georgia—Definition of Exempt Casual Sale is Tightened*, J. MULTISTATE TAXATION & INCENTIVES, Sept./Oct. 1992, at 2.

138. *See* Coalson & Houghton, *supra* note 137, at 12 (“It is unclear whether the Department’s regulatory authority extends this far, since the Georgia Court of Appeals has previously recognized a core exemption for casual sales that may transcend the restrictions the Department of Revenue has attempted to create and enforce by regulation.”).

139. *See* Coalson & Houghton, *supra* note 137, at 2.

140. *See infra* notes 141-43 and accompanying text.

property.”¹⁴¹ There are several types of transactions that meet the definition of occasional sale.¹⁴² With respect to Asset Sales, section 63-3622K(b)(5) of the Idaho Code is applicable. This section provides that the following is exempt:

The sale of substantially all of the operating assets of a business or of a separate division, branch, or identifiable segment to a buyer who continues operation of the business. For the purposes of this subsection, a “separate division, branch, or identifiable segment” shall be deemed to exist if, prior to its sale the income and expenses attributable to such “separate division, branch, or identifiable segment” could be separately ascertained from the books of accounts and records.¹⁴³

Idaho’s occasional sale exemption is similar to the Baseline Model Exemption with one critical distinction that causes Idaho to fit within the trap for the unwary category.¹⁴⁴ The distinction is Idaho’s requirement that the buyer must continue to operate the purchased business in the same form.¹⁴⁵ More specifically, section 35.01.02.099(03) of the Idaho Administrative Rules provides that occasional sale treatment will result only if the “purchaser continues the same type of business operation.”¹⁴⁶ This requirement would appear to preclude a buyer from purchasing a business and then using the purchased assets in another business or using the purchased assets in a way different from that of the seller.¹⁴⁷ This means the parties to an Asset Sale should ensure that the buyer will continue to operate the target business in the same manner in order for the occasional sale exemption to not be lost. The seller might consider obtaining a representation from the buyer in the Asset Purchase Agreement that the buyer will continue to operate the purchased business in the same way as that of the seller. Additionally, the parties might want to specify for how long the buyer must continue to operate the business.

141. IDAHO CODE ANN. § 63-3622K(a) (2014); *see also* IDAHO ADMIN. CODE r. 35.01.02.099 (2014).

142. IDAHO CODE ANN. § 63-3622K(b) (2014).

143. *Id.* § 63-3622K(b)(5); *see also* IDAHO ADMIN. CODE r. 35.01.02.099(03)(a) (2013) (providing that occasional sale treatment will only result if the “purchaser continues the same type of business operation.”). The example given in the regulations provides: “Corporation X sells its entire wood products division to Corporation Y, which continues to operate it in substantially the same form. The transaction qualifies for an occasional sale exemption.” *Id.* r. 35.01.02.099(03)(c); *see also* Stern *supra* note 24, at 52.

144. *See supra* note 41 and accompanying text.

145. *See supra* note 143 and accompanying text; *see also* RIA Checkpoint, *supra* note 72.

146. IDAHO ADMIN. CODE r. 35.01.02.099(03)(2013); *see also supra* note 143 and accompanying text.

147. *See* IDAHO ADMIN. CODE r. 35.01.02.099(03) (2013); *see also* Stern, *supra* note 24, at 52.

H. Illinois

The Illinois retailer's occupation tax does not apply to occasional or isolated sales in certain circumstances.¹⁴⁸ Applicable to Asset Sales is chapter 35, act 120/1 of the Illinois Compiled Statutes, which provides:

[t]he isolated or occasional sale of tangible personal property at retail by a person who does not hold himself out as being engaged (or who does not habitually engage) in selling such tangible personal property at retail, or a sale through a bulk vending machine, does not constitute engaging in a business of selling such tangible personal property at retail within the meaning of this Act.¹⁴⁹

Title 86, section 130.110 of the Illinois Administrative Code further provides that “[s]ince the Act does not impose a tax upon persons who are not engaged in the business of selling tangible personal property, persons who make isolated or occasional sales thereof do not incur tax liability.”¹⁵⁰ Regulations also confirm that the occasional sale exemption applies to occasional sales of TPP even if the seller is regularly engaged in selling certain other TPP by giving the following example:

For example, if a retailer sells tangible personal property, such as machinery or other capital assets, which he has used in his business and no longer needs, and which he does not otherwise engage in selling, he does not incur Retailers' Occupation Tax liability when selling such tangible personal property even if the sales are at retail and even if he may be required to make a considerable number of such sales in order to dispose of such tangible personal property, because such sales are isolated or occasional and do not constitute a business of selling tangible personal property at retail.¹⁵¹

Based on the foregoing, the Illinois occasional sale exemption is broad and similar to the Baseline Model Exemption.¹⁵² Thus, Illinois is not a trap for the unwary state because of its overall narrowness. Instead, Illinois is a trap for the unwary state because the occasional sale exemption does not apply to certain sales of TPP made by construction contractors or real estate developers.¹⁵³ The lack of applicability to certain industries is a deviation from the Model Baseline Exemption and causes Illinois to be a trap for the unwary state.¹⁵⁴

148. See 35 ILL. COMP. STAT. 120/1 (2014); ILL. ADMIN. CODE tit. 86-§ 130.110 (2014).

149. *Id.*

150. ILL. ADMIN. CODE tit. 86, § 130.110(a) (2014).

151. *Id.* § 130.110(b).

152. See *supra* note 41 and accompanying text.

153. See ILL. ADMIN. CODE tit. 86 § 130.110(c) (2014).

154. See *supra* note 41 and accompanying text.

I. Indiana

An exemption exists from the Indiana gross retail tax for certain casual sales.¹⁵⁵ Title 45, section 2.2-1-1(d) of the Indiana Administrative Code provides:

The Indiana Gross retail tax is not imposed on gross receipts from casual sales except for gross receipts from casual sales of motor vehicles and sales of rental property. A casual sale is an isolated or occasional sale by the owner of tangible personal property purchased or otherwise acquired for his use or consumption, where he is not regularly engaged in the business of making such sales.¹⁵⁶

The language providing that the term “casual sale” means “an isolated or occasional sale by the owner of tangible personal property purchased or otherwise acquired for his use or consumption, where he is not regularly engaged in the business of making such sales” is similar to the Baseline Model Exemption.¹⁵⁷ However, while Indiana has a broad occasional sale exemption similar to the Baseline Model Exemption, there is one exception that puts Indiana in the trap for the unwary category.¹⁵⁸ The exception is that Indiana’s occasional sale exemption does not apply to sales of rental property.¹⁵⁹ Thus, if an Asset Sale involves the transfer of rental property, then the part of the purchase price allocated to the rental property will not be exempt under Indiana’s occasional sale exemption.¹⁶⁰ This is a deviation from the Baseline Model Exemption and puts Indiana into the trap for the unwary category.¹⁶¹

J. Kentucky

Kentucky’s occasional sale exemption is set forth in section 139.470 of the Kentucky Revised Statutes, which provides that the following are exempt from sales tax:

Gross receipts from occasional sales of tangible personal property or digital property and the storage, use, or other consumption in this state of tangible personal property or digital property, the transfer of which to the purchaser is an occasional sale¹⁶²

The term “occasional sale” means:

1. A sale of tangible personal property or digital property not held or used by a seller in the course of an activity for which he or she is

155. See 45 IND. ADMIN. CODE 2.2-1-1(d) (2014).

156. *Id.*

157. 45 IND. ADMIN. CODE 2.2-1-1(d) (2014); see *supra* note 41 and accompanying text.

158. See *infra* notes 159-61 and accompanying text.

159. See *supra* note 156 and accompanying text.

160. See *supra* note 156 and accompanying text.

161. See *supra* note 41 and accompanying text.

162. KY. REV. STAT. ANN. § 139.470(4) (West 2014).

required to hold a seller's permit, provided such sale is not one (1) of a series of sales sufficient in number, scope, and character to constitute an activity requiring the holding of a seller's permit. In the case of the sale of the entire, or a substantial portion of the nonretail assets of the seller, the number of previous sales of similar assets shall be disregarded in determining whether or not the current sale or sales shall qualify as an occasional sale; or

2. Any transfer of all or substantially all the tangible personal property or digital property held or used by a person in the course of such an activity when after such transfer the real or ultimate ownership of such property is substantially similar to that which existed before such transfer.¹⁶³

Based on the above, one could conclude that the transfer of non-inventory TPP in an Asset Sale where the seller engages in a business requiring a Kentucky seller's permit is not exempt (to the extent such TPP relates to the permitted business) under Kentucky's occasional sale exemption (with the exception of when there is substantially similar ownership after the sale).¹⁶⁴ This is, in fact, how Kentucky courts have interpreted the occasional sale exemption.¹⁶⁵ In *Luckett v. Revday Industries, Inc.*, the court stated:

We start with the observation that the legislature, in KRS 139.070, obviously was trying to *exclude* from the meaning of "occasional sale" some transactions which normally would be thought to be included in the standard meaning of that term; for example, a going-out-of-business sale by a pure retailer . . . We think what the legislature has said is that a sale of property held or used *in that part* of the seller's business for which he must have a seller's permit is not exempt.¹⁶⁶

Thus, Kentucky's occasional sale exemption applies broadly only in the context of Asset Sales where the seller is engaged in a business not requiring a Kentucky seller's permit.¹⁶⁷ The only time the occasional sale exemption applies when the seller is engaged in a business requiring a Kentucky seller's permit is when, after the transfer, the real or ultimate ownership of the transferred assets

163. *Id.* § 139.010(17).

164. *See supra* notes 162-63 and accompanying text.

165. *See infra* note 166 and accompanying text.

166. *Commonwealth ex rel. Luckett v. Revday Indus., Inc.*, 432 S.W.2d 819, 820 (Ky. 1968); *see also Stern supra* note 24, at 56 ("Thus, the exemption is limited to the sale of business assets that were held or used in a separate and distinct activity for which the seller was not required to hold a seller's permit and may not be broadly applicable to transfers of business assets.").

167. *See also LWD Equip. Inc. v. Revenue Cabinet*, 136 S.W.3d 472, 476 (Ky. 2004) ("Considering this statute as a whole, it appears that the General Assembly intended the occasional sale statute to provide a limited exemption from sales and use tax for either a retail seller disposing of non-retail assets or a taxpayer reorganizing its business.").

is substantially similar to that existing prior to the transfer,¹⁶⁸ or with respect to a permitted business with multiple operations where some operations relate to the requirement of having a sales tax permit and other operations do not, in which case the occasional sale exemption should extend to the portion of the purchase price allocated to the non-permitted operations.¹⁶⁹

Based on the foregoing, Kentucky has a narrow occasional sale exemption that deviates from the Baseline Model Exemption.¹⁷⁰ Thus, Kentucky is a trap for the unwary state.

K. Maryland

Maryland's occasional sale exemption applies only when the sales price is less than \$1000.¹⁷¹ Thus, the proceeds from the transfer of the non-inventory TPP component of an Asset Sale will be subject to Maryland sales tax unless another exemption applies (e.g., manufacturing exemption).¹⁷² The lack of any type of occasional sale exemption applicable to Asset Sales is divergent from the Baseline Model Exemption, thereby causing Maryland to fit within the trap for the unwary category.¹⁷³

L. Minnesota

Isolated and occasional sales are exempt from Minnesota sales tax.¹⁷⁴ Minnesota Statute provides:

Isolated and occasional sales in Minnesota not made in the normal course of business of selling that kind of property or service are exempt. The storage, use, or consumption of property or services acquired as a result of such a sale is exempt. This exemption does not apply to sales of tangible personal property primarily used in a trade or business.¹⁷⁵

As indicated in the last sentence, the above quoted exemption does not apply if the subject TPP is primarily used in a trade or business.¹⁷⁶ For TPP primarily used in a trade or business, section 297A.68 of the Minnesota Statutes applies, which states:

168. Substantially similar ownership both before and after an Asset Sale will not result in the typical Asset Sale where the buyer and seller are unrelated parties.

169. See *supra* notes 167-68 and accompanying text.

170. See *supra* note 41.

171. See MD. CODE ANN. TAX-GEN. § 11-209(a) (West 2014).

172. See *id.* See generally Stern, *supra* note 24, at 58.

173. See *supra* note 41 and accompanying text; see also RIA Checkpoint, *supra* note 72; Noonan & Endres, *supra* note 22, at 119.

174. See MINN. STAT. ANN. § 297A.67, subd. 23 (West 2014); see also MINN. R. 8130.5800, subp. 1 (2014).

175. *Id.*

176. See *infra* note 178 and accompanying text.

The sale of tangible personal property primarily used in a trade or business is exempt if the sale is not made in the normal course of business of selling that kind of property and if one of the following conditions is satisfied:

- (1) the sale occurs in a transaction subject to or described in section 118, 331, 332, 336, 337, 338, 351, 355, 368, 721, 731, 1031, or 1033 of the Internal Revenue Code;
- (2) the sale is between members of a controlled group as defined in section 1563(a) of the Internal Revenue Code;
- (3) the sale is a sale of farm machinery;
- (4) the sale is a farm auction sale;
- (5) the sale is a sale of substantially all of the assets of a trade or business;¹⁷⁷ or
- (6) the total amount of gross receipts from the sale of trade or business property made during the calendar month of the sale and the preceding 11 calendar months does not exceed \$1,000.¹⁷⁸

Based on the above, the proceeds from the transfer of the non-inventory TPP component of an Asset Sale should be exempt from Minnesota sales tax under subsection (5).¹⁷⁹ The caveat, and the reason Minnesota fits into the trap for the unwary category, is that for the occasional sale exemption to apply, the Asset Sale “must occur as a single transaction or a series of related transactions within the twelve month period beginning on the date of the first sale of assets intended to qualify for the exemption.”¹⁸⁰ This requirement precludes occasional sale treatment when the structure of an Asset Sale is a series of sales completed over a period that will extend beyond twelve months.¹⁸¹ Because this requirement deviates from the Baseline Model Exemption, Minnesota is a trap for the unwary state.¹⁸²

M. Missouri

Missouri’s occasional sale exemption is set forth in title 10-103.200 of the Missouri Code of State Regulations, which provides:

177. The term “substantially all of the assets of a trade or business,” or “substantially all of the property sold,” means ninety percent or more of the total fair market value of the TPP and does not include property that is subject to property tax. It also includes the assets of a separate division, branch, or other identifiable segment of a business, if before the sale, the income and expenses attributable to the separate division, branch, or segment can be separately ascertained. *See* MINN. R. 8130.5800, Subp. (1)(a)(F) (2014).

178. MINN. STAT. ANN. § 297A.68, subd. 25(a) (West 2014).

179. *Id.* § 297A.68, subd. 25(b)(3).

180. *Id.*

181. *See id.*

182. *See supra* note 41 and accompanying text; *see also* MINN. STAT. § 297A.68 (2014).

In general, sales of tangible personal property are subject to tax only if the taxpayer is engaged in the business of making such sales. Isolated or occasional sales by a person not engaged in the business generally are not taxable. There are exceptions to this rule based on the frequency of such sales and total dollars of annual sales.¹⁸³

The dollar limitation significantly narrows the application of Missouri's occasional sale exemption.¹⁸⁴ Title 10-103.200(3)(A) of the Missouri Code of State Regulations provides the benchmark for this limitation, specifically stating that the occasional sale exemption applies only if the "gross receipts from all such sales are less than three thousand dollars (\$3000) in a calendar year."¹⁸⁵ However, the \$3000 limitation is waived in certain circumstances, including sales incident to the liquidation or cessation of a seller's business.¹⁸⁶ With respect to the liquidation or cessation of a seller's business, section 144.011 of the Missouri Revised Statute provides that the occasional sale exemption extends to "[t]he transfer of tangible personal property incident to the liquidation or cessation of a taxpayer's trade or business, conducted in proprietorship, partnership or corporate form, except to the extent any transfer is made in the ordinary course of the taxpayer's trade or business."¹⁸⁷

Asset Sales should come under this broader exemption for the "liquidation or cessation of business" where the \$3000 limitation does not apply.¹⁸⁸ Although not clear from the face of section 144.011 of the Missouri Revised Statute, the exemption should apply even if the seller continues to operate other businesses or divisions post-sale and the buyer continues to operate the target business post-sale.¹⁸⁹ However, a trap for the unwary is that the seller cannot remain in the same sold business¹⁹⁰ This requirement is a deviation from the Model Baseline

183. MO. CODE REGS. ANN. tit. 12 § 10-103.200(1) (2014).

184. *Id.* § 10-103.200(3).

185. *Id.* § 10-103.200(3)(A).

186. MO. ANN. STAT. § 144.011(1)(2) (West 2014); MO. CODE REGS. ANN. tit. 12 § 10-103.200(3)(D); *see Staley v. Mo. Dir. of Revenue*, 623 S.W.2d 246, 249 (1981) ("As to 'an isolated or occasional' liquidation sale within a year, by one not 'engaged in the business of selling' the item sold, no \$3,000 limit is applicable.").

187. MO. ANN. STAT. § 144.011(1)(2) (West 2014).

188. *Id.*; MO. CODE REGS. ANN. tit. 12 § 10-103.200(3)(D) (2014).

189. *See Staley*, 623 S.W.2d at 250.

190. *See Dir. of Revenue, State of Mo. v. Loethen Amusement, Inc.*, No. RS-86-0130, 1987 WL 51184, at *4 (Mo. Ct. App. Oct. 2, 1987), *aff'd*, *Dir. of Revenue v. Loethen Amusement, Inc.*, 753 S.W.2d 334 (Mo. Ct. App. 1988) ("The cited statute, and the rule interpreting the statute, quite unambiguously establish that the sales tax exemption is incident to liquidation or cessation of a taxpayer's business or trade. The undisputed facts indicate that Petitioner remained in the same business after the March 8, 1983 transaction. We agree with Respondent that the statute and rule in effect at the time of the sale relate explicitly to the complete liquidation of a taxpayer's business or trade and we find, therefore, that Petitioner is liable for the sales tax on its sale of tangible property on March 8, 1983.").

Exemption¹⁹¹ and causes Missouri to be placed in the trap for the unwary category.

N. Nebraska

Nebraska's occasional sale exemption is set forth in section 77-2704.48 of the Nebraska Revised Statute, which provides:

Sales and use taxes shall not be imposed on the gross receipts from the sale, lease, or rental of and the storage, use or other consumption in this state of property or services the transfer of which to the consumer constitutes an occasional sale or the transfer of which to the consumer is made by way of an occasional sale.¹⁹²

The definition of "occasional sale" includes several types of transactions.¹⁹³ Applicable to Asset Sales is Nebraska Revised Statute section 77-2701.24(5), which provides that an occasional sale includes

[a]ny sale that is made in connection with the sale to a single buyer of all or substantially all of a trade or business if the seller or seller's predecessor in a sale described in subdivision (1) of this section directly or indirectly has previously paid a sales or use tax thereon¹⁹⁴

The corresponding regulatory provision elaborates by stating that an occasional sale includes "the sale of either new or used business assets, where a person liquidates his or her business in a single transaction in a sale to a single buyer" and "such liquidation must be all or substantially all of the property of the trade or business."¹⁹⁵

Nebraska's single transaction requirement seems to preclude the occasional sale exemption from applying to Asset Sales structured as a series of sales completed over time.¹⁹⁶ Further, Nebraska's single buyer requirement seems to prevent the naming of both a parent and subsidiary as purchaser in the Asset Purchase Agreement, which may be desirable to the parties for non-tax reasons.¹⁹⁷ Nebraska also requires the prior payment of sales tax in order for the occasional sale exemption to apply.¹⁹⁸ These limitations are deviations from the Baseline Model Exemption.¹⁹⁹ Accordingly, Nebraska fits into the trap for the unwary

191. *Id.*

192. NEB. REV. STAT. § 77-2704.48 (2014).

193. *Id.* § 77-2701.24.

194. *Id.* § 77-2701.24(5).

195. 316 NEB. ADMIN. CODE § 1-022.04 (2014).

196. NEB. REV. STAT. § 77-2701.24(5) (2014); 316 NEB. ADMIN. CODE § 1-022.04 (2014).

197. NEB. REV. STAT. § 77-2701.24(1)(a) (2014); 316 NEB. ADMIN. CODE § 1-022.03A (2014).

198. NEB. REV. STAT. § 77-2701.24(1) (2014); 316 NEB. ADMIN. CODE § 1-022.02B (2014).

For the reasons discussed in Part III, subsection J, this requirement should not significantly impede, if at all, exemption occasional sale status.

199. *See* 67B Am. Jur. 2d *Sales and Use Taxes* § 97 (2014).

category.

O. New York

New York does not have an occasional sale exemption applicable to Asset Sales.²⁰⁰ Thus, the proceeds from the transfer of the non-inventory TPP component of an Asset Sale will be subject to New York sales tax unless another exemption applies (e.g., manufacturing exemption).²⁰¹ The lack of any type of occasional sale exemption causes New York to fit within the trap for the unwary category.²⁰²

P. Oklahoma

Oklahoma does not have an occasional sale exemption, except in limited circumstances, such as estate sales.²⁰³ Thus, with respect to the non-inventory TPP component of an Asset Sale, the parties would need to determine if other exemptions are available that are not included in section 1360.²⁰⁴ Oklahoma's lack of any occasional sale exemption for Asset Sales causes it fit within the trap for the unwary category.²⁰⁵

Q. Rhode Island

Rhode Island sales and use tax does not apply to "casual sales made by a person not regularly engaged in the business of selling tangible personal property."²⁰⁶ The term "casual" means, "a sale made by a person other than a retailer."²⁰⁷ Regulations further state:

Casual sale includes a sale of tangible personal property not held or used by a seller in the course of activities for which the seller is required to hold a seller's permit(s) or would be required to hold a seller's permit(s) if the activities were conducted in this state. It is further provided such sale is not one of a series of sales sufficient in number, scope and character (more than five (5) in any twelve-month period) to constitute an activity for which the person is required to hold a seller's permit or would be required to hold a seller's permit if the activity were conducted

200. See N.Y. TAX LAW § 1105 (McKinney 2014).

201. *Id.* § 1115(a)(12).

202. See *supra* note 41 and accompanying text.

203. OKLA. STAT. ANN. tit. 68, § 1360 (West 2014) (including a sales tax exemption for the acquisition by a corporation of substantially all of the properties of another corporation when the consideration is solely all or a part of the voting stock of the acquiring corporation, or of its parent or subsidiary corporation).

204. *Id.*

205. See *supra* note 41 and accompanying text.

206. 60-1-197 R.I. CODE R. § 07-17 (LexisNexis 2014); see also R.I. GEN. LAWS ANN. § 44-18-20 (West 2014).

207. 60-1-197 R.I. CODE R. § 07-17 (LexisNexis 2014); R.I. GEN LAWS § 44-18-20(e) (2014).

in this state.²⁰⁸

The regulations give several examples of exempt casual sales, one of which includes the bulk sale of assets.²⁰⁹ Although, in the context of bulk sales, the regulations provide that, if the seller is a retailer, then the “sale must occur after the retail business for which the retailer had a permit has ceased.”²¹⁰

Based on the above provisions, Rhode Island’s occasional sale exemption should apply to exempt from sales tax the non-inventory TPP component of an Asset Sale; however, the regulatory provisions also arguably indicate that the occasional sale exemption applies only when the seller is not a retailer for Rhode Island sales and use tax purposes.²¹¹ Supporting this narrow interpretation is the statement in the regulations providing the term “casual” sale means, “a sale made by a person other than a retailer.”²¹² Supporting a broader interpretation is the caveat, also in the regulations, relating to bulk sales, that provides if the seller is a retailer, then the “sale must occur after the retail business for which the retailer had a permit has ceased.”²¹³ The “if the seller is a retailer” proviso seems to imply that the occasional sale exemption applies equally to permitted and non-permitted sellers, but that there is the added requirement imposed on permitted sellers (i.e., retailers) that the “sale must occur after the retail business for which the retailer had a permit has ceased.”²¹⁴

Based on the foregoing, Rhode Island is not a trap for the unwary state because of its overall narrowness, but because of the requirement imposed on permitted sellers that the “sale must occur after the retail business for which the retailer had a permit has ceased” in order for the occasional sale exemption to apply.²¹⁵ This requirement is a deviation from the Baseline Model Exemption, thereby causing Rhode Island to be a trap for the unwary state.²¹⁶

R. South Carolina

Chapter 117-332 of South Carolina Code of Regulations provides that “[c]asual or isolated sales by persons not engaged in the business of selling tangible personal property at retail are not subject to the sales or use tax.”²¹⁷ The term “casual” means, “occurring, encountered, acting or performed without

208. 60-1-197 R.I. CODE R. § 07-17 (LexisNexis 2014).

209. *Id.* § 07-17(1)-(7).

210. *Id.* § 07-17(7).

211. *See id.* § 07-17.

212. *Id.*

213. *Id.* § 07-17(7).

214. *Id.*; *see also* State of Rhode Island Dept. of Rev., Rul. 95-02, (1995) (concluding that the occasional sale exemption applied to the sale of a business when the seller held a Rhode Island seller’s permit).

215. 60-1-197 R.I. CODE R. § 07-17(7) (LexisNexis 2014).

216. *See supra* note 41 and accompanying text.

217. S.C. CODE ANN. REGS. 117-322 (2014).

regularity or at random.”²¹⁸ The terms “occasional” and “isolated” mean, “occurring alone or once, an incident not likely to recur, sporadic.”²¹⁹

South Carolina also has an exemption specifically relating to the sale of a business. Title 12, section 12-36-2120(42) of the South Carolina Code provides that the transfer of “depreciable assets, used in the operation of a business, pursuant to the sale of the business” is exempt from South Carolina sales and use tax, and only is applicable when “the entire business is sold by the owner of it, pursuant to a written contract and the purchaser continues operation of the business”²²⁰ The South Carolina Department of Revenue has given additional interpretive guidance regarding how the occasional sale exemption applies to an Asset Sale.²²¹ In South Carolina Revenue Advisory Bulletin 01-1, the South Carolina Department of Revenue stated:

In the Department’s opinion, the sale of a business will qualify as the sale of the entire business and will qualify for the exemption under Code Section 12-36-2120(42) under two circumstances: 1) when the taxpayer sells all the assets of the legal entity (other than a single member limited liability company or a grantor trust which is ignored for tax purposes); or 2) when the taxpayer sells all of the assets of a “discrete business enterprise” that is contained within the legal entity. In the Department’s opinion, whether the taxpayer has sold a discrete business enterprise is determined under the principles relating to a unitary business as set forth in the case law of the South Carolina courts and the United States Supreme Court. If the business is unitary with other businesses of the taxpayer, the taxpayer will not be considered to have sold a discrete business enterprise and the taxpayer will not qualify for the exemption provided in Code Section 12-36-2120(42). However, if the business being sold is not unitary with other businesses of the taxpayer, the taxpayer will be considered to have sold a discrete business enterprise and will qualify for the exemption provided in Code Section 12-36-2120(42).

In addition to the requirement that the taxpayer sell all the assets of the legal entity or all of the assets of a discrete business enterprise contained within the legal entity as provided above, the exemption will only apply if the sale is made pursuant to a written contract and the purchaser continues operation of the business.²²²

Thus, South Carolina has two different occasional sale rules that can apply in Asset Sales.²²³ First, if the target business is not in the business of selling TPP,

218. *Id.*

219. *Id.*

220. S.C. CODE ANN. § 12-36-2120(42) (2013).

221. S.C. DEP’T. OF REV., S.C. REV. ADVISORY BULLETIN No. 01-1 (2001).

222. *Id.*

223. *Id.*; S.C. CODE ANN. § 12-36-2120(42) (2013); S.C. CODE ANN. REGS. 117-322 (2014).

then South Carolina Code of State Regulations 117-322 should broadly apply, which provides that “[c]asual or isolated sales by persons not engaged in the business of selling tangible personal property at retail are not subject to the sales or use tax.”²²⁴ Second, if South Carolina Code of State Regulations 117-322 does not apply (e.g., when the seller is in the business of selling TPP), then the occasional sale exemption specifically for the sale of a business should apply.²²⁵ This exemption applies when: (1) all assets of the business are sold; (2) the assets of the business being sold are held in a legal entity (other than a limited liability company or a grantor trust treated as a disregarded entity for federal income tax purposes);²²⁶ (3) the sale is made pursuant to a written contract; and (4) the purchaser continues to operate the purchased business.²²⁷ Or, in the case of the sale of a division of a legal entity, including the sale of a limited liability company or grantor trust disregarded for federal income tax purposes, the exemption applies when: (1) all the assets of a discrete non-unitary business enterprise is sold, as determined under unitary business principles set forth in South Carolina and federal case law; (2) the sale is made pursuant to a written contract; and (3) the purchaser continues to operate the purchased business.²²⁸

Based on the foregoing, South Carolina has a narrow occasional sale exemption, at least with respect to permitted sellers.²²⁹ For example, the exemption does not cover an Asset Sale where the parties have negotiated to exclude certain assets from the sale, which is common.²³⁰ Another trap for the unwary is that the occasional sale exemption does not apply if the Asset Sale involves a seller that is a limited liability company disregarded for federal income tax purposes, unless the purchased assets comprise all of the assets of a non-unitary business enterprise of the seller.²³¹ Further, the buyer must continue to operate the purchased business, which would prevent the buyer from purchasing the target assets and using them in a way different from that of the seller.²³² These requirements are all deviations from the Model Baseline Exemption and cause South Carolina to be a trap for the unwary state.²³³

224. S.C. CODE ANN. REGS. 117-322 (2014); *see also* S.C. Dep’t of Revenue Comm’n Dec., S-D-171 (1995).

225. S.C. CODE ANN. § 12-36-2120(42) (2013).

226. This requirement is interesting because a limited partnership could also be a disregarded entity for federal income tax purposes. Further, this requirement is interesting because federal law disregards entities for federal income tax purposes, but they are still legal entities for state law purposes.

227. S.C. CODE ANN. § 12-36-2120(42) (2013).

228. S.C. Dep’t of Rev., *supra* note 221.

229. S.C. CODE ANN. § 12-36-2120(42) (2013); S.C. CODE ANN. REGS. 117-322 (2014); S.C. DEPT. OF REV., *supra* note 221.

230. S.C. Dep’t of Rev., *supra* note 221.

231. *Id.* This same rule would apply to grantor trusts and divisions of a corporation.

232. *Id.*

233. *See supra* note 41 and accompanying text; *see also* RIA Checkpoint, *supra* note 72; S.C. CODE ANN. REGS. 117-322 (2014); S.C. CODE ANN. § 12-36-2120(42) (2013). A further

S. Texas

Texas' occasional sale exemption is set forth in title 2 of Vernon's Texas Tax Statutes and Codes Annotated, section 151.304(a), that provides the following is exempt from sales tax: "An occasional sale of a taxable item and the storage, use, or consumption of a taxable item the sale or transfer of which to a consumer is made by an occasional sale"²³⁴

Texas has a specific occasional sale exemption relating to the sale of a business or the sale of an identifiable segment of a business.²³⁵ Texas Administrative Code section 3.316(d)(1) provides that "[t]he sale of the entire operating assets of a business or of a separate division, branch, or identifiable segment of a business is an occasional sale. . . ."²³⁶ Section 3.316(d)(2) goes on to provide that

[t]he sale of the entire operating assets of a separate division, branch, or identifiable segment of a business is an occasional sale if, prior to the sale, the income and expenses attributable to the separate division, branch, or identifiable segment could be separately established from the books of account or record.²³⁷

Section 3.316(d)(4) further provides that

[t]he entire operating assets of the business or of the division, branch, or identifiable segment of the business must be sold in a single transaction to a single purchaser" and that "the sale of the entire operating assets through several transactions to several purchasers does not qualify as an occasional sale"²³⁸

Based on the foregoing, Texas' occasional sale exemption applicable to Asset

requirement in South Carolina Code Annotated section 12-36-2120(42) is that the exemption only applies to the transfer of "depreciable assets, used in the operation of a business." An Asset Sale commonly involves the transfer of both depreciable and non-depreciable assets. While limiting occasional sale treatment only to depreciable assets seems restrictive and a trap for the unwary, in practice it probably does not pose much of an issue. In an Asset Sale, non-depreciable assets most likely will include land, goodwill, trademarks, and trade names. These are assets generally not considered TPP, so sales tax will not apply without an available exemption. Thus, while South Carolina's "depreciable asset" limitation is restrictive and a deviation from the Baseline Model Exemption, it likely will not have a negative impact on Asset Sales. Accordingly, the limitation is not a trap for the unwary.)

234. TEX. TAX CODE ANN. § 151.304(a) (West 2013); *see also* 34 TEX. ADMIN. CODE § 3.316 (2014).

235. 34 TEX. ADMIN. CODE § 3.316(d) (2014).

236. *Id.* § 3.316(d)(1).

237. *Id.* § 3.316(d)(2).

238. *Id.* § 3.316(d)(4).

Sales is narrow.²³⁹ First, it is narrow because of the requirement that “the entire operating assets of the business or separate division, branch, or identifiable segment” must be sold.²⁴⁰ The term “operating assets” means, “tangible personal property used exclusively by the enterprise in providing the product or service but does not mean tangible personal property maintained and used both for general business purposes by the specific enterprise.”²⁴¹ The requirement of the transfer of all operating assets is divergent from the Baseline Model Exemption and a trap for the unwary.²⁴² For example, it would not be uncommon for the parties to an Asset Sale to exclude certain assets from the Asset Purchase Agreement.²⁴³ If an excluded asset is an operating asset, then such exclusion could cause the occasional sale exemption to be lost in its entirety (i.e., not simply lost with respect to the excluded operating asset).²⁴⁴ Some commentators refer to this rule as the “paperclip” rule, meaning that not a single paperclip can be excluded from the Asset Sale.²⁴⁵

A further trap for the unwary in Texas is that the occasional sale exemption requires that the Asset Sale be accomplished in a “*single transaction to a single purchaser*.”²⁴⁶ Accordingly, the parties to an Asset Sale should ensure the structure of a transaction is as a single transfer of assets (e.g., not a series of multiple sales completed over time) to a single purchaser (e.g., the Asset Purchase Agreement should not collectively name the parent and a subsidiary entity as the purchaser).²⁴⁷

In the event the above-discussed requirements cause the occasional sale exemption to be lost, Texas has another type of occasional sale exemption that is

239. See TEX. TAX CODE ANN. § 151.304 (West 2013); 34 TEX. ADMIN. CODE § 3.316 (2014).

240. 34 TEX. ADMIN. CODE § 3.316(d)(1) (2014).

241. *Id.* § 3.316(d)(3). Notably, real property and intangibles are also not considered operating assets.

242. See 67B Am. Jur. 2d *Sales and Use Taxes* § 97 (2014).

243. Egan, *supra* note 10, at 917.

244. *Comptroller of Public Accounts of the State of Texas, Hearing No. 32,398* (1994) (softening this requirement somewhat when an administrative law judge concluded a de minimis exception is inherent in Texas’ occasional sale exemption when he considered whether a de minimis exception exists with respect to the occasional sale exemption requirement that mandates all operating assets must be transferred); see also Sam Long, *Texas Occasional Sale Exemption Offers “De minimis” Flexibility*, 5 JMTAX 92, 92 (1995) (stating “[t]he ALJ agreed . . . with the taxpayer’s contention that a de minimis rule was implicit in the occasional sale exemption”). *But see Comptroller of Public Accounts of the State of Texas, Hearing No. 28,823 & 28,824* (1992) (finding that purchase of entire business assets except for three did not constitute a purchase of the entire operating assets of the business for purposes of occasional sale exemption). See also Faber, *supra* note 39, at 50.

245. If the Asset Sale excludes any assets, the parties should ensure that such assets are non-operating assets, real property, or intangibles in order for Texas’ occasional sale exemption not to be lost with respect to the entire transaction.

246. 34 TEX. ADMIN. CODE § 3.316(d)(4) (2014) (emphasis added).

247. See *id.*

broader.²⁴⁸ Under this second type of occasional sale exemption, also exempt from Texas sales tax is “one or two sales of taxable items, other than an amusement service, during any 12-month period by a person who does not hold himself out as engaged (or who does not habitually engage) in the business of selling taxable items.”²⁴⁹ However, this occasional sale exemption does not apply if the seller holds a sales tax permit.²⁵⁰

Because the foregoing limitations are nuanced and different from the Baseline Model Exemption, Texas fits into the trap for the unwary category.²⁵¹

T. Washington

Washington has a sales tax exemption for casual and isolated sales made by persons not engaged in the business of the sold property.²⁵² However, the exemption applies only if the seller is not engaged in a business subject to the business and occupation tax or the public utility tax.²⁵³ This means Washington’s occasional sale exemption extends only to sellers the Washington Department of Revenue does not require to be registered.²⁵⁴ Further, even if the occasional sales exemption applies, the buyer generally continues to be liable for the payment of use tax if the buyer uses the purchased assets in Washington.²⁵⁵ Effectively, this means Washington does not have an occasional sale exemption applicable to Asset Sales.²⁵⁶ Thus, Washington is a trap for the unwary state.²⁵⁷

U. Wisconsin

Occasional sales are exempt from Wisconsin sales tax.²⁵⁸ Wisconsin has two occasional sale exemptions applicable to Asset Sales.²⁵⁹ First, isolated and sporadic sales by sellers not required to hold a seller’s permit are exempt occasional sales.²⁶⁰ The term “isolated and sporadic sales” means sales of TPP or taxable services that are infrequent in relation to other circumstances, including gross profit and sales price, supporting the inference that the seller is not in the

248. *Id.* § 3.316(b)(1).

249. *Id.*

250. *Id.* § 3.316(c); TEX. TAX CODE ANN. § 151.304(f) (West 2013).

251. *See supra* note 41 and accompanying text.

252. *See* WASH. REV. CODE ANN. § 82.12.020(1)(a) (West 2014); WASH. ADMIN. CODE § 458-20-106 (2014).

253. WASH. REV. CODE ANN. § 82.08.0251 (West 2014).

254. *See* WASH. REV. CODE ANN. § 82.12.020(1)(a) (West 2014); WASH. REV. CODE ANN. § 82.08.0251 (West 2014); WASH. ADMIN. CODE § 458-20-106 (2014).

255. *See* WASH. REV. CODE ANN. § 82.08.0251 (West 2014); *see also* Stern, *supra* note 24, at 77.

256. *See* Stern, *supra* note 24, at 77.

257. *See also* RIA Checkpoint, *supra* note 72; Stern, *supra* note 24, at 77.

258. *See* WIS. STAT. ANN. § 77.54(7)(a) (West 2013).

259. *See* WIS. ADMIN. CODE TAX § 11.33 (2014); WIS. ADMIN. CODE TAX § 11.34 (2014).

260. *See* WIS. STAT. ANN. § 77.51(9)(a) (West 2013).

business of selling the TPP or taxable services.²⁶¹ However, this first type of occasional sale exemption will not apply if the seller holds a seller's permit.²⁶² A possible way to satisfy the occasional sale requirements, even if the seller has a seller's permit, is for the seller to surrender the permit the day before the sale and not operate any business requiring a permit after surrender.²⁶³ While this solution may be workable in some situations, it would not be workable in an Asset Sale where the seller is selling one of multiple businesses and the business(es) not being sold by the seller require the seller to hold a seller's permit.²⁶⁴ Moreover, an administrative rule imposes a \$1000 gross receipt calendar year limit on occasional sales engaged in by sellers that do not have, and are not required to have, a seller's permit.²⁶⁵ This \$1000 gross receipts limitation would foreclose the occasional sale exemption from applying to most, if not all, Asset Sales.²⁶⁶

However, there is another occasional sale exemption that is set forth in section 11.34(3)(b) of the Wisconsin Administrative Rules that makes the occasional sale exemption available if the following requirements are satisfied: (1) the sale involves TPP (other than inventory) previously used by the seller in the conduct of a trade or business at a location; and (2) the sale occurs after the seller "ceased actively operating in the regular course of business as a seller of tangible personal property, items, property," certain other goods, or taxable services²⁶⁷ at that location.²⁶⁸

Although this exemption allows the seller to hold a seller's permit at the time of sale, the exemption will apply only if the sale of the subject business occurs after the seller ceases operating such sold business.²⁶⁹ What constitutes "ceasing business" is not entirely clear under the regulations.²⁷⁰ This requirement is a deviation from the Model Baseline Exemption and could be a trap for the unwary.²⁷¹

261. *See id.*; *see also* WIS. ADMIN. CODE TAX § 11.33 (2014); WIS. DEP'T. REV. TAX BULLETIN No. 122 (Oct. 1, 2000).

262. WIS. STAT. ANN. § 77.51(9)(a) (West 2013).

263. *See* Three Lions Supper Club, Ltd. v. Wisconsin, 241 N.W.2d 190, 192 (Wis. 1976).

264. *See* WIS. ADMIN. CODE TAX § 11.34 (2014).

265. WIS. ADMIN. CODE TAX § 11.33(4)(f) (2014).

266. *Id.*

267. Use of the term "taxable services" begs the question whether the exemption applies to an Asset Sale involving a seller that engages in non-taxable services, such as a law firm.

268. WIS. ADMIN. CODE TAX § 11.34(3)(b) (2014).

269. *See* Carrion Corp. v. Wis. Dep't of Rev., 507 N.W.2d 356, 361 (Wis. Ct. App. 1993) (holding that occasional sale exemption did not apply to the sale of two laundry businesses because seller did not surrender its permit prior to completion of the sales and it made table retail sales after sale of one of the businesses).

270. WIS. ADMIN. CODE TAX § 11.34(3)(a) (2014).

271. *See supra* note 41 and accompanying text.

V. Wyoming

Wyoming does not have an occasional sale exemption applicable to Asset Sales, but it does have an exclusion from the definition of the term “sale” that could apply.²⁷² More specifically, Wyoming does not impose sales tax on

[t]he sale of a business entity when sold to a purchaser of all or not less than eighty percent (80%) of the value of all of the assets which are located in this state of the business entity when the purchaser continues to use the tangible personal property in the operation of an ongoing business entity in this state.²⁷³

The term “business entity” means, “an individual, partnership, corporation, corporate division, joint stock company or any other association or entity, public or private, or separate business unit thereof.”²⁷⁴ Three conditions are imposed in order for this exclusion to apply: (1) the sale must involve the sale of all or not less than eighty percent of the value of all of the business entity’s assets located in Wyoming;²⁷⁵ (2) the buyer must continue to use the acquired assets in the operating of an ongoing business entity in Wyoming; and (3) the seller must have paid sales tax on the TPP transferred in the sale.²⁷⁶ Because these requirements are deviations from the Baseline Model Exemption, Wyoming is a trap for the unwary state.²⁷⁷

III. OBSERVATIONS AND POLICY CONSIDERATIONS

This part examines whether there are policy reasons that justify the trap for the unwary states having narrow, cumbersome, or counterintuitive requirements, or no occasional sale exemption at all.²⁷⁸ In addition, along with analyzing policy justifications, this part also examines in more detail the ramifications of the narrow, cumbersome, and counterintuitive requirements of the subject states.

In order to analyze the policy justifications, if any, it is first necessary to

272. See WYO. STAT. ANN. § 39-15-101(a)(vii)(M) (West 2014).

273. *Id.*

274. See *id.* The Wyoming Department of Revenue has stated that it considers a limited liability company to be included within the definition of “business entity.” See also WYO. DEP’T OF REVENUE, WYOMING SALES AND USE TAX BULLETINS NO. 14 (2014).

275. The Wyoming Department of Revenue requires that an owner submit a balance sheet to its office reflecting the value of all assets of the business sold in order to determine if the eighty percent test has been satisfied. See WYO. DEP’T OF REVENUE, *supra* note 274. The Wyoming Department of Revenue will also review the Asset Purchase Agreement and any other transaction documents in determining whether the eighty percent requirements has been met. See *id.* It is unclear whether the Wyoming Department of Revenue requires that the balance sheet and transaction documents be reviewed prior to or after the subject sale.

276. *Id.*

277. See *supra* note 41 and accompanying text.

278. See discussion *supra* Part II.

understand the underlying purpose of the occasional sale exemption.²⁷⁹ A leading state and local tax expert has posed the following questions about the underlying purpose of the occasional sale exemption:

Is it the administrative impracticability of asking persons not generally engaged in retailing—such as a family conducting a garage sale—to collect the tax, or is it something more? Does the fact that the seller at a garage sale generally already paid tax when the item was purchased now help you answer this question? Compare the tax treatment of a retailer, both at the time inventory is purchased and the time it is resold to the ultimate consumer, with the tax treatment of a casual seller. Can these differing treatments be reconciled?²⁸⁰

Based on the foregoing, administrative impracticability appears to be one rationale of the occasional sale exemption.²⁸¹ For example, if an art collector sells two pieces of art over the course of five years, such art collector would generally not be required to obtain a sales tax permit (i.e., the seller is not regarded as a “retailer” for sales tax purposes).²⁸² To require this “casual” or “occasional” seller to collect sales tax on the sales would arguably be administratively impractical.²⁸³

This same analysis also applies to Asset Sales.²⁸⁴ That is, for the same administrative impracticability reasons, logic dictates that a seller who is not a retailer permitted to collect sales tax should receive occasional sale treatment with respect to the sale of the target business because such seller is not set up to collect sales tax.²⁸⁵ Likewise, one could argue that it is less appropriate for the occasional sale exemption to apply in an Asset Sale when the seller is a retailer. In this situation, the seller holds a sales tax permit, experiences no inconvenience, and is readily able to collect and remit tax on the sale.²⁸⁶ However, taken to its logical extreme, this rationale of the occasional sale exemption would support a rule where, by definition, a retailer cannot engage in an occasional sale.²⁸⁷

Notably, the above-discussed rationale for the occasional sale exemption, and especially its logical extreme, is at odds with another rationale for the occasional sale exemption. This second rationale is that it is inappropriate to impose sales tax on previously taxed TPP.²⁸⁸ Absent an exemption (e.g., the manufacturing

279. *See supra* notes 280-83 and accompanying text.

280. HELLERSTEIN ET AL., *supra* note 24, at 715-16.

281. *See id.*

282. *See id.*

283. *See id.*

284. *See id.*

285. *See id.* A type of Asset Sale that would fit into this category would be the sale of a service business where the services provided are not taxable services for sales tax purposes (e.g., a law firm).

286. *See id.*

287. *See id.*

288. *See id.*; *see also* Faber, *supra* note 39, at 2 (“The philosophy of a retail sales tax should

exemption), a business would have paid sales tax on any non-inventory TPP previously purchased for use in the business.²⁸⁹ A tension between these first two rationales exists because the rationale of administrative impracticability (or the flip side of administrative practicability) supports imposition of sales tax on the non-inventory TPP component of an Asset Sale involving a permitted seller, but the rationale of not pyramiding tax would not support the imposition of a tax.²⁹⁰ The rationale of no pyramiding of tax is logical because a basic tenet of sales tax is, in fact, no pyramiding of tax.²⁹¹ The existence of the resale exemption in each state having a sales tax system demonstrates this.²⁹²

The Baseline Model Exemption incorporates both of the above rationales.²⁹³ For example, under the Baseline Model Exemption, the occasional sale exemption applies when a seller, either permitted or non-permitted, sells TPP that such seller is not regularly engaged in the business of selling.²⁹⁴ Thus, in the case of an Asset Sale with a non-permitted seller, one can see the underlying rationales of administrative impracticability as well as the absence of the pyramiding of tax.²⁹⁵ In the case of an Asset Sale with a permitted seller, one can see the underlying rationale of no multiple pyramiding of tax.²⁹⁶

A third rationale for the occasional sale exemption in the context of Asset Sales is that Asset Sales are simply not appropriate transactions to tax.²⁹⁷ Arguably, this is because the buyer will likely continue the sold business and it is not appropriate to impose tax on the sale of assets that the buyer will continue to use; only with a different owner.²⁹⁸

With the above rationales for the occasional sale exemption in mind, a question posed in this Article is whether there are policy reasons justifying the

exempt the sale of a business when its products are subject to sales tax so as to avoid pyramiding multiple layers of tax.”). Not at issue here is inventory that that seller is transferring that has not been previously taxed. The transfer of inventory is exempt under the resale exemption, which has a different underlying rationale and purpose. *See supra* notes 46-48 and accompanying text.

289. *See supra* notes 24-48 and accompanying text.

290. A seller in an Asset Sale likely paid sales tax on all non-inventory TPP items that an Asset Sale would transfer. One exception would be manufacturing equipment where sales tax was not imposed at the time of purchase due to the subject state having a manufacturing exemption. *See generally* HELLERSTEIN ET AL., *supra* note 24, at 665-66. However, sales tax should also not result upon the subsequent sale of the manufacturing equipment in an Asset Sale because of the manufacturing exemption. *See id.*

291. *See supra* notes 46-48 and accompanying text.

292. *See supra* notes 46-48 and accompanying text.

293. *See supra* note 41 and accompanying text.

294. *See supra* note 41 and accompanying text.

295. *See supra* notes 279-92 and accompanying text.

296. *See supra* notes 279-92 and accompanying text.

297. *See infra* note 298 and accompanying text.

298. However, this begs the question of whether it matters if the target business will be continued by the buyer in its current form or, instead, whether the buyer will use the assets in a different business and/or in a different way from that of the seller. *See infra* Part III.B.

trap for the unwary states having narrow, cumbersome or counterintuitive requirements.²⁹⁹ Indeed, the decision of a state to not have an occasional sale exemption at all in the context of Asset Sales, or otherwise, is a policy decision in and of itself.³⁰⁰ A likely explanation for a state not having an occasional sale exemption is revenue generation.³⁰¹ The larger question upon which this Article focuses is whether policy reasons exist for the narrow, cumbersome or counterintuitive requirements of some of the subject states. The states at issue and the trap for the unwary categories are set forth below:³⁰²

Table 1.

Trap for the Unwary Category	State(s)
1. Must sell all assets or at least all operating assets	Alabama, Georgia, Texas, South Carolina
2. Buyer must continue to operate purchased business, and potentially in the same form	Idaho, South Carolina, Wyoming,
3. Asset Sale must occur in a single transaction, and perhaps also to a single purchaser	Alabama, Minnesota, Nebraska, Texas
4. Different requirements for permitted versus non-permitted sellers	California, Florida, Georgia, Kentucky, South Carolina, and Texas,
5. Timing restrictions	Florida
6. Separate place of business requirement	Georgia
7. Occasional sale exemption does not apply to certain industries or asset types	Illinois, Indiana
8. Seller cannot remain in same business being sold or seller must cease conducting business being sold prior to sale	Missouri, Wisconsin, Rhode Island
9. Asset Sale must not involve seller that is an LLC disregarded for federal income tax purposes (unless all assets are of a non-unitary business of the seller)	South Carolina
10. Seller must have previously paid sales tax on the non-inventory TPP being transferred	Florida, Nebraska, Wyoming

299. See discussion *supra* Part II

300. See *supra* Part II.B, II.D, II.K, II.N, II.O, II.R.

301. For example, the State of Texas estimated the value of sales tax exemptions in 2013 to be \$29,327,900,000. See TEXAS COMPTROLLER OF PUBLIC ACCOUNTS, TAX EXEMPTIONS & TAX INCIDENCE—A REPORT TO THE GOVERNOR AND THE 83RD TEXAS LEGISLATURE 3 (2013).

302. Although Part II lists Alaska as a trap for the unwary state, it is not included in this Part III. This is because Alaska's trap for the unwary status results from it not having a statewide occasional sale exemption, which is a different circumstance as compared to the states discussed in this Part III.

A. *Category I: Must Sell All Assets or All Operating Assets (Georgia,³⁰³ South Carolina,³⁰⁴ Texas³⁰⁵)*

For the occasional sale exemption to apply to an Asset Sale in Alabama, Georgia, and South Carolina, the sale must involve the transfer of *all* assets.³⁰⁶ In Texas, the sale must involve the transfer of *all operating* assets.³⁰⁷ These requirements arguably are consistent with the rationale of exempting certain transactions from sales tax under the occasional sale exemption because it is inappropriate to tax such transactions (i.e., an Asset Sale arguably is an inappropriate transaction to tax because the buyer will likely continue operating the target business, and why should tax be imposed when there is no change in the target business except for a new owner?).³⁰⁸ Imposing a requirement to sell all the assets of a business, or at least all the operating assets, seemingly ensures that the buyer will obtain all necessary assets to maintain the operation of the target business post-sale.³⁰⁹ Notably, the requirement in Texas to transfer only all operating assets more rationally serves the related policy purpose because it is arguably only the operating assets that the buyer needs to continue operating the target business post-sale.³¹⁰ Thus, the requirement in Alabama, Georgia and South Carolina mandating that the Asset Sale involve the transfer of *all* assets is likely overly restrictive from a policy perspective.³¹¹

Further, the requirement to transfer all assets, and even Texas' more rational requirement of transferring all operating assets, is at odds with the practical nature of most Asset Sales. This is because it is common for a seller to negotiate the exclusion of some assets from the Asset Sale.³¹² For example, a seller might want to keep certain paintings that hang in a reception area or conference room because such paintings are personal to the seller.³¹³ Also, it is common for a seller to negotiate for the exclusion of trademarks, logos, trade names, or a certain amount of cash or receivables.³¹⁴ Notably, Texas offers some relief from its transfer requirement by having a *de minimis* exception.³¹⁵ For example, in a Texas

303. Georgia imposes other trap for the unwary requirements. *See supra* Table 1.

304. South Carolina imposes other trap for the unwary requirements. *See supra* Table 1.

305. Texas imposes other trap for the unwary requirements. *See supra* Table 1.

306. *See supra* Part II.A, II.F, II.P.

307. *See supra* Part II.S.

308. *See supra* notes 297-98 and accompanying text.

309. *See supra* notes 297-98 and accompanying text.

310. *See supra* Part II.S.

311. *See supra* Part II.A., II.F, II.P. *But see supra* note 70 regarding Alabama and a potential *de minimis* rule.

312. *See supra* note 71 and accompanying text.

313. *See supra* note 71 and accompanying text.

314. *See, e.g.*, TEX. COMPTROLLER OF PUB. ACCTS., TEX. LTR. RUL. NO. 9610139L (1996); TEX. COMPTROLLER OF PUB. ACCTS., TEX. LTR. RUL. NO. 9104L1105B10 (1991).

315. *See supra* Part II.Q.

Hearings Decision, the administrative law judge concluded that sixteen out of twenty-five thousand assets that were excluded from the Asset Sale “were so relatively insignificant, both in number and in value” that Texas’ occasional sale exemption still applied even though the entire operating assets of the target business were not transferred.³¹⁶

Taking the above into consideration, at a minimum, Alabama, Georgia and South Carolina should consider narrowing their transfer requirements to require only the transfer of *operating* assets rather than *all* assets.³¹⁷ Alabama, Georgia and South Carolina should also implement a de minimis exception like Texas has done.³¹⁸ A de minimis exception similar to the one that exists in Texas would be workable or, alternatively, Alabama, Georgia and South Carolina could amend their transfer requirements to provide that “all *or substantially all*” the assets of the target business must be transferred in the Asset Sale.³¹⁹ The term “substantially all” could be defined to mean a stated percentage value of the business as well as a stated percentage of assets.³²⁰ Such a requirement would be similar to the control requirement in section 351 transactions under the Internal Revenue Code.³²¹

While Texas’ transfer requirement more rationally serves an underlying policy purpose for the occasional sale exemption as compared to Alabama, Georgia, and South Carolina, especially with the existence of a de minimis exception, Texas should still consider making one notable modification to its occasional sale exemption. Texas should consider formally adopting the de minimis exception in an administrative rule or by amending the applicable statute. Texas’ de minimis exception is currently only set forth in a 1994 administrative hearings decision.³²² Many taxpayers, especially small business and/or pro se taxpayers, will not know to seek out comptroller decisions for additional information beyond what is contained in the statute or regulations.

316. *Comptroller of Public Accounts of the State of Texas, Hearing No. 32,398* (1994). *But see Comptroller of Public Accounts of the State of Texas, Hearing Nos. 28,823 & 28,824* (1994) (finding that the purchase of entire business assets except for three did not constitute a purchase of the entire operating assets of the business for purposes of occasional sale exemption). *See also supra* Part II.Q.

317. *See supra* notes 306-11 and accompanying text.

318. *See supra* notes 306-11. *But see supra* note 70 regarding Alabama and a potential de minimis rule.

319. Other states take this approach (e.g., Florida, Idaho, Minnesota, and Nebraska); *see supra* Part II.

320. Notably, such a rule has the potential to lead to skewed results and might not be workable in some situations. An example is an exclusion from the Asset Sale of a piece of art having an extremely high value. A workable solution could be a rule that allowed the taxpayer to petition the Department of Revenue for an individualized test when certain facts under the general rule are not workable.

321. *See* I.R.C. § 351 (2014).

322. *See* TEXAS COMPTROLLER OF PUBLIC ACCOUNTS, *supra* note 301.

B. Category 2: Buyer Must Continue to Operate Purchased Business, and Potentially in the Same Form (Idaho, South Carolina,³²³ Wyoming³²⁴)

For the occasional sale exemption to apply to an Asset Sale in Idaho, the buyer must operate the purchased business in the same form.³²⁵ Likewise, in South Carolina, the buyer must continue to operate the purchased business, which presumably means in the same form.³²⁶ Wyoming has a similar rule, but it is not as restrictive. Wyoming requires the buyer to use the acquired TPP in the operation of an ongoing business entity in Wyoming.³²⁷

The rule in Idaho and South Carolina prevents a buyer from purchasing a business and then using the purchased assets in a way different from the seller.³²⁸ The rule in Wyoming prevents a buyer from purchasing a business and then not using the purchased assets at all.³²⁹ Like with Category 1, these requirements arguably are consistent with the policy rationale of exempting certain transactions from sales tax under the occasional sale exemption because it is inappropriate to tax such transactions (i.e., an Asset Sale arguably is an inappropriate transaction to tax because the buyer will likely continue operating the target business, and why should tax be imposed when there is no change in the target business except for a new owner?).³³⁰ Requiring the buyer to continue operating the target business post-sale directly implements this rationale.

However, the rule in Idaho and South Carolina is more restrictive than necessary from a policy perspective.³³¹ For example, assume the target business is a coffee shop. Should it really matter if the buyer uses the purchased assets to operate a coffee shop or, instead, uses the purchased assets to operate a donut shop that also sells coffee? Would Idaho consider the donut shop as operating in the same form? Would one consider the donut shop similar enough to show the seller used the purchased assets? These questions not only show the potentially overly restrictive nature of the rule in Idaho and South Carolina, but also the fact-intensive nature of the rule, which could be difficult to apply at times considering the myriad of businesses that exist.

The rule in Wyoming relates more rationally to the applicable policy purpose.³³² It only requires that the buyer continue to use the purchased assets in some manner.³³³ Indeed, if the rationale for these requirements is that the occasional sale exemption exists to not impose tax on Asset Sales because the

323. South Carolina imposes other traps for the unwary requirements. *See supra* Table 1.

324. Wyoming imposes other trap for the unwary requirements. *See supra* Table 1.

325. *See* IDAHO CODE ANN. § 63-3622K(b) (2014).

326. *See supra* notes Part II.R.

327. *See supra* notes 275-78.

328. *See supra* Part II.G, II.P.

329. *See supra* notes 275-78.

330. *See supra* Part III.A.

331. *See supra* Table 1.

332. *See supra* Part II.V.

333. *See supra* Part II.V.

business will be continued and, thus, it is an inappropriate transaction to tax (i.e., not ripe), why should it matter how the assets will be used by the buyer? Using section 351 of the Internal Revenue Code as a comparison is helpful.³³⁴ Section 351 provides non-recognition tax treatment to contributions of appreciated property to a corporation in exchange for stock.³³⁵ The rationale of section 351 is similar to the rationale discussed here; capital contributions of appreciated property to a corporation are not appropriate transactions to tax because the corporation, instead of the contributing shareholder, will continue to use the assets.³³⁶ That is, the contributing shareholder has not yet “cashed out” his or her investment in the asset, so the appropriate time to tax the transaction has not yet arrived.³³⁷ Notably, section 351 does not require the corporation to use the contributed asset in the same way that the contributing shareholder used the asset.³³⁸ Further, the partnership counterpart to section 351 of the Internal Revenue Code, section 721, also does not contain such a requirement.³³⁹

Taking the above into consideration, Idaho and South Carolina should consider amending their statutes and/or administrative rules to be more in line with Wyoming.³⁴⁰ Such a change would make the requirements in Idaho and South Carolina more rationally related to the underlying policy purpose.³⁴¹

C. Category 3: Asset Sale Must Occur in a Single Transaction, and Perhaps also to a Single Purchaser (Alabama,³⁴² Minnesota, Nebraska, Texas³⁴³)

For the occasional sale exemption to apply in Alabama, Nebraska, and Texas, one must restructure the sale as a single transaction to a single purchaser.³⁴⁴ In Minnesota, one must be structure the sale to occur “as a single transaction or a series of related transactions within a twelve-month period beginning on the date of the first sale of assets intended to qualify for the exemption.”³⁴⁵

The requirements in Alabama, Nebraska, and Texas would preclude the occasional sale exemption from applying to Asset Sales structured as a series of sales completed over time.³⁴⁶ Additionally, the requirements would preclude the

334. See I.R.C. § 351 (2014).

335. See *id.*; see also *id.* § 721 for a similar rule applicable to entities classified as partnerships for federal income tax purposes.

336. STEVEN A. LINDE ET AL., FUNDAMENTALS OF CORPORATE TAXATION 60-61 (7th ed. 2008).

337. See *id.*

338. See I.R.C. § 351 (2014).

339. See *id.* § 721.

340. See *supra* Table 1.

341. See *supra* note 307.

342. Alabama imposes other trap for the unwary requirements. See *supra* Table 1.

343. Texas imposes other trap for the unwary requirements. See *supra* Table 1.

344. See *supra* Part II.A, II.M, II.Q.

345. MINN. STAT. ANN. § 297A.68, subd. 25(a) (West 2014); see *supra* Part II.K.

346. See *supra* Parts II.A, II.N, II.S.

Asset Sale from involving multiple buyers, either related or unrelated.³⁴⁷ Most notably, from a practical perspective, the requirements would preclude the naming of both a parent and subsidiary as the purchaser in the Asset Purchase Agreement, which the parties might desire, for reasons associated with the indemnification provisions in the Asset Purchase Agreement or the representation and warranty provisions in the Asset Purchase Agreement.³⁴⁸ In contrast to Alabama, Nebraska, and Texas, Minnesota's requirement is somewhat less stringent in that it allows one to structure an Asset Sale as a series of related transactions as long as completed within a twelve-month period.³⁴⁹

The rationale for the single transaction requirement (or the less stringent related transaction requirement in Minnesota) likely exists in order to ensure the sale is, in fact, "isolated," "casual," and "occasional," as opposed to being a "retail" transaction.³⁵⁰ For example, if a seller sells a business in ten separate sales to ten unrelated purchasers, then such sales may be more indicative of a seller who is in the business of selling the business assets.³⁵¹ While each of the requirements in Alabama, Minnesota, Nebraska, and Texas may be rationally related to this underlying policy purpose, Minnesota has the better rule because it allows flexibility, which in turn accommodates the practical nature of some Asset Sales needing to be structured as a series of related transactions completed over time.³⁵² For example, it could be necessary to structure an Asset Sale as a series of related transactions over time due to cash flow issues associated with the buyer. Or it could be necessary due to issues with obtaining third-party consents associated with transferring certain assets.³⁵³ There could be any number of business reasons why one would need to structure an Asset Sale as a series of related transactions completed over time.

Alabama, Nebraska, and Texas should consider amending their "single transaction" requirements to be more like Minnesota in order to allow some amount of flexibility to accommodate the practical nature of Asset Sales. Indeed, Minnesota's more flexible rule does not counteract the policy that Alabama, Nebraska, and Texas' rule seeks to serve. For example, an Asset Sale structured as a single transaction is just as "isolated," "casual," and "occasional" as an Asset Sale structured as three separate sales to a single purchaser over time. At a minimum, the statutes and regulations of Alabama, Nebraska, and Texas should allow the seller the ability to petition the Department of Revenue for a special allowance from the single transaction requirement. And while Minnesota's "related transaction" requirement more rationally serves the related underlying

347. *See supra* Parts II.A, II.N, II.S.

348. *See supra* notes 311-20 and accompanying text.

349. *See supra* Part II.L. Based on the statutory text, it is not clear whether multiple related sales completed within the twelve-month period must be to the same purchaser or, instead, could be made to related parties.

350. *See supra* notes 279-92 and accompanying text.

351. *See supra* notes 279-92 and accompanying text.

352. *See supra* Part II.L.

353. *See supra* note 19 and accompanying text.

purpose for the occasional sale exemption, and is more in tune with the practical nature of Asset Sales, Minnesota should still consider making a notable modification. The suggested change is extending the “related transaction” time period beyond twelve months. Because legal and business issues within an Asset Sale can become complicated, it could be the case that the twelve-month time period is not adequate in all circumstances. At a minimum, like discussed above, Minnesota’s statutes and regulations should allow the seller the ability to petition the Department of Revenue for a special allowance.

The underlying rationale for the single purchaser requirement is not as clear. The rationale may be the same reason as set forth above with respect to the single transaction requirement.³⁵⁴ The underlying rationale may also relate to it being inappropriate to tax the transfer of a business when the only change is ownership (discussed above with respect to Categories 1 and 2).³⁵⁵ Whatever the rationale, the single purchaser requirements is at odds with the practical nature of some Asset Sales where it may be necessary for the joint naming of both the parent and its subsidiary as the seller in the Asset Purchase Agreement. For example, this may be necessary for the certification of certain representations and warranties included in the Asset Purchase Agreement or for purposes of the indemnification provisions contained in the Asset Purchase Agreement.³⁵⁶ While the single purchaser requirement in Alabama, Nebraska, and Texas may serve an underlying policy purpose related to the occasional sale exemption, these states should consider amending their statutes and/or regulations to at least allow occasional sale treatment to extend to Asset Sales where related parties are named as the purchaser to account for the practical nature of some Asset Sales.³⁵⁷

D. Category 4: Different Requirements for Permitted vs. Non-Permitted Sellers (California, Florida,³⁵⁸ Georgia,³⁵⁹ Kentucky, South Carolina,³⁶⁰ Texas,³⁶¹ Washington)

In California, when an Asset Sale involves a permitted business and the purchaser is an unrelated third party, California’s occasional sale exemption is narrow.³⁶² It applies only to exempt proceeds attributable to TPP not held or used by the business in the course of activities requiring the holding of the seller’s permit.³⁶³ In contrast, if the business sold through the Asset Sale is a non-

354. See *supra* notes 350-53 and accompanying text.

355. See *supra* Part III.A-B and accompanying notes.

356. See *supra* note 348 and accompanying text.

357. It is not clear from the face of Minnesota’s rule whether it allows only one purchaser or whether related parties can be named as the purchaser. See *supra* Part II.L.

358. Florida imposes other trap for the unwary requirements. See *supra* Table 1.

359. Georgia imposes other trap for the unwary requirements. See *supra* Table 1.

360. South Carolina imposes other trap for the unwary requirements. See *supra* Table 1.

361. Texas imposes other trap for the unwary requirements. See *supra* Table 1.

362. See *supra* Part II.C.

363. See *supra* Part II.C.

permitted business (e.g., non-taxable service business), then a broader occasional sale exemption applies in California.³⁶⁴ Under the broader rule for non-permitted businesses, California's occasional sale exemption will apply as long as the Asset Sale is not one of a series of sales sufficient in number, scope, and character to constitute an activity for which a seller's permit is required.³⁶⁵

Arguably, the underlying purpose of California's distinction between permitted and non-permitted sellers relates to administrative convenience.³⁶⁶ The administrative convenience rationale is premised on the idea that, because a sales tax permit is required to collect and remit sales tax, it would be administratively impractical to require non-permitted sellers in Asset Sales to collect and remit sales tax, but on the flip side, it would not be administratively impractical to require permitted sellers to collect and remit sales tax because such sellers already collect and remit sales tax with respect to sales that the business makes.³⁶⁷ However, this rationale of the occasional sale exemption is at odds with another rationale of the occasional sale exemption—the rationale that the occasional sale exemption is warranted in situations where sales tax has already been paid in order to alleviate the pyramiding of tax.³⁶⁸ As is evident by the resale exemption that exists in every state having a sales tax system, the pyramiding of tax on the same asset is not supposed to occur.³⁶⁹ Thus, even though administrative convenience is an underlying rationale for the occasional sale exemption, administrative convenience should not trump the rationale of alleviating the pyramiding of tax since the latter is a basic tenet of each state's sales tax system.³⁷⁰ Accordingly, California should consider amending its occasional sale exemption rules to delete the delineation between sales of assets used in a business requiring a sales tax permit versus sales of assets used in a business not requiring a sales tax permit. Such a requirement diverges from an important rationale of the occasional sale exemption as well as a basic tenet of sales tax.³⁷¹

Similar to California, Kentucky's occasional sale exemption does not extend to the transfer of non-inventory TPP in an Asset Sale where the seller engages in a business requiring a Kentucky seller's permit (to the extent such TPP relates to the permitted business), with the exception of when there is substantially similar ownership after the sale.³⁷² Thus, Kentucky's occasional sale exemption applies broadly only in the context of Asset Sales where the seller is engaged in a

364. *See supra* Part II.C.

365. *See supra* Part II.C.

366. *See supra* notes 279-87 and accompanying text.

367. *See supra* notes 279-87 and accompanying text.

368. *See supra* notes 288-92 and accompanying text.

369. *See supra* notes 288-92 and accompanying text.

370. *See supra* notes 288-92 and accompanying text.

371. *See supra* notes 288-92 and accompanying text; *see also* Faber, *supra* note 39, at 2 (concluding that California takes the wrong approach with respect to the occasional sale exemption as applied to Asset Sales).

372. *See supra* Part II.J.

business not requiring a Kentucky seller's permit.³⁷³ Like with California, the underlying purpose of Kentucky's distinction between permitted and non-permitted sellers likely relates to administrative convenience.³⁷⁴ However, just like discussed with California, the administrative convenience rationale for the occasional sale exemption is at odds with another rationale of the occasional sale exemption—that the occasional sale exemption is warranted in situations where sales tax has already been paid in order to alleviate the pyramiding of tax.³⁷⁵ As discussed above, even though administrative convenience is an underlying rationale for the occasional sale exemption, administrative convenience should not trump the rationale of alleviating the pyramiding of tax since the latter is a basic tenet of each state's sales tax system.³⁷⁶ Accordingly, Kentucky, just like California, should consider amending its occasional sale exemption rules to delete the delineation between sales of assets used in a business requiring a sales tax permit versus sales of assets used in a business not requiring a sales tax permit.

South Carolina and Texas have two different occasional sale rules that apply to Asset Sales.³⁷⁷ For non-permitted sellers, a broad occasional sale exemption exists.³⁷⁸ For permitted sellers, there is a different occasional sale exemption that has additional requirements that must be satisfied as compared to non-permitted sellers.³⁷⁹ As discussed above, the underlying purpose of this distinction between permitted and non-permitted sellers likely relates to administrative convenience.³⁸⁰ However, while that rationale might make sense in the context of determining whether or not the occasional sale exemption should extend *at all* to permitted sellers (even though not extending, as discussed above, would go against another rationale for the occasional sale exemption, which is to avoid pyramiding of tax), it arguably does not support a framework that imposes different and more stringent requirements on permitted sellers.

While it may be justified from a policy perspective for states to impose certain requirements on a taxpayer's ability to claim the occasional sale exemption in Asset Sales or otherwise,³⁸¹ making such requirements different and more stringent for permitted sellers does not appear rationally related to any underlying policy.³⁸² For example, consider an Asset Sale involving the sale of a law firm (non-permitted business) versus an Asset Sale involving the sale of a bookstore (permitted business). Why should different and more stringent requirements apply to the sale of the bookstore simply because of the type of product the business sells? Or consider an Asset Sale involving a business that

373. *See supra* Part II.J.

374. *See supra* notes 279-87 and accompanying text.

375. *See supra* notes 288-92 and accompanying text.

376. *See supra* notes 288-92 and accompanying text.

377. *See supra* Part II.R-S.

378. *See supra* Part II.R-S.

379. *See supra* Part II.R-S.

380. *See supra* notes 279-87.

381. *See generally supra* Part III.

382. *See supra* notes 278-302 and accompanying text.

sells taxable services (permitted business) versus an Asset Sale involving a business that sells non-taxable services (non-permitted business). Why should different and more stringent requirements apply to the sale of the taxable service business simply because the legislature has decided to tax the type of services it provides?

Based on the foregoing, South Carolina and Texas should consider amending their statutes and/or regulations to delete the differing requirements that must be satisfied for the occasional sale exemption as between permitted versus non-permitted sellers. Florida also delineates between permitted sellers and non-permitted sellers by way of its rules related to “isolated” sales applying only to permitted sellers.³⁸³ However, unlike the states discussed above, Florida’s exemption related to “occasional” sales applies to both permitted and non-permitted sellers so the “isolated” sale distinction appears effectively meaningless.³⁸⁴ Thus, while Florida’s delineation between permitted and non-permitted sellers does not create the same issue that exists in South Carolina and Texas, it should still consider amending its statutes and/or regulations to delete the delineation between isolated and occasional sales because the delineation appears not to serve a meaningful purpose.³⁸⁵

Lastly, Georgia may also have different rules as between permitted and non-permitted sellers, but it is not clear.³⁸⁶ If the delineation exists, then it would mean most, if not all, Asset Sales of non-permitted businesses would be ineligible for the occasional sale exemption.³⁸⁷ Although unclear from the face of the regulations, it is unlikely that Georgia intended this narrow interpretation.³⁸⁸ As discussed above, administrative convenience is one of the underlying rationales for the occasional sale exemption, which is premised on the idea that it is administratively impractical to require non-permitted sellers in Asset Sales to collect and remit sales tax but not impractical to require permitted sellers to collect and remit sales tax because such sellers already collect and remit sales tax.³⁸⁹ This rationale may support the occasional sale exemption applying to non-permitted sellers but not permitted sellers, but it would not support the opposite framework of the occasional sale exemption applying to permitted sellers but not non-permitted sellers.³⁹⁰ Thus, it would be an unusual result if the intent of Georgia’s occasional sale exemption really was to apply only to permitted sellers. Georgia should consider amending its statute and/or regulations to clarify the current ambiguity.

383. *See supra* Part II.E.

384. *See supra* Part II.E.

385. *See supra* Part II.E.

386. *See supra* Part II.F.

387. *See supra* Part II.F.

388. *See supra* Part II.F.

389. *See supra* notes 279-83 and accompanying text.

390. *See supra* notes 279-83 and accompanying text.

E. Category 5: Timing Restrictions (Florida³⁹¹)

One of the occasional sale exemption requirements in Florida is that the parties must complete the transfer of the business within thirty days from the “date of the agreement for the sale of the business.”³⁹² Due to the basing of the thirty-day timing requirement on the “date of the agreement for the sale of the business,” this provision is at odds with the practical nature of many Asset Sales.³⁹³ It is not uncommon for Asset Sales to have a closing date falling more than thirty days after the date the parties execute the Purchase and Sale Agreement.³⁹⁴ However, Florida’s timing requirement is watered down, because regulations contain an “out” by way of the exemption for occasional sales, which appears to be easily satisfied and does not contain the thirty-day transfer requirement.³⁹⁵ Thus, Florida’s timing requirement is effectively meaningless and, in any event, does not appear rationally related to any of the rationales for the occasional sale exemption.³⁹⁶ For example, the requirement does not appear rationally related to administrative practicability (or lack thereof), ensuring previous payment of sales tax, or the inappropriateness of taxing a transaction where the only change is the business owner.³⁹⁷ Accordingly, Florida should consider amending its statute to delete the thirty day requirement.³⁹⁸

F. Category 6: Separate Place of Business Requirement (Georgia³⁹⁹)

Georgia has a requirement for occasional sale exemption treatment that is somewhat unclear but arguably requires that the business sold in the Asset Sale must be at a separate location from any continuing business of the seller, if any.⁴⁰⁰ By way of example, this rule would preclude occasional sale treatment in the Asset Sale of a coffee shop where the buyer intends to move the subject assets to a new location and the seller would continue using assets excluded from the Asset Sale to operate a bakery at the location where the coffee shop used to be.⁴⁰¹

Georgia’s requirement does not appear rationally related to any of the purposes of the occasional sale exemption.⁴⁰² For instance, the requirement does not appear related to administrative practicability (or lack thereof), ensuring previous payment of sales tax on the transferred TPP, or the inappropriateness of

391. Florida imposes other trap for the unwary requirements. *See supra* Table 1.

392. FLA. ADMIN. CODE ANN. § 12A-1.037(2)(d) (2014); *see also supra* Part II.E.

393. FLA. ADMIN. CODE ANN. § 12A-1.037(2)(d) (2014); *see also supra* Part II.E.

394. *See supra* Part II.E.

395. *See supra* Part II.E.

396. *See supra* notes 279-98 and accompanying text.

397. *See supra* notes 279-98 and accompanying text.

398. *See supra* notes 392-97 and accompanying text.

399. Georgia imposes other trap for the unwary requirements. *See supra* Table 1.

400. *See supra* Part II.F.

401. *See supra* Part II.F.

402. *See supra* notes 278-98 and accompanying text.

taxing a transaction where the only change is the business owner.⁴⁰³ If one had to choose, the latter underlying purpose of the occasional sale exemption seems the most tangentially related to Georgia's requirement. That is, requiring the target business to be at a separate location from any continuing business of the seller arguably seeks to ensure that the buyer carries on the purchased business.⁴⁰⁴ However, this would not always be the case because, as indicated in the example above, the buyer may desire to use the purchased assets at a different location and Georgia's requirement would allow this under Georgia's requirement as long as the seller did not continue to operate a business at the location of the purchased assets.⁴⁰⁵ Thus, if this is the underlying purpose of Georgia's requirement, the requirement is not satisfying the intended purpose.⁴⁰⁶

Further, Georgia's requirement is not workable in Asset Sales where the seller will continue to operate a business at the same location of the target business.⁴⁰⁷ While this situation may not occur much in practice, because it is likely that the location of the purchased business is part of the buyer's desire to purchase the business, it could occur in a situation where the subject assets are the essence of the transaction and the seller's location is not. For example, consider a winery located in a downtown San Francisco warehouse where the buyer desires to purchase the winery assets and use them at a new location in Sonoma.

Because Georgia's requirement does not appear rationally related to an underlying policy purpose and is not workable in practice with respect to some Asset Sales, Georgia should consider amending its statute and/or regulations to delete the requirement in its entirety.⁴⁰⁸

G. Category 7: Occasional Sale Exemption Doesn't Apply to Certain Industries or Asset Types (Illinois, Indiana)

Illinois does not extend its occasional sale exemption to certain sales of TPP made by construction contractors or real estate developers.⁴⁰⁹ Indiana's occasional sale exemption does not apply to sales of rental property.⁴¹⁰

Not extending occasional sale treatment to certain industries or asset types does not appear rationally related to any underlying purposes of the occasional sale exemption.⁴¹¹ For example, the requirement does not appear related to administrative practicability (or lack thereof), ensuring previous payment of sales tax on the transferred TPP, or the inappropriateness of taxing a transaction where

403. See *supra* notes 278-98 and accompanying text.

404. See *supra* Part II.F.

405. See *supra* Part II.F.

406. See *supra* Part II.F.

407. See *supra* Part II.F.

408. See *supra* notes 279-98 and accompanying text.

409. See *supra* Part II.H.

410. See *supra* Part II.I.

411. See *supra* notes 279-98 and accompanying text.

the only change is the business owner.⁴¹² Because the limitations in Illinois (not extending occasional sale treatment to sales made by construction contractors or real estate developers)⁴¹³ and Indiana (not extending occasional sale treatment to sales of rental property)⁴¹⁴ do not appear rationally related to any of the underlying purposes of the occasional sale exemption, Illinois and Indiana should consider deleting such requirements from their statutes and/or regulations.⁴¹⁵

H. Category 8: Seller Cannot Remain in Same Business Sold or Seller Must Cease Conducting Business Sold Prior to Sale (Missouri, Wisconsin)

Missouri's occasional sale exemption does not allow the seller to remain in the same business sold.⁴¹⁶ Wisconsin requires that the seller cease conducting the target business prior to the sale.⁴¹⁷ What constitutes "ceasing business" for this purpose is not clear under Wisconsin's regulations.⁴¹⁸ For permitted sellers, Rhode Island requires that the "sale must occur after the retail business for which the retailer had a permit has ceased."⁴¹⁹

Missouri's requirement, to some extent, is the reverse of the requirement in some states that compel the buyer to continue operating the purchased business post-sale.⁴²⁰ As discussed above in Category 2, requiring the buyer to continue operating the target business rationally relates to the underlying purpose of the occasional sale exemption's premise that it is inappropriate to tax certain transactions, including a sale of a business when the only change is that of ownership.⁴²¹ However, the reverse does not rationally relate to this policy purpose. Notably, it is somewhat unclear whether Missouri's requirements means (1) the seller cannot operate a new business that is similar to the business sold in the Asset Sale (i.e., Asset Sale involves the sale of a coffee shop and seller cannot form a new business in the future that operates a coffee shop); or (2) the seller cannot continue as an owner in the target business post-sale.⁴²² However, under either interpretation, Missouri's requirement does not rationally relate to an

412. *See supra* notes 279-98 and accompanying text. *But see supra* note 36 and accompanying text regarding the occasional sale exemption generally not extending to motor vehicles and other titled assets. Excluding motor vehicles and other titled assets from occasional sale treatment is arguably different from the rules discussed in Category 7 related to Illinois and Indiana. Imposing tax on motor vehicles and other titled assets is rationally related to the underlying purpose of administrative practicability of ensuring title gets transferred in the name of the new owner.

413. *See supra* Part II.H.

414. *See supra* Part II.I.

415. *See supra* notes 278-98 and accompanying text.

416. *See supra* Part II.U.

417. *See supra* Part II.U.

418. *See* WIS. ADMIN. CODE TAX § 11.34(3)(a) (2014).

419. *See supra* Part II.Q.

420. *See supra* Part III.B.

421. *See supra* notes 278-98 and accompanying text.

422. *See supra* Part II.M.

underlying policy rationale for the occasional sale exemption. Why should it matter what future endeavors the seller engages in post-sale? Why should it matter if the seller continues to have a role in the target business post-sale? Indeed, it would not be uncommon for the business deal to involve the seller remaining a partial owner or as a consultant after the Asset Sale.⁴²³ Because Missouri's rule does not rationally relate to an underlying policy for the occasional sale exemption and is not workable in practice with respect to some Asset Sales, Missouri should consider amending its statute and/or regulations to delete the requirement.⁴²⁴

While Wisconsin and Rhode Island do not seem to preclude the seller from remaining in the business post-sale like Missouri, they do require the seller to cease conducting business prior to the sale of the target business.⁴²⁵ If the seller holds a sales tax permit, surrendering the sales tax permit prior to sale would likely satisfy this requirement.⁴²⁶ This requirement in Wisconsin and Rhode Island seems to relate, albeit tenuously, to the rationale of the occasional sale exemption not applying to the sale of a business when the only change is ownership.⁴²⁷ That is, requiring the seller to cease business operations means that the purchaser will begin operations, thus signifying the change in ownership. In practice, the requirement should not pose a problem because the point of an Asset Sale is for the seller to sell the business and for the buyer to operate it post-sale. The evidence deemed sufficient to satisfy the rule presents a difficulty with this requirement, though. Can the executed Asset Purchase Agreement satisfy the requirement? Is it required that the seller surrender his sales tax permit? How is the requirement workable if the seller is operating the business up until the time of sale? What if the sold business is a service business not requiring a sales tax permit?

To alleviate problems associated with these questions, Wisconsin and Rhode Island should consider adopting a set rule that is more workable with the practical nature of Asset Sales.⁴²⁸ For example, they should consider letting the Asset Purchase Agreement satisfy the requirement. Further, they should not require that the Asset Purchase Agreement be filed with the Department of Revenue, but rather, only require the parties keep such documents in their files for the statute of limitations period in the event of a future audit. If the Department of Revenue does deem it necessary for the seller to relinquish the sales tax permit of the target business, then it should allow the surrender to occur post-sale, perhaps within fifteen days after the sale. Requiring the surrender to occur on or before the time of closing would not permit the seller to operate the business up until closing,

423. See generally Peter A. Karl III, *Twenty Questions Answered in the Acquisition or Disposition of a Business: Strategies for Structuring Transactions and Business Entities*, C.P.A. J. 56, 60 (2008).

424. See *supra* notes 278-98 and accompanying text.

425. See Part II.Q, II.U.

426. See Part II.Q, II.U.

427. See *supra* notes 278-98 and accompanying text.

428. See *supra* notes 425-27 and accompanying text.

which is at odds with the practical nature of Asset Sales and does not seem to serve any rational purpose.⁴²⁹

I. Category 9: Asset Sale Must Not Involve Seller That Is an LLC Disregarded for Federal Income Tax Purposes (Unless All Assets Are of a Non-Unitary Business of Seller) (South Carolina⁴³⁰)

If the seller is an LLC disregarded for federal income tax purposes, then South Carolina requires that the Asset Sale involve the sale of a non-unitary business in order for the occasional sale exemption to apply.⁴³¹ This requirement is somewhat similar to the requirement in Missouri where the seller cannot remain part of the target business post-sale.⁴³² For instance, if a seller sells a non-unitary business, then presumably the seller will no longer be part of the target business. However, if the target business is part of a unitary business, then the seller would presumably continue to be involved in the target business by way of continuing to own the unsold unitary entities.

As previously discussed, mandating that the seller cannot remain in the sold business does not seem relationally related to a valid purpose of the occasional sale exemption.⁴³³ What South Carolina's requirement may be attempting to require is for the seller to transfer the entire assets of a business or division thereof in order for the occasional sale exemption to apply. Such a rule would be similar to those states discussed in Category 1.⁴³⁴ If this is, in fact, the underlying rationale for South Carolina's non-unitary rule, then South Carolina should consider amending its statute and/or regulations to expressly set forth this requirement instead of using the non-unitary approach.⁴³⁵ Otherwise, South Carolina should amend its statute and/or regulations to delete the non-unitary requirement.

J. Category 10: Seller Must Have Previously Paid Sales Tax on Non-Inventory TPP Being Transferred (Florida,⁴³⁶ Nebraska,⁴³⁷ Wyoming⁴³⁸)

Florida,⁴³⁹ Nebraska, and Wyoming require that the seller must have paid sales tax on the non-inventory TPP transferred in the Asset Sale in order for the

429. See *supra* notes 278-98 and accompanying text.

430. South Carolina imposes other trap for the unwary requirements. See *supra* Table 1.

431. See *supra* Part II.R.

432. See *supra* Part II.M.

433. See *supra* notes 278-98 and accompanying text.

434. See *supra* Part III.A.

435. See *supra* notes 278-98 and accompanying text.

436. Florida imposes other trap for the unwary requirements. See *supra* Table 1.

437. Nebraska imposes other trap for the unwary requirements. See *supra* Table 1.

438. Wyoming imposes other trap for the unwary requirements. See *supra* Table 1.

439. With respect to Florida, this requirement relates to the occasional sale exemption for isolated sales. See *supra* Part II.E.

occasional sale exemption to apply.⁴⁴⁰ This requirement relates to the underlying premise of the occasional sale exemption that an exemption should exist with respect to previously taxed TPP in order to prevent pyramiding of tax.⁴⁴¹

However, even though the requirement relates to an underlying purpose of the occasional sale exemption, it is not likely necessary because other sales and use tax rules typically exist to ensure that the business has paid sales or use tax on the purchase, use, or consumption of non-exempt TPP. For example, assume a business purchases 100 units of inventory for resale but later takes five units out of inventory for use in the operation of the business (e.g., a convenience store that also sells coffee takes milk cartons originally purchased for resale off the shelf to use as creamer for customers purchasing coffee). Generally, sales and use tax provisions would have already required the business to pay use tax on the consumption of such TPP. Thus, the requirement is likely “belts and suspenders” and not even needed because safeguards already exist in other sales and use tax provisions.

The “previously-paid” rule may also extend too far. For example, what if the subject TPP was purchased for resale or under the manufacturing exemption, so no sales tax was due at the time of purchase? The rule cannot mean that the occasional sale exemption is lost unless tax is paid on all previously un-taxed TPP, including exempt TPP. The requirement must only extend to non-exempt TPP, but the face of the rule is not clear. At a minimum, Florida, Nebraska, and Wyoming should consider clarifying this issue in its statute and/or regulations.⁴⁴²

CONCLUSION

There are a myriad of legal issues that the transactional attorney must assist his or her client in the sale of a business. One of these issues is determining whether to structure the deal as a sale of the underlying assets or as a sale of the equity interests. If the parties choose an Asset Sale structure, then one of the many issues that they must address is determining whether the transfer of the subject assets will create sales tax implications or, alternatively, whether an exemption from sales tax exists. A common sales tax exemption that applies in Asset Sales is the occasional sale exemption. Most states have an occasional sale exemption, however, the states are not uniform in the requirements that must be satisfied in order for the occasional sale exemption to apply. Some states have broad exemptions for occasional, casual or isolated sales, whereas other states have narrow exemptions.

The focus of this Article is on the states having narrow exemptions or cumbersome or perhaps counterintuitive requirements that must be satisfied in order for the occasional sale exemption to apply. Are there valid policy reasons for the narrow exemptions? Do the cumbersome requirements make sense and

440. *See supra* Part II.E, II.M, II.T. Florida and Wyoming also impose other trap for the unwary requirements. *See supra* Table 1.

441. *See supra* notes 278-98 and accompanying text.

442. *See supra* notes 278-98 and accompanying text.

are they really needed? Is there a policy reason behind the counterintuitive requirements or do they ultimately just serve as a “gotcha” to taxpayers and practitioners?

In many instances, there are valid policy reasons for the narrow, cumbersome, and/or counterintuitive requirements, but these requirements may be more restrictive than necessary. Moreover, in many cases where valid policy reasons exist, the requirements are oftentimes still troublesome because they are at odds with the practical nature of Asset Sales. For each of the subject “trap for the unwary” states, this Article makes recommendations for how the states should consider amending their statutes and/or regulations if policy reasons for certain occasional sale requirements do not rationally relate to a valid policy purpose, are overly restrictive, and/or if the requirements are unworkable from a practical standpoint.

A follow-up query resulting from the analysis set forth in the Article is whether a uniform occasional sale exemption among the states would be desirable to have from a policy perspective. While this Article does not specifically address this issue and does not come to a definitive conclusion on uniformity, it is certainly something to consider in view of the number of states fitting into the trap for the unwary category with respect to their occasional sale exemption requirements.

EMPIRICALLY MEASURING THE IMPACT OF PHOTO ID OVER TIME AND ITS IMPACT ON WOMEN

MICHAEL J. PITTS*

INTRODUCTION

Voter identification laws that require most prospective voters to present government-issued photo identification as a condition of casting a countable ballot continue to be an enormous issue in legislatures and courtrooms across the United States. The 2012 Presidential election cycle featured the high-profile adoption of and litigation related to photo identification laws from Pennsylvania to Texas to South Carolina.¹ The 2014 mid-term election cycle featured passage of new photo identification laws and litigation from Tennessee to Wisconsin to Arkansas to Virginia to Kansas to Texas (again!).²

* Professor of Law and Dean's Fellow, Indiana University Robert H. McKinney School of Law. Enormous thanks go to Erin Radefeld, Georgianna Tutwiler, and Jackie Flint for excellent research assistance.

1. *Texas v. Holder*, 888 F. Supp. 2d 113 (D.D.C. 2012); *Applewhite v. Commonwealth*, No. 330 M.D. 2012, 2012 WL 3332376 (Pa. Commw. Ct. July 16, 2012); *South Carolina v. Holder*, 898 F. Supp. 2d 30 (D.D.C. 2012).

2. In Arkansas, a state trial court declared that state's law to be in violation of the Arkansas Commissioners. *Arkansas State Bd. of Election Comm'rs v. Pulaski Cnty. Election Comm'n*, 437 S.W.3d 80 (Ark. 2014). That ruling was stayed pending appeal by the Arkansas Supreme Court. *Court Grants Stay in Arkansas Voter-ID Ruling*, ARK. ONLINE (Apr. 29, 2014, 4:44 PM), <http://www.arkansasonline.com/news/2014/apr/29/state-defends-info-request-voter-id-case/?breaking>, archived at <http://perma.cc/4X8T-E7K5>. A later ruling by the Arkansas Supreme Court struck down Arkansas' law on state constitutional grounds. *Martin v. Kohls*, 444 S.W.3d 844 (Ark. 2014). In Tennessee, the State Supreme Court rejected several state constitutional challenges to Tennessee's photo identification law. *City of Memphis v. Hargett*, 414 S.W.3d 88 (Tenn. 2013). In Wisconsin, a federal district court held that Wisconsin's photo identification law violated both the Fourteenth Amendment and section 2 of the Voting Rights Act. *Frank v. Walker*, Case No. 11-CV-01128, 2014 WL 1775432 (E.D. Wis. Apr. 29, 2014). That ruling was subsequently reversed by the Seventh Circuit. *Frank v. Walker*, 768 F.3d 744 (7th Cir. 2014). The Supreme Court then stayed the Seventh Circuit decision. *Frank v. Walker*, 135 S. Ct. 7 (2014). Virginia passed a more stringent photo identification law in 2013. Markus Schmidt, *Virginia Prepares for New Voter Photo ID Law*, RICHMOND TIMES-DISPATCH (Dec. 8, 2013, 12:00 AM), http://www.timesdispatch.com/news/state-regional/virginia-politics/virginia-prepares-for-new-voter-photo-id-law/article_39b3e5d5-dd31-52f9-ae4f-19d550349ccd.html, archived at <http://perma.cc/C395-P5XQ>. In Kansas, a lawsuit against that state's photo identification law was dropped. John Hanna, *2 Men End Federal Lawsuit Over Kansas Voter ID Law*, THE WASHINGTON TIMES (Apr. 24, 2014), <http://www.washingtontimes.com/news/2014/apr/24/2-men-end-federal-lawsuit-over-kansas-voter-id-law/?page=all>, archived at <http://perma.cc/4HQF-MZSV>. A federal district court in Texas enjoined that state's photo identification law on statutory and constitutional grounds. *Veasey v. Perry*, 2014 WL 5090258 (S.D. Tex. Oct. 9, 2014). The Fifth Circuit stayed that decision pending appeal. *Veasey v. Perry*, 769 F.3d 890 (5th Cir. 2014).

Yet there is still very little research related to how photo identification laws actually impact the electorate in terms of the amount of disfranchisement caused by photo identification laws. The lack of research on actual disfranchisement stems from several factors. First, is that photo identification laws are in some ways in their toddler years, having only first appeared anywhere on the landscape in 2006, and only becoming much more widespread after the 2010 mid-term elections.³ Second, is that it can be difficult to determine the amount of actual disfranchisement *caused* by photo identification laws.⁴ Most studies (and expert testimony in litigation) offer statistics about the *potential* for disfranchisement by attempting to measure how many potential voters do not have valid photo identification.⁵ Other studies purport to measure the turnout effect of voter identification laws but such studies may well be unreliable about gauging a photo identification law's impact.⁶ Other potential studies, such as post-election surveys about the reasons for not voting that specify lack of valid identification as the sole cause of not voting, do not appear to exist.

Perhaps the most definitive way to document *actual* disfranchisement caused by a photo identification law at a given election is to determine the number of persons who cast a provisional ballot because of a lack of valid photo identification and then did not have that ballot counted. Admittedly, this is an imperfect proxy for the amount of actual disfranchisement in that it may overstate⁷ or (more likely) understate⁸ the amount of disfranchisement that occurred because of a photo identification law at an election. Nevertheless, at the moment, it seems to be the best way to estimate the scope of actual

3. Michael J. Pitts, *Photo ID, Provisional Balloting, and Indiana's 2012 Primary Election*, 47 U. RICH. L. REV. 939, 939-40 (2013) [hereinafter Pitts, *Photo ID*].

4. Trymaine Lee, *Voter ID Laws Could Disenfranchise 1 Million Young Minority Voters: Study*, HUFFINGTON POST (Sept. 12, 2012, 6:57 PM), http://www.huffingtonpost.com/2012/09/12/voter-id-laws-minorities_n_1878893.html, archived at <http://perma.cc/UL6Z-X8LV> (indicating the hypothetical nature of positions on disenfranchisement).

5. See, e.g., Expert Report Submitted on Behalf of Plaintiffs at 2, *Applewhite v. Commonwealth*, No. 330 M.D. 2012, 2012 WL 3332376 (Pa. Commw. Ct. July 16, 2012).

6. See generally Robert S. Erickson & Lorraine Minnite, *Modeling Problems in the Voter Identification—Voter Turnout Debate*, 8 ELECTION L.J. 85, 87 (2009). See also Jack Citrin et al., *The Effects of Voter ID Notification on Voter Turnout: Results from a Large-Scale Field Experiment*, 13 ELECTION L.J. 228, 229 (2014) (describing problems with inferring the impact of photo identification requirements through studies of turnout).

7. For instance, considering a provisional ballot cast and not counted because of a lack of valid photo identification as amounting to disfranchisement relies upon the assumption that the person casting the provisional ballot was not committing fraud.

8. To take one example, it is possible that a person was denied the ability to cast a regular ballot because of a lack of valid photo identification but the person decided not to complete a provisional ballot. See Kay Campbell, *Voter fraud? 92-year-old Great-Grandmother's Expired Driver's License Unacceptable for Voter ID*, AL.COM (June 3, 2014, 2:48 PM), http://blog.al.com/breaking/2014/06/voter_fraud.html, archived at <http://perma.cc/7WGN-XJ25> (relating story of prospective voter who lacked photo identification and who declined filling out a provisional ballot).

disfranchisement caused by photo identification laws.

The research presented here is part of a series of studies related to the impact of Indiana's photo identification law during the two presidential election cycles at which it has been implemented—2008 and 2012.⁹ This Article tracks the number of provisional ballots cast and not counted because of a lack of voter identification at Indiana's 2012 general election. Importantly, this Article also addresses a relatively new argument that became prominent during the run-up to the 2012 presidential election—the idea that photo identification laws disparately disfranchise female voters. This Article addresses that argument by tracking the gender of those persons who cast provisional ballots due to a lack of valid photo identification—something that, to the best of this author's knowledge, has not been previously done anywhere in the literature.¹⁰

While the research presented here allows for several conclusions, the most important of those conclusions are as follows. First, Indiana's photo identification law appears to have a relatively small (in relation to the total number of ballots cast) overall actual disfranchising impact on the electorate. Second, Indiana's photo identification law's actual disfranchising impact seems to be headed in a downward direction when one compares data from the 2008 general election to the 2012 general election. Third, Indiana's photo identification law appears to have a disparate impact on women.

The first part of this Article provides background on Indiana's photo identification law and the basics of this research. The second part of the Article presents data and discussion of the lessons that can be learned from that data in relation to the photo identification law in general. The last part of the Article presents data and discussion related the Indiana photo identification law's disparate impact on women.

I. INDIANA'S PHOTO IDENTIFICATION LAW AND RESEARCH BASICS

The picayune details of Indiana's photo identification law have been related extensively elsewhere.¹¹ Thus, this Article will not rehash the extensive

9. These studies include: Michael J. Pitts, *Empirically Assessing the Impact of Photo Identification at the Polls Through an Examination of Provisional Balloting*, 24 J. OF L. & POLITICS 475 (2008) [hereinafter Pitts, *Empirically Assessing*]; Michael J. Pitts & Matthew D. Neumann, *Documenting Disfranchisement: Voter Identification During Indiana's 2008 General Election*, 25 J. OF L. & POLITICS 329 (2009) [hereinafter Pitts & Neumann, *Documenting Disfranchisement*]; Pitts, *Photo ID*, *supra* note 3.

10. W. Gardner Selby, *No Evidence for Claim That Texas Voter ID Law Tries to Disenfranchise Women and Defeat Wendy Davis*, POLITIFACT TEXAS (Oct. 31, 2013, 2:27 PM), <http://www.politifact.com/texas/statements/2013/oct/31/democratic-governors-association/no-evidence-behind-claim-2011-voter-id-law-came-be/>, archived at <http://perma.cc/LQ2Q-2N8H> (citing expert on photo identification from the Brennan Center as being unaware of research related to photo identification's impact on women).

11. For a more detailed description of the intricacies of Indiana's photo identification law, see Antony Page & Michael J. Pitts, *Poll Workers, Election Administration, and the Problem of*

intricacies of Indiana's photo identification law except as necessary to understanding this research, the law's impact, and potential policy changes. That said, a basic understanding and description of Indiana's photo identification law is warranted.

Indiana's photo identification law requires persons who present themselves at a polling place on election day to provide government-issued photo identification.¹² The photo identification provided by the prospective voter must: (1) Have been issued by the State of Indiana or the federal government; (2) Have an expiration date and be unexpired or only very recently expired; and (3) Have a name on the identification that "conforms" to the name of the prospective voter in the poll book.¹³ The three basic forms of identification most likely to meet this requirement are an Indiana driver's license, an Indiana state identification card, and a United States passport.¹⁴ In addition, photo identifications issued by the military without an expiration date also suffice to meet the law's requirements.¹⁵ Moreover, the State of Indiana provides free photo identifications for voting purposes to those persons who cannot afford the fee for acquiring state identification.¹⁶

Indiana's photo identification law establishes a system for dealing with a person who appears at the polls without a valid photo identification—that person may cast a provisional ballot.¹⁷ After casting a provisional ballot, the person then has ten days after the election to return to the local election office and take one of two alternative steps to validate the provisional ballot.¹⁸ The first alternative is to show a valid photo identification.¹⁹ The second alternative is to sign an affidavit stating that the person cannot secure a free, valid photo identification without payment of a fee (i.e., for a birth certificate needed to obtain a State identification card) or that the person has a religious objection to being photographed.²⁰

While the law generally requires every person voting at an election to present a valid photo identification, there are several exceptions or what might be termed "work-arounds" that allow persons without a valid photo identification to cast a countable ballot. Perhaps the most significant of these work-arounds is that a

Implicit Bias, 15 MICH. J. OF RACE & LAW 1, 14-20 (2009) and Pitts, *Empirically Assessing*, *supra* note 9, at 482-85.

12. IND. CODE § 3-11-8-25.1(a) (2014).

13. *Id.* § 3-5-2-40.5.

14. *Id.* § 3-11.7-5-2.5 (a)(1).

15. *Id.* § 3-5-2-40.5(b).

16. *Obtaining a Photo ID*, INDIANA ELECTION DIV., <http://www.in.gov/sos/elections/2625.htm> (last visited June 25, 2014), *archived at* <http://perma.cc/GS3P-SVHT> (providing information about obtaining a free photo identification for voting purposes).

17. IND. CODE § 3-11.7-5-2.5 (2014).

18. *Id.* § 3-11.7-5-1(b) (ten-day period); *id.* § 3-11.7-5-2.5(a) (appearance before circuit court clerk or county election board).

19. *Id.* § 3-11.7-5-2.5(b).

20. *Id.* § 3-11.7-5-2.5(c).

person who casts an absentee ballot by mail does not need to present photo identification.²¹ While not all registered voters in Indiana have the ability to cast an absentee ballot by mail, any registered voter who is aged sixty-five or older or who is disabled may do so.²² In addition, persons whose election-day polling place is located in the nursing home in which they reside also do not need to show photo identification on election day.²³

In addition to Indiana's photo identification requirement, one other identification requirement in Indiana merits attention—the identification requirement mandated by the Help America Vote Act (“HAVA”).²⁴ The HAVA identification requirement applies to a specific subcategory of voters—persons who have registered to vote by mail, who have not previously voted in a federal election within Indiana, and who have not previously provided proof of identification as part of their registration application.²⁵ The HAVA identification requirement is different, though, from the photo identification requirement because the HAVA requirement can be fulfilled using non-photo forms of identification.²⁶ For this reason, it is possible for a prospective voter to be able to satisfy the HAVA identification requirement but not Indiana's photo identification requirement. To make matters even more confusing, the HAVA identification requirement can also be satisfied by presentation of a “current and valid photo identification.”²⁷ However, Indiana's photo identification requirement does not require the photo identification to be current.²⁸ Thus, it is also possible for a prospective voter who has a government-issued photo identification to be able to satisfy Indiana's photo identification requirement but not the HAVA identification requirement.

The fact that persons who lack valid photo identification at the polling place on election day can cast a provisional ballot provides one means to assess the impact of Indiana's photo identification law on the electorate and forms the basis for this research. Following the 2012 general election, each of Indiana's ninety-two counties was contacted and asked to provide all of the documents related to provisional balloting.²⁹ In addition, to ensure each county was providing a

21. *Id.* § 3-11-10-24(c) (requirements for voting absentee by mail).

22. *Id.* § 3-11-10-24(4)-(5).

23. *Id.* § 3-11-8-25.1(e).

24. Help America Vote Act, 52 U.S.C. § 21083 (2014).

25. *Id.* § 21083(b).

26. *Id.* § 21083(b)(2)(A)(ii)(I)-(II) (allowing “a copy of a current utility bill, bank statement, government check, paycheck, or other government document that shows the name and address of the voter” to satisfy the HAVA identification requirement).

27. 42 U.S.C. § 15483(b)(2)(A)(ii) (2014).

28. *See supra* notes 12-14 and accompanying text.

29. Three documents related to provisional balloting were requested from each county: the PRE-4, PRO-10, and PRO-2. The PRE-4 is filled out by both the prospective voter and poll worker and contains a box for the poll worker to indicate the reason why (e.g., a lack of valid photo identification) a provisional ballot was cast. The PRO-10 form is filled out by a person who cast a provisional ballot due to a lack of valid photo identification when returning to the county election

relatively³⁰ complete set of provisional balloting documents, a form on which the counties reported the number of provisional ballots cast and counted was gathered from the Indiana Secretary of State's office.³¹

After gathering provisional balloting documents from ninety-one of Indiana's ninety-two counties,³² the documents were analyzed to determine the following items of interest:³³ (1) The number of provisional ballots cast in each county; (2)

office after election day to validate a provisional ballot. The PRO-2 form is a document where the county election board indicates whether a provisional ballot has been counted or not counted. To view copies of these forms, see Pitts, *Empirically Assessing*, *supra* note 9, at 514-18. The requests made for these documents often necessitated follow up to ensure county election offices were providing the most complete set of provisional balloting paperwork available.

30. I use the term "relatively" because in some instances the documents each county actually possesses related to provisional ballots do not exactly correspond to what the county reported to the Secretary of State. However, most of the time, the discrepancies are relatively small. For instance, the counties provided documents that amounted to a total of 4869 provisional ballots at the 2012 general election whereas the counties reported 5189 total provisional ballots to the Secretary of State. The greatest discrepancies (in terms of raw numbers) between reports to the Secretary of State and the actual paperwork provided came in Clark, Elkhart, Lake, Marion, Porter, Vanderburgh, and Vigo Counties. But, again, even these slight discrepancies (reported *infra* in Appendix A) seem unlikely to impact the macro-level findings of this research.

31. The form obtained from the Secretary of State is known as a CEB-9 form. The CEB-9 is a post-election report filed with the Secretary of State by each county that provides basic data about the election. Pitts, *Photo ID*, *supra* note 3, at 947-48. For purposes of this study, the CEB-9 form contains three important pieces of information: the total ballots cast, the total provisional ballots cast, and the total provisional ballots counted. *Id.* CEB-9 forms were gathered from ninety counties. Two counties (Jasper and LaGrange) did not file a CEB-9 form with the Secretary of State.

32. Crawford County refused to provide its provisional balloting documents. However, it would not appear that the lack of documents from Crawford County would make much difference to this research as Crawford County reported only five total provisional ballots on its CEB-9. *See infra* Appendix A.

33. It is worth noting that the Election Assistance Commission ("EAC") provides some data for provisional balloting and provisional ballots related to Indiana's photo identification law in their 2012 Election Administration and Voting Survey. ELECTION ADMIN. COMM'N, 2012 ELECTION ADMIN. AND VOTING SURVEY 48 (2013), available at http://www.eac.gov/assets/1/Page/990-050%20EAC%20VoterSurvey_508Compliant.pdf, archived at <http://perma.cc/CPS8-WHMB>. That data is fairly accurate and consistent with this research in regard to the overall number of provisional ballots cast and the overall number of provisional ballots counted at Indiana's 2012 general election. *See id.* at 48 (reporting 4801 total provisional ballots and 804 counted provisional ballots). However, the EAC differs significantly when it comes to the number of provisional ballots rejected because of a lack of voter identification. *See id.* at 52 (reporting 452 provisional ballots rejected for lack of sufficient identification). Moreover, the EAC data does not appear to provide the number of voter identification provisional ballots that were counted.

The discrepancy in the data is undoubtedly due to the different methodology used by the EAC for its data collection than the methodology used here. This research relies on provisional ballot

The number of provisional ballots counted in each county; (3) The number of provisional ballots cast due to a lack of photo identification in each county; (4) The number of provisional ballots cast due to a lack of photo identification *counted* in each county; (5) The number of provisional ballots cast due to a lack of HAVA-related identification in each county; and (6) The number of provisional ballots cast due to a lack of HAVA-related identification *counted* in each county.³⁴ With this data, it then becomes possible to get a sense of the impact of the photo identification law on an election in Indiana. In addition, this data can also be compared with similar data from Indiana's 2008 general election to assess the impact of the photo identification law in Indiana over time.

II. MEASURING THE IMPACT OF INDIANA'S PHOTO IDENTIFICATION LAW

The results of the research from the 2012 general election are displayed in Table A. Table A also includes a comparison of those results with data previously obtained from the 2008 general election. Discussion of these results follows. In addition, individual data for all ninety-two of Indiana's counties is included in Appendix A.

documents collected from every Indiana county and an independent review of those documents. The EAC's research relies on surveys of the states. *Id.* at 4-5 (detailing survey methodology). Reliance on collection of data by survey of the states leads to under-reporting in relation to categorizing the various reasons for why a provisional ballot was cast and/or not counted. *Id.* at 56 (showing 3041 uncounted provisional ballots as "not categorized").

34. Classifying provisional ballots as related to the photo identification law or even just as counted or not counted involves mostly science, but also a dash of art. The provisional balloting documents in Indiana could fairly be described as cumbersome. Thus, poll workers and even local election boards do not always complete the documents to perfection. For this reason, it is sometimes unclear why a particular provisional ballot was cast and whether a particular provisional ballot went counted or uncounted.

In generating the data for this research, a fairly conservative approach was adopted in determining what constituted a photo identification or HAVA-related identification provisional ballot and what constituted a provisional ballot that had been counted. This conservative approach meant that unless the provisional ballot documents clearly indicated the reason for the provisional ballot was identification-related and/or clearly indicated the provisional ballot had been counted, the provisional ballot would be characterized as not related to identification and/or not counted. It is unlikely, however, that decisions on the margins involving how to classify provisional ballots would significantly alter the results of this research.

Table A

Category	2012 General	2008 General ³⁵
Total Ballots ³⁶	2,676,601	2,805,982
Total Provisional Ballots Cast	4,869	7,094
Total Provisional Ballots Counted	706	2,035
Total ID Provisional Ballots Cast ³⁷	714	1,039
Total ID Provisional Ballots Counted ³⁸	69	137
Provisional Ballots Cast as a Percentage of Total Votes	0.18%	0.25%

35. Data from the 2008 general election appears in Pitts & Neumann, *Documenting Disfranchisement*, *supra* note 9, at 352-53.

36. The total number of ballots cast comes from CEB-9 forms filed by counties with the state with two exceptions. The data from Jasper and LaGrange Counties comes from the Indiana Secretary of State's website. Gen. Election Turnout and Registration (Nov. 6, 2012), http://www.in.gov/sos/elections/files/2012_General_Election_Turnout_Report.pdf, *archived at* <http://perma.cc/XH44-HACS>.

37. The "Total ID Provisional Ballots Cast" combines the number of photo identification-related provisional ballots cast with the number of HAVA identification-related provisional ballots cast. This was done for two reasons. First, data that distinguishes between photo ID-related provisional ballots and HAVA-related provisional ballots cast at the 2008 general election is not available. Pitts & Neumann, *Documenting Disfranchisement*, *supra* note 9, at 342 n.57 (explaining methodology for 2008 empirical study of photo identification). Second, the inclusion of HAVA-related provisional ballots does not likely have much of an impact on the overall results. For instance, at Indiana's 2008 primary election, only forty-seven HAVA-related provisional ballots were cast. *Id.* at 342 n.58.

At the 2012 general election, only 129 HAVA-related provisional ballots were cast. And even that number likely overstates the amount of HAVA-related provisional ballots cast because seventy-six of these HAVA-related provisional ballots came from a single county—Vanderburgh County—a result that leads me to suspect that poll workers erroneously identified a lack of photo identification as a lack of HAVA identification on the provisional ballot forms.

38. The "Total ID Provisional Ballots Counted" combines the number of photo identification-related provisional ballots counted with the number of HAVA-related provisional ballots counted. Including the number of HAVA-related provisional ballots counted does little to change the rate at which identification-related provisional ballots were counted, as only nineteen of the 129 HAVA-related provisional ballots were counted.

ID Provisional Ballots Cast as a Percentage of Total Votes	0.026%	0.037%
ID Provisional Ballots Cast as a Percentage of Total Provisional Ballots	14.6%	14.6%
Total Provisional Ballots Counted as a Percentage of Total Provisional Ballots Cast	14.4%	28.7%
ID Provisional Ballots Counted as a Percentage of ID Provisional Ballots Cast	9.6%	13.2%

Photo ID *actually* disfranchises relatively few voters. The data from the 2012 general election seems to confirm several things about the impact of Indiana’s photo identification law. First, the 2012 data, particularly when analyzed in conjunction with the 2008 data, suggests that relatively few people are actually disfranchised by the photo identification requirement. At the 2012 general election, only about 650 persons in an electorate of nearly 2.7 million voters did not have a ballot counted because of a problem with voter identification.³⁹ That is a very small number in relation to the size of the electorate and not an amount of persons who are likely to make an impact on the outcome of a statewide election.⁴⁰

In fairness, it is certainly true that a study of provisional balloting cannot account for all the disfranchisement caused by a photo identification law. There are undoubtedly other ways that photo identification laws cause disfranchisement, including because poll workers fail to offer a provisional ballot to a prospective voter who does not have valid photo identification or because a prospective voter refuses to engage in the somewhat time consuming process of completing a provisional ballot. There have, however, not been widespread reports or empirical data to support the idea that thousands of provisional ballots are not being cast because of these sorts of occurrences.⁴¹

39. See *supra* Table A (showing that out of 714 photo ID provisional ballots cast, sixty-nine were counted).

40. Cf. Nate Cohn, *Why Voter ID Laws Will Seldom Swing Elections*, N.Y. TIMES, Nov. 20, 2014, at A3 (arguing that voter ID laws “don’t make enough of a difference to decide anything but the closest contests, when anything and everything matter.”).

41. It may also be the case that a study of provisional ballots *overstates* the level of disfranchisement occurring because of the inability to present valid photo identification. On one level, it may be that persons who cast provisional ballots because of a lack of valid photo identification and who did not later validate those provisional ballots were committing fraud. However, that seems unlikely because persons committing voter fraud would be utterly foolish to leave a paper trail of the fraud. More likely would be that persons who cast provisional ballots because they lacked valid photo identification actually have valid photo identification and either forgot their identification or just refused to show their photo identification out of opposition to the law. See, e.g., *City of Memphis v. Hargett*, 414 S.W.3d 88, 94 (Tenn. 2013) (noting that of thirty-two voters who cast provisional ballots due to a lack of photo identification at the 2012 primary

Perhaps the strongest possibility for a lack of actual disfranchisement showing up in provisional balloting would be that potential voters remain at home because they know they do not possess a valid photo identification. The theory would be that the photo identification law is well-known among registered voters, some voters who remain at home do not possess or do not have the ability to easily secure a valid photo identification, and, because of their knowledge of these barriers, they sit on the sidelines by not venturing out to the polling place at all.

But the idea that there are tens of thousands or even thousands of persons staying home because they lack valid photo identification seems far-fetched—at least in Indiana. First, these would-be voters would have to know the details of voting rules, and one suspects that many voters are not intimately familiar with polling place processes. Second, if there were thousands of persons staying at home because of a lack of photo identification, an empirical study—for instance a scientifically conducted post-election survey—could be performed to provide a working estimate of how many such persons exist. Yet, to date, no one has placed such a survey in the field in Indiana despite the widespread amount of litigation related to photo identification laws. Third, if such persons existed and numbered in the tens of thousands, one would have expected interest groups opposed to photo identification to have rallied these persons, perhaps to form the basis of a lawsuit.⁴² Finally, there is some evidence that voter knowledge of strict (e.g., photo) voter identification laws may actually *increase* turnout.⁴³ At the end of the day there is currently not any credible empirical evidence for the notion that knowledge of inability to comply with Indiana’s photo identification law is keeping Indiana voters away from the polls in droves.⁴⁴ If Indiana’s photo

election in Shelby County, twenty had a Tennessee driver’s license); Suevon Lee, *What Effect, If Any, Did Voter ID Laws Have on the Election?*, PRO PUBLICA (Nov. 15, 2012, 2:34 PM), <http://www.propublica.org/article/what-effect-if-any-did-voter-id-laws-have-on-the-election>, archived at <http://perma.cc/G2JT-D2SE> (reporting how one voter in New Hampshire refused to show photo identification as an “act of defiance”).

42. While an unsuccessful federal lawsuit was brought against Indiana’s photo identification law, that lawsuit was filed prior to implementation of the law. *Crawford v. Marion Cnty. Election Bd.*, 553 U.S. 181, 186-87 (2008). Moreover, that lawsuit was unsuccessful in large part due to the lack of evidence of disfranchisement. *Id.* at 198-203. Presumably the implementation of Indiana’s photo identification law over several election cycles presents a renewed opportunity to gather thousands of plaintiffs who are actually disfranchised by the law if those persons actually exist.

43. Citrin et al., *supra* note 6, at 235, 238 (finding “little support for the hypothesis that notification of ID requirements depresses turnout” and that “experimental results suggest that notifications about voter identification requirements may increase turnout”).

44. For additional and more detailed discussion of reasons why Indiana’s photo identification law has likely not kept tens of thousands of persons away from the polls, see Pitts & Neumann, *Documenting Disfranchisement*, *supra* note 9, at 343-46.

A national study showed that lack of identification was a contributing factor for not voting for forty-four percent of non-voters who lacked a driver’s license in “strict” photo identification states. Charles Stewart III, *Voter ID: Who Has Them? Who Shows Them?*, 66 OKLA. L. REV. 21, 50

identification law has not led to widespread disfranchisement, the search then becomes for explanations as to why that is the case. One reason might be that the vast majority of registered voters who are interested in casting a ballot have valid photo identification.⁴⁵ In addition, it is likely that the political market adapts relatively quickly to photo identification laws such that those persons who want to vote either secure a free photo identification from the state or use the ability to vote absentee by mail to cast a ballot.⁴⁶ In relation to the idea that registered voters secure identification, *nearly 1.2 million persons* have received a free photo identification from the State of Indiana since passage of the photo identification law.⁴⁷ Moreover, political campaigns and non-profit groups may be helping voters get these free photo identifications.⁴⁸ In relation to the idea that voters without valid photo identification are finding ways around the law, the amount of absentee voting in Indiana more than doubled after implementation of the photo identification law.⁴⁹ While it is likely some of this increase in absentee voting is due to greater availability of absentee voting, some of the increase may well be attributable to seniors or other individuals who lack valid photo identification casting absentee ballots by mail—a method of voting that does not

(2013). However, the researcher who reported that statistic urged “extreme caution” because the finding was based on a small number of respondents. *Id.* Moreover, this research also does not appear to isolate lack of photo ID as the sole factor for not voting. *Id.*

45. Citrin et al., *supra* note 6, at 229 (“[T]he vast majority of Americans, including minorities, claim to have necessary identification . . .”).

46. *Cf.* Seth C. McKee et al., *Evolution of an Issue: Voter ID Laws in the American States*, Prepared for Delivery at the 2013 Annual Meeting of the American Political Science Association 7 (Aug. 29, 2013–Sept. 1, 2013) (transcript available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2300630), archived at <http://perma.cc/5ZGF-MQTN> (“Although political participation is remarkably sensitive to contextual factors such that slight changes to the costs and benefits of voting can clearly move the needle up or down . . . , in most settings, voter ID laws will likely have marginal effects on voter participation. Indeed, the findings on the question of whether restrictive voter ID laws actually depress turnout are largely inconclusive.”).

47. Email from Elizabeth Murphy, General Counsel, Indiana Bureau of Motor Vehicles, to Michael Pitts (Jan. 18, 2013) (on file with author) (showing that between 2006 and 2012, Indiana had issued 1,178,394 free IDs).

48. See Michael D. Shear, *Obama Campaign Grapples with New Voter ID Laws*, N.Y. TIMES (Apr. 29, 2012), http://www.nytimes.com/2012/04/30/us/politics/obama-campaign-confronts-voter-id-laws.html?_r=2&ref=politics&, archived at <http://perma.cc/9NAZ-6WJF>; Citrin et al., *supra* note 6, at 231 (describing efforts by the League of Women Voters to help registered voters secure identification).

49. Indiana’s photo identification law was adopted in 2005. S. Enrolled Act 438, Pub. L. No. 109 (2005). Prior to adoption of the law, at the 2004 general election, 260,550 absentee ballots were cast. Indiana Election Division, *Indiana Election Results*, IN.GOV, <http://www.in.gov/sos/elections/2400.htm> (last visited May 7, 2014), archived at <http://perma.cc/8E9D-L4N6>. After implementation of the law, at the 2008 general election, 662,443 absentee ballots were cast, and at the 2012 general election 590,445 absentee ballots were cast. *See id.*

require presentation of a valid photo identification.⁵⁰

One thing that bears acknowledgement is that this research focuses on actual disfranchisement rather than the *potential* for disfranchisement and that the potential for disfranchisement from a photo identification law may be much higher than actual disfranchisement. For example, a federal district court in Wisconsin enjoined Wisconsin's photo identification law, finding that approximately 300,000 registered voters lacked valid photo identification.⁵¹ That number, however, likely overstates the amount of actual disfranchisement by quite a lot. For starters, that number was contested by another expert witness who deemed the number of registered voters without a valid photo identification to be closer to 170,000 persons.⁵² Second, even assuming there are 300,000 Wisconsin registered voters without a valid photo identification, it is possible that many of those voters will not cast a ballot.⁵³ Third, it is possible that many of those 300,000 registered voters will be able to secure a free photo identification.⁵⁴ Fourth, it is possible that some of those 300,000 registered voters will be able to vote without showing a photo identification through one of the exceptions in the law.⁵⁵

Indeed, it may well be a mistake for opponents of photo identification laws to focus on the potential for disfranchisement rather than actual disfranchisement. Opponents of photo identification laws tend to seize upon the idea that photo identification solves a non-existent problem—voter impersonation fraud (which might also be called “voter identity theft”). They, quite rightfully, justify that position by citing to the lack of evidence of voter impersonation fraud.⁵⁶ But proponents of photo identification laws generally counter that there is the *opportunity* for voter impersonation fraud through, for example, bloated voter

50. IND. CODE § 3-11-10-24(c) (2014) (requirements for voting absentee by mail).

51. *Frank v. Walker*, No. 11-CV-01128, slip op. at 23 (E.D. Wis. Apr. 29, 2014) (“I find that approximately 300,000 registered voters in Wisconsin, roughly 9% of all registered voters, lack a qualifying ID.”).

52. *Id.* at 74.

53. For instance, a study in North Carolina found that about 319,000 registered voters lacked state-issued photo identification. State Board of Elections, April 2013 SBOE-DMV ID Analysis 6 (April 17, 2013), <http://www.democracy-nc.org/downloads/SBOE-DMVMatchMemoApril2013.pdf>, archived at <http://perma.cc/E6KC-2368>; see also Nate Cohn, *Finally, Real Numbers on Voter ID*, NEW REPUBLIC (July 22, 2013), <http://www.newrepublic.com/article/113986/voter-id-north-carolina-law-hurts-democrats>, archived at <http://perma.cc/PZX3-6W3J>. However, only about 138,000 of those voters participated in the 2012 general election, and about sixty-three percent of voters who did not participate in the 2012 general election had not participated in any of the last five general elections. *Id.*

54. It is worth noting that even if a registered voter secures valid photo identification to prevent disfranchisement, the burden of securing that photo identification adds an additional cost to voting that may not be worth the amount of in-person voter fraud prevented.

55. *Frank*, slip op. at 5-6 (listing exceptions).

56. RICHARD L. HASEN, *THE VOTING WARS* 6 (2012).

registration lists.⁵⁷ So, to the extent that opponents of photo identification laws focus on the opportunity for disfranchisement that, at least in this author's view, gives credence to the "opportunity for fraud" arguments from proponents of photo identification laws.

Notably, though, the amount of actual disfranchisement created by a photo identification law may well depend on the nature of the photo identification law adopted. For instance, Indiana's law essentially has a broad exception for voters over the age of sixty-five because those voters can cast an absentee ballot by mail that does not require them to provide photo identification.⁵⁸ In contrast, Wisconsin's photo identification law does not seem to have as broad an exception for elderly voters.⁵⁹ Put simply, all photo identification laws are not created equal and may have different impacts—a point that often gets lost in the broad strokes of the photo identification debate.

But the basic results from Indiana do seem to be consistent with the experience of implementing photo identification laws in other states. Newspaper reports have indicated that in states where photo identification laws have been passed, very few provisional ballots have been cast by voters who lacked valid photo identification.⁶⁰ For example, at the 2012 general election in Tennessee, 674 persons cast provisional ballots because of a lack of photo identification out of 2.45 million ballots cast.⁶¹ At the 2012 general election in New Hampshire, which was testing its photo identification law, about one percent of voters did not have or refused to show a valid photo identification.⁶² At the 2012 primary election in Alabama, 282 ballots went uncounted because voters lacked photo identification.⁶³ Results from several elections in Georgia between 2007 and

57. Crawford v. Marion Cnty. Election Bd., 553 U.S. 181, 194-98 (2008) (plurality opinion) (discussing Indiana's fraud prevention justification for its photo identification law); see also Michael D. Gilbert, *The Problem of Voter Fraud*, COLUM. L. REV. (forthcoming 2015), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2488645.

58. See *supra* note 16 and accompanying text.

59. WIS. STAT. §§ 6.86(2), 6.875 (only allowing elderly voters who are indefinitely confined to their homes or certain care facilities to vote absentee without providing photo identification); see also Frank, slip op. at 6. For other differences between Indiana's and Wisconsin's law, see Frank v. Walker, 768 F.3d 744, 746 (7th Cir. 2014).

60. See generally David Brooks, *About 1 Percent of NH Voters Didn't Show ID on Election Day; Letters to Be Sent Out*, NASHUA TELEGRAPH (Nov. 27, 2012), <http://www.nashuatelegraph.com/print/?sid=2870836>, archived at <http://perma.cc/R32X-A9DM>; Suevon Lee, *What Effect, If Any, Did Voter ID Laws Have on the Election*, PROPUBLICA (Nov. 15, 2012, 1:34 PM), <http://www.propublica.org/article/what-effect-if-any-did-voter-id-laws-have-on-the-election>, archived at <http://perma.cc/G2JT-D2SE>; Shannon McCaffrey, *Voter Turnout Surges Amid Five-Year ID Law*, ATL. J-CONST., Sept. 3, 2012, at 1A.

61. Lee, *supra* note 60.

62. Brooks, *supra* note 60.

63. Martin J. Reed, *Alabama's Voter ID Law Blamed for at Least 282 Ballots Uncounted in Primary*, AL.COM (Sept. 3, 2014, 4:45 PM), http://www.al.com/news/birmingham/index.ssf/2014/09/alabamas_voter_id_law_blamed_f.html, archived at <http://perma.cc/YL32-RJ3V>. To be fair,

2012 also produced similar data.⁶⁴

At the end of the day, though, while there is very strong evidence to think photo identification laws cause some actual disfranchisement within the citizenry, at the moment there is not compelling evidence to demonstrate that the amount of actual disfranchisement is in the hundreds, or even tens, of thousands within Indiana. And, to the extent that Indiana's law serves as a model for other photo identification laws being adopted, this may tend to indicate those other laws will not lead to massive disfranchisement within those states.⁶⁵

Provisional balloting “rescues” very few photo identification provisional ballots. After studying several elections at which Indiana's photo identification law has been in place, it has become clear that if a prospective voter casts a provisional ballot due to a lack of valid photo identification, there is an enormously high likelihood that the ballot will ultimately go uncounted. In the 2012 general election, less than ten percent of provisional ballots cast due to a lack of voter identification were ultimately counted.⁶⁶ This small number is consistent with findings from the 2008 general election, and from primary elections in 2008 and 2012.⁶⁷ This small number is also consistent with empirical evidence found elsewhere.⁶⁸

The lack of provisional ballots counted after being cast for lack of valid photo identification may indicate that the photo identification law should be changed to increase the chances of such a ballot being counted.⁶⁹ Currently, the burden of validating a provisional ballot lies with the voter who has to make an additional post-election trip to the local election office.⁷⁰ Instead, perhaps the burden of determining whether to count a provisional ballot cast by a person without valid photo identification should be placed more on election administrators rather than registered voters themselves. For instance, after the election, an election official could call the phone number listed on the voter registration to confirm that the

this statistic only represented data from 49 of Alabama's 67 counties. *Id.*

64. McCaffrey, *supra* note 60 (noting that over several elections at which about 13.6 million total votes were cast, only 1586 ballots went uncounted because of Georgia's photo identification law).

65. Pitts & Neumann, *Documenting Disfranchisement*, *supra* note 9, at 331 (noting how Indiana's photo identification law may serve as a model for other such laws).

66. *Supra* Table A.

67. *See generally* Pitts & Neumann, *Documenting Disfranchisement*, *supra* note 9; Pitts, *Empirically Assessing*, *supra* note 9; Pitts, *Photo ID*, *supra* note 3.

68. *See City of Memphis v. Hargett*, 414 S.W.3d 88, 94 (Tenn. 2013) (reporting that at the 2012 primary election in Shelby County, Tennessee, thirty-two persons cast provisional ballots due to a lack of a valid photo identification and only four of those provisional ballots were counted).

69. If the provisional ballot process is essentially meaningless then perhaps the provisional balloting process should be eliminated when it comes to casting a ballot because of a lack of valid photo identification. However, such a change in the law would seem to violate HAVA. HAVA requires a provisional ballot be offered to a person whose name does not appear on the poll book or who is declared by an election official as ineligible to vote. 42 U.S.C. § 15482(a) (2014).

70. *See* Page & Pitts, *supra* note 11 and accompanying text.

person who presented himself or herself at the polling place was not an impersonator and also visit that person's physical address to secure such confirmation.⁷¹ This would not seem to be much of a post-election burden on election administrators, as most counties have only a handful of provisional ballots related to photo identification. The main point, though, is that Indiana law should probably be amended to provide a better way of handling these provisional ballots so that more of them get counted.

As all provisional ballots go, so go voter identification-related provisional ballots. In general, the rate of provisional balloting fell from the 2008 to 2012 general election.⁷² At the 2008 general election, the percentage of provisional ballots in relation to the total votes cast was 0.25%; at the 2012 general election, the percentage of provisional ballots in relation to the total votes cast was 0.18%.⁷³ The number of identification-related provisional ballots also fell.⁷⁴ However, the number of identification-related provisional ballots in relation to the total number of provisional ballots cast remained steady at 14.6% at each election.⁷⁵

The decrease in the rate of identification-related provisional ballots could be the result of many different things. It is possible that the decrease was caused by more registered voters without valid photo identification securing valid identification. The decrease might also be caused by more registered voters without valid photo identification using absentee balloting by mail (which does not require valid photo identification). On the other hand, it is also possible the decrease was caused by voters without valid photo identification staying home because of the foreknowledge that they would not be able to cast a countable ballot due to a lack of valid photo identification. Thus, at the end of the day, it is not clear whether the lower number of identification-related provisional ballots at the 2012 election reflects a lower amount of actual disfranchisement or just a different type of actual disfranchisement.

III. THE GENDER IMPACT OF PHOTO IDENTIFICATION

Photo identification laws have been adopted and implemented for nearly a decade and the arguments against photo identification laws have generally solidified. However, in the past couple of years, a different argument moved to the forefront of the photo identification debate. That argument is that photo

71. I suppose that such a confirmation would not prevent voter fraud that occurred by a person who (1) submitted a fake registration form and then (2) cast a provisional ballot under that fake registration. However, it seems unlikely that persons knowingly committing voter fraud would create a paper trail of that fraud by casting a provisional ballot, providing a phone number to be contacted, and then actually conversing or meeting with an election official. *See supra* note 28.

72. *See supra* Table A.

73. *Id.*

74. *Id.*

75. *Id.*

identification laws have a disproportionate impact on women.⁷⁶

The argument that women will be disproportionately disfranchised by photo identification laws focuses largely on the potential for a mismatch between the name on the identification and the name on the poll books. The notion is that women are highly likely to change their name after marriage or divorce.⁷⁷ Because women are more likely to change their names than men, the name on the identification may not exactly match the name on the registration list, and poll workers may deny those women the ability to cast a regular ballot.⁷⁸

Most photo identification laws, however, have a process that allows for persons who have had their name changed to vote a regular ballot. For instance, in Texas, if a voter's name on her identification does not match the name in the poll book, the voter may sign an affidavit on the poll book asserting she is the same person.⁷⁹ Importantly for our purposes, in Indiana, a person whose name has changed can indicate that name change on the poll book and cast a regular ballot.⁸⁰ In short, if poll workers implement the laws as written, name changes due to marriage or divorce should not be a problem for women.⁸¹

But proper implementation of photo identification laws by poll workers may be a big if. Poll workers may not implement the name-change rules properly for numerous reasons, including lack of knowledge or training.⁸² Put simply, poll worker error in relation to name changes could disproportionately impact women because they are more likely to have name changes than men.

One possible way of assessing whether photo identification laws disproportionately impact women—due to name changes or otherwise—would be to examine whether women are overrepresented in the number of provisional ballots cast and not counted due to a lack of identification. If women are more likely to be disfranchised by problems with the photo identification law—particularly those related to name changes—one might expect that more women in relation to their proportion of the electorate generally would cast a provisional ballot because of a photo identification problem.

76. Barbara Arnwine & Eleanor Smeal, *The War on Voting is a War on Women*, MSNBC (Oct. 20, 2013, 5:59 PM), <http://www.msnbc.com/msnbc/the-war-voting-war-women>, archived at <http://perma.cc/P4T2-VN59>; Selby, *supra* note 10 (noting that very little of the discussion relating to passage of Texas' photo ID law in 2011 related to the potential for disfranchising women).

77. Renee Davidson, *How Voter ID Laws Disproportionately Impact Women—And What We're Doing About It*, LEAGUE OF WOMEN VOTERS (Jan. 2, 2014), <http://www.lwv.org/blog/how-voter-id-laws-disproportionately-impact-women-%E2%80%93-and-what-we%E2%80%99re-doing-about-it>, archived at http://perma.cc/9JXB-E37T#_blank.

78. Martha T. Moore, *State Voter ID Laws Snare Women with Name Changes*, USA TODAY (Oct. 30, 2013, 7:05 PM), <http://www.usatoday.com/story/news/politics/2013/10/30/voter-id-laws-name-changes/3315971/>, archived at http://perma.cc/D72V-AACG#_blank.

79. *Id.*

80. For a detailed explanation of the issue in Indiana, see Page & Pitts, *supra* note 11, at 18 n.96.

81. *See id.*

82. Moore, *supra* note 78.

Unfortunately, Indiana's provisional balloting paperwork does not contain information to explicitly indicate the gender of the person casting the provisional ballot. Thus, to determine the gender of the persons who cast provisional ballots because of a lack of photo identification at the 2012 general election, the documentation accompanying each provisional ballot had to be reviewed and categorized by name. The categorizing of names was done initially by two research assistants and then reviewed by the author. In almost all instances, categorization of the gender of the person casting the provisional ballot was done by first name. In a few instances, the combination of a first and middle name was used to make the determination. In about a handful of instances, the name was ambiguous but some other notation on the materials indicated gender. A complete list of how the names were categorized appears as Appendix B to this article.⁸³ The results appear in Table B.

Table B

Category	Total	Male	Female	Undetermined
Turnout⁸⁴	2,801,000	1,331,000 (47.5%)	1,470,000 (52.5%)	N/A
Photo ID Provisional Ballots	585	216 (36.9%)	310 (52.9%)	59 (10.0%)
Photo ID Provisional Ballots with Gender Determined	526	216 (41.0%)	310 (58.9%)	N/A
Photo ID Counted	50	15 (30.5%)	28 (56%)	7 (14%)
Photo ID Counted with Gender Determined	43	15 (34.9%)	28 (65.1%)	N/A

While not definitive, the data suggests that photo identification laws do have a disparate disfranchising impact on women. Women made up 52.5% of the electorate at the 2012 general election.⁸⁵ However, they comprised 58.9% of the photo identification provisional ballots that were categorized as either female or male.⁸⁶ And while female provisional ballots were slightly more likely to be

83. The categorization of names by gender is an imperfect science. However, it seems unlikely that the imperfections would be more than slight and that the slight imperfections would significantly change the analysis.

84. For purposes of studying gender disparities, data on turnout was obtained from the United States Census. United States Census, *Voting and Registration*, <http://www.census.gov/hhes/www/socdemo/voting/publications/p20/2012/tables.html> (last visited June 17, 2014), *archived at* <http://perma.cc/LR6S-J4RF> (Table 4b).

85. *See* Table B.

86. There is no reason to think that the less than ten percent of provisional ballots that could

counted than male ballots—even considering this slight differential, women disproportionately have their provisional ballots rejected due to Indiana’s photo identification law.

Interestingly, the data also suggests that the HAVA identification requirement has a similar disparate disfranchising impact on females. As the data in Table C shows, women comprised more than sixty percent of the HAVA identification provisional ballots that were categorized as either male or female. And, again, while female HAVA identification provisional ballots were slightly more likely to be counted than their male counterparts, that slight differential does not lessen the disfranchising impact by very much.⁸⁷

Table C

Category	Total	Male	Female	Undetermined
Turnout	2,801,000	1,331,000 (47.5%)	1,470,000 (52.5%)	N/A
HAVA Provisionals	129	47 (36.4%)	74 (57.3%)	8 (6.2%)
HAVA Provisionals with Gender Determined	121	47 (38.8%)	74 (61.1%)	N/A
HAVA Counted	19	6 (31.6%)	11 (57.9%)	2 (10.5%)
HAVA Counted with Gender Determined	17	6 (35.3%)	11 (64.7%)	N/A

At the end of the day, this research provides some empirical evidence suggesting that photo identification laws will have a more disfranchising impact on women than men.⁸⁸ Of course, this study only comprises one election with one state’s photo identification law, so further research at other elections and in other states would be needed to more definitively prove the disparate impact.

not be categorized as male or female would substantially change the results. Even if every single one of those ballots had been cast by a male, women would still be disparately impacted—though less so. Indeed, a review of the names listed as “Undetermined” in Appendix B makes it seem much more likely that the provisional ballots with undetermined names would break along the same lines as the provisional ballots where gender could be identified.

87. Of course, if my theory is correct about Vanderburgh County misclassifying photo identification-related provisional ballots as HAVA identification-related provisional ballots, *see supra* note 33, then the data related to HAVA may be less useful.

88. Of course, it is possible the disparate impact would not exist if we could account for other ways photo identification laws disfranchise voters. For instance, perhaps men are more likely than women to stay away from the polls in their entirety because they know they do not have a valid photo identification. Or, maybe men who lack valid photo identification are more likely than women to refuse to undergo the provisional balloting process. However, to the best of my knowledge, there is no obvious reason to think either of these scenarios is correct.

Moreover, this research does not demonstrate the reasons why women would be more disparately impacted than men by a photo identification law but the theory that name changes are more prevalent among women than men might provide a reasonable explanation.

CONCLUSION

Photo identification laws are still relatively new on the landscape and not all photo identification laws operate in the same manner. However, in Indiana, a state where a photo identification law has been operating over several election cycles, it appears that the photo identification law causes the actual disfranchisement of relatively few voters. That said, some disfranchisement occurs and, to the extent that disfranchisement occurs, this research suggests that women are disproportionately disfranchised.

Yet significant work remains to be done in this area. Other state's photo identification laws need to be tracked over several election cycles and other state's need to be analyzed to determine if their laws also suggest a gender-based disparity of disfranchisement. Most importantly, other research needs to more definitively pin down just how many persons are staying away from the polls because they know they cannot meet a photo identification requirement. Only with additional research in all these areas can the full extent of disfranchisement of photo identification laws be known.

Appendix A

County	Total Ballots	CEB-9 Total Provisionals	CEB-9 Counted Provisionals	Documents Total Provisionals	Documents Counted Provisionals	Photo ID-Related Provisionals	Photo ID-Related Counted	HAVA Total Provisionals	HAVA Counted
Adams	13,231	25	5	24	5	5	2	0	0
Allen	148,995	345	107	344	114	34	4	2	1
Bartholomew	29,753	17	2	15	2	6	1	0	0
Benton	3,686	1	0	1	0	0	0	0	0
Blackford	4,838	8	0	8	0	0	0	0	0
Boone	28,068	26	4	26	4	2	0	0	0
Brown	7,766	37	4	37	4	6	1	0	0
Carroll	8,028	29	10	29	10	2	1	0	0
Cass	14,484	38	20	38	20	8	2	0	0
Clark	47,867	196	61	162	21	18	0	3	0
Clay	11,130	0	0	0	0	0	0	0	0
Clinton	10,079	14	0	14	1	1	0	0	0
Crawford	3,938	5	3	NA	NA	NA	NA	NA	NA
Daviess	10,449	1	1	1	1	1	1	0	0
Dearborn	22,660	14	4	11	3	0	0	0	0
Decatur	10,494	3	0	3	0	2	0	0	0
DeKalb	16,594	9	1	9	1	2	0	0	0
Delaware	37,231	72	29	72	29	0	0	7	7
Dubois	18,973	0	0	0	0	0	0	0	0
Elkhart	68,450	240	52	222	21	16	2	1	0
Fayette	8,973	5	3	5	3	2	2	0	0
Floyd	35,820	68	8	74	8	11	2	0	0
Fountain	7,250	20	8	20	8	1	0	1	1
Franklin	10,727	22	5	21	3	7	0	1	1
Fulton	8,388	6	0	6	0	2	0	0	0
Gibson	14,973	8	0	8	0	0	0	0	0
Grant	25,738	22	4	24	5	1	0	0	0
Greene	13,433	0	0	0	0	0	0	0	0
Hamilton	138,252	31	6	31	6	7	0	1	0
Hancock	33,073	74	2	74	3	2	1	0	0
Harrison	17,942	62	19	54	8	11	3	0	0
Hendricks	67,538	71	3	70	3	7	0	0	0
Henry	19,413	0	0	2	0	0	0	0	0
Howard	37,056	70	24	71	16	13	6	3	1
Huntington	16,002	2	0	2	0	1	0	0	0

County	Total Ballots	CEB-9 Total Provisionals	CEB-9 Counted Provisionals	Documents Total Provisionals	Documents Counted Provisionals	Photo ID-Related Provisionals	Photo ID-Related Counted	HAVA Total Provisionals	HAVA Counted
Jackson	17,006	5	1	5	1	1	0	0	0
Jasper	21,934	NA	NA	0	0	0	0	0	0
Jay	8,047	19	2	17	0	0	0	0	0
Jefferson	13,380	19	0	19	0	6	0	1	0
Jennings	10,647	30	6	29	5	0	0	0	0
Johnson	58,520	14	1	14	1	2	0	0	0
Knox	15,457	0	0	0	0	0	0	0	0
Kosciusko	30,507	66	6	66	6	7	0	0	0
LaGrange	15,743	NA	NA	15	0	0	0	0	0
Lake	205,847	772	93	728	89	55	1	4	1
LaPorte	44,648	74	8	74	8	14	1	0	0
Lawrence	18,239	16	4	15	3	2	0	0	0
Madison	53,066	61	1	61	0	8	0	0	0
Marion	361,278	947	120	918	152	79	5	12	2
Marshall	18,103	3	1	3	1	2	1	0	0
Martin	4,890	11	1	11	1	7	1	0	0
Miami	12,947	5	2	5	2	1	1	0	0
Monroe	57,951	198	39	197	1	76	0	7	0
Montgomery	14,744	6	0	6	0	0	0	0	0
Morgan	28,735	30	4	30	4	5	1	0	0
Newton	5,752	3	0	3	0	0	0	0	0
Noble	16,630	9	1	9	1	1	1	0	0
Ohio	4,538	11	3	11	3	4	2	0	0
Orange	7,966	30	2	30	2	2	0	0	0
Owen	8,287	6	1	5	1	1	1	0	0
Parke	6,634	25	10	25	10	2	0	0	0
Perry	8,046	12	2	12	2	5	0	0	0
Pike	6,101	10	0	8	0	0	0	0	0
Porter	73,810	115	26	87	22	12	1	6	2
Posey	12,461	15	6	15	6	1	0	0	0
Pulaski	5,509	4	3	2	2	0	0	0	0
Putnam	14,007	24	4	24	4	3	0	0	0
Randolph	10,374	16	1	15	0	3	0	2	0
Ripley	11,141	2	0	2	0	0	0	0	0
Rush	7,150	0	0	0	0	0	0	0	0
St. Joseph	111,622	101	4	102	4	27	0	2	0
Scott	8,929	5	0	5	0	1	0	0	0

County	Total Ballots	CEB-9 Total Provisionals	CEB-9 Counted Provisionals	Documents Total Provisionals	Documents Counted Provisionals	Photo ID-Related Provisionals	Photo ID-Related Counted	HAVA Total Provisionals	HAVA Counted
Shelby	17,063	10	2	10	2	1	0	0	0
Spencer	15,662	21	0	22	0	2	0	0	0
Starke	8,944	27	3	27	3	6	0	0	0
Steuben	13,857	25	11	25	11	1	0	0	0
Sullivan	8,485	0	0	0	0	0	0	0	0
Switzerland	3,547	2	0	2	0	0	0	0	0
Tippecanoe	58,275	336	12	337	13	21	0	0	0
Tipton	7,497	0	0	0	0	0	0	0	0
Union	3,130	0	0	0	0	0	0	0	0
Vanderburgh	73,486	350	27	230	28	18	2	76	3
Vermillion	6,750	2	0	2	0	0	0	0	0
Vigo	40,357	143	5	97	5	1	0	0	0
Wabash	13,185	0	0	0	0	0	0	0	0
Warren	3,913	0	0	0	0	0	0	0	0
Warrick	24,984	18	4	18	4	9	0	0	0
Washington	10,916	14	1	14	0	12	0	0	0
Wayne	26,225	18	8	20	8	13	2	0	0
Wells	13,098	7	1	8	0	2	0	0	0
White	10,082	5	2	5	2	3	2	0	0
Whitley	15,207	6	0	6	0	1	0	0	0
Totals	2,676,601	5,189	813	4,869	706	585	50	129	19

Appendix B

County	Male	Female	Undetermined
Adams	Kenneth, Zaid	Kelly, Linda, Amber	
Allen	Arlen, Jon, Larry, Jared, Lawrence, Paul, Shane, Stephen, Joshua, James, Robener Alexander, William, Branden Michael	Ashlee Beth, Madison, Sally, Freda, Darcia, Lucretia, Beverly, Norma, Josalein Rose, Kayla, Allison, Diane, Karen, Jana Renee, Jaquayla, Evelyn, Artelethea, Doris, Aisha	Tishunna, Chukwemeka, Guile, Berl
Bartholomew	Bryce, Hector	Melissa, Tamara, Tracy, Regina	
Boone		Kimberly	Leslie
Brown	Steven	Opal Marie, Naomi, Danielle, Samantha	Ofelda
Carroll		Dorothy, Mary	
Cass	Arthur, Walter, David, James	Mary, Katie, Courtney, Mary	
Clark	Travis, Ronald, David, Foster Steven, Michael	Christina, Kristina, Jane, Mariah, Elaine, Patricia, Barbara, Ebony, Ashley, Erin, Kasandra	Noel, Athesham, Jalese, Dorlas, Gerry
Clinton	Clayton		
Daviess	Jeremiah		
Decatur	Michael	Teresa	
DeKalb	Chase	Melissa	
Delaware	Nathan, Julian, Desmond	Lori, Megan	Kelly, Nadirah
Elkhart	Ronald, James, Lamar, Stephen, Travis, Edward, Douglas, Paul, Francis	LeAnna, Kim Ann, Dorothy, Sheryll, Queen, Lela, Julia	Sam
Fayette		Linda, Genevieve	
Floyd	Edward, Ricky, Keith	Amelia, Delisa, Catina, Mary, Acquanitta	Stormi, Eyna, Sanford
Fountain		Judy, Mary	
Franklin	Thomas, Bradley	Vanessa, Emily, Lori, Jodie, Megan, Danette	
Fulton		Eileen, Polly	
Grant		Kaynia	
Hamilton	Jared Matthew, Christopher, Robert, Chad	Kimberly, Yolanda, Laurie, Mindy	
Hancock	Steven		Verl
Harrison	Ivan, Larry	Tina, Apryl, Latisha, Katherine, Millie, Marilee, Bonnie	
Hendricks	Tom, David, Carlos	Tamara, Julie, Michele, Margaret	

County	Male	Female	Undetermined
Howard	Patrick, Larry, Taylor	Lorretta, Amber, Stacie Lynn, Lottie Louise, Cheryl, Dionna, Sheryl, Ruth, Maxine, Sandra, Wanda, Gabriella	Darrion
Huntington		Sherri	
Jackson	David		
Jefferson	Fred, Michael, Seth	Lydia, Mary, Sylvia, Erin	
Johnson		Teresa, Mary Jane	
Kosciusko	Troy, Robert, Christopher, Earl	Carolyn, Marilyn, Phyllis	
Lake	James, Gregory, Phillip, Dennis, Glenn, Raymond, Tom, Brian, Wardell, Byron, Christopher, Michael, Johnathan, Daniel, Alex, Benjamin, Michael	Evelyn, Beverly, Emily, Jacqueline, Pearleatha, Latoya, Esther, Theresa, Carolyn, Sylvia, Delores, Tia, Shayla, Margaret, Diamond, Diane, Heather, Rosalie, Alicia, Creconia Tiera, Kimberly, Edith, Charlotte, Suzanne, Andrea, Elaine, Crystal, Lisa, Betty, Jacqueline, Myra, Heather	Antaneah, Corvette, Avery, Hariah, Dominique, Shevon, Angel, Markie, Dorian
LaPorte	Dewayne, Willie, Joe	Doris, Christine, Karen, Krystel, Nora, Josephine, Joanne, Denise	San Juana, Conchada, Azania
Lawrence	Samuel, Stephen		
Madison	Ronnie, Tom, Eddie, Rafael, Andrew, Kaleb	Angela, Evevonne	
Marion	Antonio, Cecil, William, Dane, Brent, Danny, Donald, Daniel, Jason, Noah, Kevin, Donald, Robert, Keith, Derik, Robert, Richard, Jay, Ronald, David, Cody, John, Ryan, Bryan, James, Michael, Richard, Raymond, Direk, Robert, Timothy, Robbin, Adrian, Hayden, Adrian, Deon	Toria, Felisha, Christy, Brittany, Roberta, Deborah, Lori, Rhonda, Sable, Kathryn, Lauren, Jan, Hollon Marie, Re`Nesia, Amber, Shelia, Ruby, Crystal, Debra, Mary, Patricia, Julie, Shante, Lakenya, Carolyn, Elizabeth, Diane, Heather, Christina, Deirdre, Christal, Angela, Tiffany, Emily, Marguerite, Kathy, Anne, Margaret, Rhoda, Krista, Elizabeth	Daladien, Akossiwa, Jamie, Taquila, Treasan, Lee, Torrey, Kwabena, Latrell, Dominique, Ajarae, Dorian, Meredian, Bryen
Marshall	Auston	Nicole	
Martin	Randy, Charles, Brian, Travis, Franklin	Melinda, Linda	
Miami		Betty	

County	Male	Female	Undetermined
Monroe	Jeremiah, John, Anthony, Scott, Stephen, Matthew, John, Timothy, Joseph, John, Joseph, Blair Christopher, Aaron, Daniel, Donald, Max, Daniel, Tyler, Robert, Brian, Andrew, Devin, Harold, Andrew, Thomas, Matthew, Mason, Dennis, Steven, Benjamin, John, Christopher, Jedd, Chris	Kristin, Kayla, Fernanda, Laura, Jacqueline, Martha, Carolyn, Marilyn, Sally, Amanda, Diana, Nadia, Karen, Madison, Emma, Christina, Lily, Brittany, Ella, Chelsea, Nicole, Rachel, Jennifer, McKenzie, Linda, Nichelle, Erin, Trisha, Shirley, Grace, Anna, Pamela, Heather, Jessica, Bernita, Tierra, Deborah, Kelsey, Celia, Heidi, Natalie, Brittany, Laura	Toro, Abdelmuezz, Shae, Sarasopa, Taylor, ⁸⁹ Leslie
Montgomery			
Morgan	John, Jay, Darrin Charles, Garry		Vernes
Noble		Donna	
Ohio—all the information is redacted. Not sure how to proceed			All names redacted
Orange	Jerry		Naaman
Owen	Richard		
Parke	Charles	Kathy	
Perry	Herman	Brittney, Robin, Tabitha, Mary	
Porter	Benjamin, Bart, Joshua, Harold, Gorgi	Melissa, Anne, Marguerite, Paula, Susan, Diane, Megan, Stephanie, Brittany, Sheri	Zenaida, Terra, Jamie`
Posey		Carolyn	
Putnam	Austin, Kevin	Melissa	
Randolph		Natalie, Annette, Tiffani, Nettie	Terry
St. Joseph	Joe, Dennis, John, Clinton, Ricky, Charles, Sean, Timothy, Bob, Abraham, John, Ronald, Dane, Timothy	Nancy, Brigitte, Bettie, Kelsey, Jodi, Kimbra, Mary Ann, Antonia, Ana, Katherine, Adrienne, Valerie, Marian	Zayre, Quinn
Scott	David		

89. There was a Taylor that was listed as a male in Howard County but that was because there was other evidence in the documents of gender.

County	Male	Female	Undetermined
Shelby		Karen	
Spencer		Faith, Tonya	
Starke	Paul	Marie, Jessica, Ashley, Christina, Kerrie	
Steuben		Teresa	
Tippecanoe	Philip, Thomas, Thomas, Wayne, Darrel, Timothy	Tonya, Latisha, Keriann, Barbara, Natalie, Akina, Gloria, Delores, Priscilla, Beverly, Susan, Amber, Monica	Fairbee, Quron
Vanderburgh	Christopher, Eric, John, David, Micahl, Michael, Andrew, Bradley, Adam, Kyle, Kyle, Charles, Nicholas, Aaron, Matthew, Jared, Josh, Michael, Antonio, James, Travis, Justin, Matt, Gary, Zachary, Kenny, Gary, Keivon, Kevin, Matthew, Gerald, Corey, James, Aaron, Adrian	Nora, Melissa, Stacey, Sandra, Dolores, Naquasha, Mary, Kameelah, Monica, Heather, Morella, Krystal, Jacinda, Sarah, Sharon, Janet, Kathryn, Abby, Kelli, Laura, Carley, Terri, Stacey, Ann, Dorothy, Antoinette, Caitlin, Brenda, Lauren, Melissa, Ellen, Tiffany, Rosemarie, Katherine, Ashley, Lisa, Deborah, Darla, Samantha, Myra, Tania, Pamela, Teresa, Jessica, Lesa, Dorothy, Tia, Jessica, Michele, Jesusita, Ashlynn, Linda, Michelle, Jennifer, Mary, Karen, Lisa, Elizabeth, Amanda	
Vigo		Crystal	
Warrick	Dennis, Robert, Darrell	Tamara, Amy, Brittany, Carol, Leah, Mary	
Washington	Joseph, William, Allen, Donald, Jeff, Vance	Geneva, Lindsey, Maggie, Dorothy, Michelle, Cora	
Wayne	Douglas, Ralph, Miles, Aaron, Jesse	Donna, Phoebe, Stacy, Charlette, Megan, Kathleen, Kimberly	Leslie
Wells	Francis	Jeanelle	
White	Marlon	Lizbeth, Elizabeth	
Whitley	Jared		

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NOTES

THE FUTURE OF THE DIGITAL MILLENNIUM COPYRIGHT ACT: HOW AUTOMATION AND CROWDSOURCING CAN PROTECT FAIR USE

ADAM EAKMAN*

INTRODUCTION

On August 6, 2012, NASA completed one of the most technologically advanced missions in the agency's history.¹ After a decade of work and input from hundreds of employees, NASA successfully landed a robotic rover named Curiosity on the planet Mars.² Curiosity travelled over 350 million miles and landed almost flawlessly.³ NASA anticipated a global audience for this historic event and prepared a YouTube channel to exhibit video taken from this mission.⁴ Just one hour after Curiosity landed on Mars, while popping champagne and exchanging high-fives, NASA engineers posted a thirteen-minute video of the extraordinary landing on their YouTube channel.⁵ Ten minutes later the video was inaccessible.⁶

Anyone who tried to access the video encountered this message: "This video contains content from Scripps Local News, who has blocked it on copyright grounds."⁷ This video was created by NASA and was posted on NASA's official YouTube channel, yet was ultimately removed by a private news service.⁸ This video did not contain any copyright-infringing material; the removal was simply

* J.D. Candidate, B.A. in Theology and B.S.E. in Education from the University of Dayton.

1. *NASA Facts: Mars Science Laboratory/Curiosity*, NAT'L AERONAUTICS & SPACE ADMIN., http://www.jpl.nasa.gov/news/fact_sheets/mars-science-laboratory.pdf (last visited Feb. 21, 2014), archived at <http://perma.cc/ZSV4-M8GB>.

2. *Id.*

3. Jason Hanna, 'Impressive' Curiosity Landing Only 1.5 Miles Off, *NASA Says*, CNN (Aug. 14, 2012, 6:25 PM), http://www.cnn.com/2012/08/10/us/mars-curiosity/index.html?eref=mrss_igoogle_cnn, archived at <http://perma.cc/3KSB-A4GU>.

4. Alex Pasternack, *NASA's Mars Rover Crashed into a DMCA Takedown*, MOTHERBOARD (Aug. 6, 2012, 11:49 AM), <http://motherboard.vice.com/blog/nasa-s-mars-rover-crashed-into-a-dmca-takedown>, archived at <http://perma.cc/A2GH-ZDLU>.

5. *Id.*

6. *Id.*

7. *Id.*

8. *Id.*

a mistake.⁹ Nor was this the first time such a mistake happened.¹⁰ Just four months earlier, NASA posted a video on YouTube of the Space Shuttle *Discovery* being transported to the Kennedy Space Center that was also inadvertently removed.¹¹ In fact, a NASA official stated that videos on NASA's YouTube channel are mistakenly removed about once per month.¹²

Yet why would someone make such an obvious error and mistake footage of Mars' terrain for copyright infringement? The answer is no one did. No *person* claimed that this video infringed on a copyright. Rather, an automated process designed to find and eliminate copyright infringement generated a request to YouTube to remove this material, mistaking it for genuine piracy.¹³ In turn, YouTube's own automated process responded to this request and removed the material quickly.¹⁴ The video was posted, identified, and removed in less than ten minutes.¹⁵

This process was part of a routine application of the procedure prescribed in the Digital Millennium Copyright Act ("DMCA").¹⁶ At the close of the twentieth century, Congress passed the DMCA in an attempt to protect copyright-protected material from Internet piracy while still allowing the growth of creative expression on the Internet.¹⁷ By providing "safe harbors" for websites that may host third-party content and meet the law's prescribed conditions, the DMCA has allowed for the exponential growth of websites such as Google, YouTube, Facebook, and Amazon without the threat of constant copyright-related litigation.¹⁸ By following the procedures required under the DMCA, a website is able to respond to copyright infringement requests quickly, easily, and with confidence that it will not face litigation.¹⁹

Today, application of the DMCA has grown as quickly as the websites it is designed to protect.²⁰ Although it is impossible to know the number of DMCA requests that are generated each day, the few corporations that publish the number of DMCA requests they review provide staggering numbers.²¹ By the close of

9. *Id.*

10. *Id.*

11. Joshua Kostein, *NASA's New Rover Arrives on Mars, Crash Lands in YouTube's DMCA Hell*, VERGE (Aug. 6, 2012, 5:24 PM), <http://www.theverge.com/2012/8/6/3223820/nasa-rover-youtube-copyright-takedown>, archived at <http://perma.cc/Z9RZ-XN93>.

12. *Id.*

13. Pasternack, *supra* note 4.

14. *Id.*

15. *Id.*

16. Digital Millennium Copyright Act of 1998, 17 U.S.C. § 512 (2013).

17. S. REP. NO. 105-190, at 2 (1998).

18. Edward Lee, *Decoding the DMCA Safe Harbors*, 32 COLUM. J.L. & ARTS 233, 259-60 (2009).

19. *Id.*

20. See *Google Transparency Report*, GOOGLE, <http://www.google.com/transparencyreport/removals/copyright/> (last visited January 9, 2014), archived at <http://perma.cc/AJW3-5E8J>.

21. See, e.g., *id.*

2013, Google was receiving twenty-five million DMCA takedown requests per month.²² For many Internet-based businesses like Google that receive a flood of DMCA takedown requests daily, the Herculean task of responding to all of these requests has become overwhelming.²³

For these businesses the only viable solution is automation.²⁴ For large companies like Microsoft, the task of managing DMCA requests for their vast array of copyrights has been entrusted to outside firms which use an automated process to efficiently generate DMCA takedown requests for their clients.²⁵ Degban, for example, is a company that specializes in helping other companies combat piracy of their copyrighted material using “innovative intelligent technology.”²⁶ The sheer number of DMCA requests companies like Degban generate leave little doubt that automation is involved in this process.²⁷ Degban alone has generated DMCA requests to remove over one hundred-twenty million URL’s from Google since March 2011.²⁸

Other websites that host third-party material use an in-house automated process to remove potentially infringing material.²⁹ YouTube, a website which allows third parties to upload and watch videos, employs an automated system called Content ID for detecting and removing potentially infringing material.³⁰ If a user uploads a video that matches a database of copyright-protected videos managed by Content ID, the user’s video may be removed by the copyright holder in a matter of minutes.³¹ While a user can fight a wrongful takedown, this process can take up to a month.³²

These structures provide a glimpse into a future in which copyright-protected material is monitored exclusively by automated systems.³³ In the future, it is possible that automated systems, rather than judicious people, will be both

22. *Id.*

23. See Tim Cushing, *LeakID and the DMCA Takedown Notice Farce*, TECHDIRT (Nov. 2, 2012, 8:32 AM), <http://www.techdirt.com/articles/20121026/17190420859/leakid-dmca-takedown-notice-farce.shtml>, archived at <http://perma.cc/BAY6-DWPK>.

24. *Id.*

25. *Id.*

26. *About Us*, DEGBAN, <http://www.degban.com/aboutus.html> (last visited Oct. 3, 2014), archived at <http://perma.cc/B756-2U8R>.

27. Cushing, *supra* note 23.

28. *Google Transparency Report*, *supra* note 20.

29. See *How Content ID Works*, YOUTUBE, <http://www.youtube.com/t/contentid> (last visited Oct. 3, 2014), archived at <http://perma.cc/XH4S-TKXG>.

30. *Id.*

31. *Id.*

32. Paul Tassi, *The Injustice of YouTube ContentID Crackdown Reveals Google’s Dark Side*, FORBES (Dec. 19, 2013, 10:00 AM), <http://www.forbes.com/sites/insertcoin/2013/12/19/the-injustice-of-the-youtube-content-id-crackdown-reveals-googles-dark-side/>, archived at <http://perma.cc/XP9K-JMY8>.

33. See *infra* Part III.

generating and responding to requests to remove information.³⁴ This could mean that the information available through the Internet may not be limited by any human creativity, but rather, by automated processes designed to protect copyright-protected material.³⁵ Computers, rather than people, would determine the future composition of the Internet.³⁶

Internet-based businesses that must scour all the content they host and separate copyright-infringing material from legitimate speech face several questions that this article seeks to address. First, is automation an effective solution to this problem? More specifically, are computer programs capable of accurately detecting when copyright-protected material is being pirated on the Internet while still protecting non-infringing material? Second, if automation is not capable of effectively identifying copyright infringement, what should these businesses do to protect both copyrighted material and non-infringing material? With the number of takedown requests to remove material under the DMCA constantly growing, Internet-based businesses need a realistic way to respond to these requests quickly and easily.³⁷ If an automated process is capable of detecting and removing copyright-protected material, then this process is capable of saving thousands of hours of work and preventing hundreds of lawsuits.³⁸ However, if an automated process cannot accurately detect genuine piracy, then non-infringing speech may be suppressed.³⁹ For businesses that seek to protect non-infringing material, yet want to avoid any possible liability, there is a strong demand for any solution that can solve these twin goals. This Note seeks to provide a solution that satisfies these seemingly contradictory goals.

Part I of this Note provides an overview of the Digital Millennium Copyright Act including the purpose of its creation. It explores what the text of the DMCA requires of copyright holders and third parties hosting copyright-protected information. Part II examines how the DMCA is being applied today. More specifically, it examines how application of the DMCA has increasingly required the use of an automated process in order for large Internet-based companies to comply with the requirements of the DMCA. Part III explores the legal implications of employing an automated process for filing and responding to DMCA requests. This Note argues that a totally automated process for detecting and removing copyright-protected material from the Internet does not adequately protect original works that do not violate any copyrights because such use is considered “fair use.” Because fully-automated systems cannot totally distinguish piracy from fair use, relying solely on automated systems will result in the removal of non-infringing material and may even lead to legal liabilities under the DMCA. Finally, Part IV suggests that the solution to this quagmire lies

34. *Id.*

35. *Id.*

36. *Id.*

37. *See* Cushing, *supra* note 23.

38. *See* Lee, *supra* note 18.

39. *See generally* Wendy Seltzer, *Free Speech Unmoored in Copyright's Safe Harbor: Chilling Effects of the DMCA on the First Amendment*, 24 HARV. J.L. & TECH. 171 (2010).

in “crowdsourcing” the task. Crowdsourcing refers to allowing a broad online community of users to complete a task, and in this case, it is a viable solution to separating copyright-protected material from piracy. By asking the users themselves to identify the nature of hosted content, a business shifts the task of separating the wheat from the chaff away from an automated process to millions of discerning people. While an automated process can be used to eliminate blatant copyright violations efficiently, human input is still required in ambiguous cases. Crowdsourcing would thus allow businesses to collect input from many citizens as to whether the material is fair use. Ultimately, crowdsourcing offers a solution that is affordable, efficient, and accurate. Under this model, Internet-based businesses would be able to comply with requests to remove protected information in accordance with the DMCA and do so with increased confidence that they are not removing non-infringing material.

I. UNDERSTANDING THE DIGITAL MILLENNIUM COPYRIGHT ACT

At the close of the twentieth century the World Wide Web was still in its infancy and legislators sought to protect this fledgling industry from piracy and aid in its growth.⁴⁰ The DMCA was passed in 1998 with the purpose of promoting “the robust development and world-wide expansion of electronic commerce, communications, research, development, and education in the digital age.”⁴¹ With this law, the legislature hoped to bring United States copyright law “squarely into the digital age” and offer greater protections to copyright holders who host their material over the Internet.⁴² Furthermore, the DMCA sought to increase Internet access to “the movies, music, software, and literary works that are the fruit of American creative genius.”⁴³ Ultimately, the DMCA strove to strike a delicate balance between fighting piracy quickly and effectively, while refraining from trampling on fair use copyright-protected material.⁴⁴

A. *The Requirements of the DMCA*

The DMCA outlines specific step-by-step procedures that must be followed by copyright holders and websites that host copyrighted material anytime infringing material is found.⁴⁵ If these steps are followed correctly, copyright holders can be confident that piracy will be removed quickly while third parties

40. S. REP. NO. 105-190, at 1-2 (1998).

41. *Id.*

42. *Id.* at 2.

43. *Id.*

44. See Thomson Reuters, *Drafting DMCA Takedown Notices*, PRACTICAL LAW (Apr. 2, 2013), <http://us.practicallaw.com/8-525-5186?q=&qp=&qo=&qe=#null>, archived at <http://perma.cc/BH3P-PQRV>.

45. Richard Chappo, *DMCA Process—From Agent Designation to Takedown Notices*, SOCIALINTERNETLAWYER.COM (July 12, 2012), <http://www.socalinternetlawyer.com/dmca-process/>, archived at <http://perma.cc/CJ3D-BV3T>.

that hosted that material can be equally confident they will not face litigation.⁴⁶ In addition, the law provides unique legal protections to Internet service providers (“ISPs”) by extending them “safe harbors” if they follow specific steps when hosting third-party content.⁴⁷ The statute defined an ISP as “an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received.”⁴⁸ If an ISP falls under the statute's safe harbor provision, the ISP will not be liable for hosting pirated material on its website.⁴⁹

Needless to say, this creates a strong incentive for all ISPs to be certain they are legally protected by the DMCA's safe harbor protections.⁵⁰ In order to qualify for safe harbor protection the ISP must have no actual knowledge or awareness of facts or circumstances that would make it apparent that the material on its system or network is infringing on copyright-protected material.⁵¹ Once the ISP becomes aware that it is hosting infringing material, it must act “expeditiously” to remove access to the material.⁵² In addition to always following these procedures, the ISP cannot receive a direct “financial benefit” from the infringing material,⁵³ must maintain a designated agent who may be contacted by copyright holders in the event of infringement,⁵⁴ and must have a policy for terminating repeat offenders.⁵⁵

Today, virtually all ISPs that host any third-party material must make sure they comply with these DMCA safe harbor provisions in order to insulate themselves from liability.⁵⁶ In fact, “[e]very internet company in the United States that deals with content of third-party users—companies such as Amazon, AOL, CNN, eBay, Facebook, Google, MySpace, YouTube, and numerous startups aspiring to become just as successful—must adopt and implement a DMCA policy to fall within the safe harbors.”⁵⁷ Failing to do so may even be considered a breach of corporate duty.⁵⁸

46. Digital Millennium Copyright Act of 1998, 17 U.S.C. § 512 (2013).

47. *Id.* § 512(c).

48. *Id.* § 512(k).

49. *Id.* § 512(a).

50. STEPHEN FISHMAN, *THE COPYRIGHT HANDBOOK: WHAT EVERY WRITER NEEDS TO KNOW* 319 (Ilona Bray ed., 11th ed. 2011).

51. 17 U.S.C. § 512(c)(1)(A) (2013).

52. *Id.*

53. *Id.* § 512(c)(1)(B).

54. *Id.* § 512(c)(2).

55. *Id.* § 512(i)(1)(A).

56. Lee, *supra* note 18, at 233-34.

57. *Id.*

58. *Id.* at 234.

B. Notice and Takedown Procedures

The DMCA envisioned that most ISPs would be protected from lawsuits for hosting copyright-protected material through the law's safe harbor provisions.⁵⁹ By protecting ISPs, however, the law placed the burden on copyright holders to find cases of infringement.⁶⁰ To compensate for this burden shifting, the DMCA provides a specific procedure that, if successfully followed by the copyright holder, will result in the expeditious elimination of pirated material.⁶¹

First, when a copyright holder finds his or her material is being pirated, the copyright holder must file a notice with the ISP hosting the material and begin the "notice and takedown procedure."⁶² As long as this notice conforms to the standards required by the statute, the ISP must act "expeditiously" to remove or block access to the infringing material as soon as the notice is received.⁶³ The ISP must then provide the party that posted the contested material with a notice stating that it has been taken down.⁶⁴ If the party that had his or her material taken down believes this was an error and the material does not violate any copyrights, the party can file a counter notification.⁶⁵ After a counter notification is filed, the originator of the first DMCA takedown notice is then informed that a counter notification has been filed, and the material will be restored in ten to fourteen business days unless the originator seeks a court order to restrain the posting of the material.⁶⁶ If, on the other hand, a counter notification is never filed, the material may be permanently removed.⁶⁷

These procedures were created in order to streamline the identification and removal of pirated material with little fanfare and rare litigation.⁶⁸ They create a simple recipe that will almost certainly result in the removal of the material.⁶⁹ DMCA takedown requests can be filed in a matter of minutes.⁷⁰ One website,

59. See generally Diane M. Barker, *Defining the Contours of the Digital Millennium Copyright Act: The Growing Body of Case Law Surrounding the DMCA*, 20 BERKELEY TECH. L.J. 47, 57 (2005) (explaining that the DMCA safe-harbor provisions were intended to provide ISPs immunity from the infringing behavior of their subscribers).

60. *Id.* at 58.

61. 17 U.S.C. § 512(c) (2013).

62. *Id.*

63. *Id.* § 512(c)(3).

64. *Id.* § 512(g).

65. *Id.* § 512(g)(3).

66. *Id.* § 512(g)(2).

67. *Id.*

68. See Brian J. Meli, *Four Letters No Digital Content Provider Should Ever Forget: DMCA*, LEGALMATTERBLOG.COM (Oct. 31, 2013), <http://legalmatterblog.com/2013/10/31/four-letters-no-digital-content-provider-should-ever-forget-dmca/>, archived at <http://perma.cc/5T5H-CLV2> (stating that the DMCA's purpose was to streamline takedowns while protecting service providers from litigation).

69. *Id.*

70. *How Can I File a DMCA Takedown Notice?*, DMCA.COM, <http://www.dmca.com/FAQ/>

Regainyourname.com, will even draft a DMCA takedown request for its users.⁷¹ The only information needed is your name, address, email, a link to the infringing URLs, the name of your business, and the search terms used to find the website, and you can send your own DMCA request in seconds.⁷² Such a simple procedure for filing a DMCA takedown request has produced an unintended side effect.⁷³ By promoting the rapid generation of takedown requests, and requiring an expeditious response to these requests, the DMCA has essentially promoted an environment that favors speed over accuracy.⁷⁴ ISPs are incentivized to respond to these requests without examining their validity.⁷⁵ By emphasizing speed of removal, the DMCA has made automation of DMCA takedown request nearly inevitable.⁷⁶

II. DMCA TAKEDOWN REQUESTS GENERATED THROUGH AUTOMATION

The limitations of this carefully prescribed process can only be fully understood through a thorough examination of how the DMCA takedown procedures are being applied today. Microsoft is a powerful example. Microsoft holds thousands of copyrights and has the daunting task of ensuring that no one violates any of their copyrights on the Internet.⁷⁷ Rather than expend valuable resources on this interminable task, Microsoft hired an outside firm to identify piracy and generate DMCA takedown requests.⁷⁸ In order to find every case of possible infringement, this company employed an automated process that used keyword searches to find possibly infringing material, and then generated requests based on the likelihood that the search returned pirated material.⁷⁹ This

How-can-I-file-a-DMCA-Takedown-Notice (last visited Oct. 3, 2014), *archived at* <http://perma.cc/43G7-88MZ>.

71. *DMCA Copyright Infringement Take-Down Drafting Service*, REGAIN YOUR NAME, <http://regainyourname.com/dmca-copyright-takedown-notices-for-stolen-material/> (last visited Oct. 3, 2014), *archived at* <http://perma.cc/4EHN-ZUFX>.

72. *Id.*

73. *See infra* Part II.

74. *Id.*

75. *Id.*

76. *Id.*

77. *Legal Resources*, MICROSOFT, <http://www.microsoft.com/en-us/legal/IntellectualProperty/Permissions/Default.aspx> (last visited Nov. 27, 2014), *archived at* <http://perma.cc/3Q32-JYXH> (describing the numerous copyrighted material Microsoft owns).

78. Cushing, *supra* note 23. However, Microsoft fired LeakID from managing their DMCA request just hours after TorrentFreak discovered that the firm generated another embarrassing list of DMCA takedown requests that included the Wikipedia entry on Microsoft. *See* Ernesto, *Microsoft Ditches Anti-Piracy Partner After Embarrassing DMCA Takedowns*, TORRENTFREAK (Sep. 27, 2013), <http://torrentfreak.com/microsoft-ditches-anti-piracy-partner-after-embarrassing-dmca-takedowns-130927/>, *archived at* <http://perma.cc/AA9W-F2KP>.

79. Cushing, *supra* note 23 (referring to how LeakID uses a “patrolbot” to find copyright infringement).

process had little human oversight and was prone to error.⁸⁰ In fact, in 2013, Google received a request from Microsoft to takedown portions of their own website, Microsoft.com, claiming they infringed on their own copyrights.⁸¹ While this approach certainly has errors, it is through this automated process that Microsoft was able to generate DMCA takedown requests to remove over ten million URLs from Google in 2012 alone.⁸²

Microsoft is not the only corporation generating ridiculous DMCA takedown requests. In April 2012, Warner Brothers was releasing the hopeful blockbuster movie *Wrath of the Titans*, yet they thwarted their own attempts at creating publicity about the film by generating DMCA takedown requests that would remove valuable information about the film.⁸³ Warner Brothers inadvertently asked Google to remove links to the Internet Movie Database listing of *Wrath of the Titans*, links to the official trailer on Apple and Hulu, a review of the movie posted on BBC America, and even a listing that helped people who wanted to watch the movie find theaters near them where it was going to be playing.⁸⁴ The Recording Industry of America (“RIAA”) also shot itself in the foot when it filed a takedown request to remove publicity about one of its own recording artists, Lady Antebellum.⁸⁵ Not only did the RIAA request that *The Guardian* remove a review of a Lady Antebellum album, but also demanded that Google remove a link to reviews of Lady Antebellum songs hosted by AOL’s music site.⁸⁶

In response to many copyright holders’ blitz of DMCA requests, ISPs have started implementing automated programs that preemptively remove content the program detects as infringing before even receiving a DMCA request.⁸⁷ YouTube’s “Content ID” scans all videos that are uploaded to its site and looks

80. *Id.*

81. Ernesto, *Microsoft Wants Google to Censor . . . Microsoft.com*, TORRENTFREAK (July 28, 2013), <http://torrentfreak.com/microsoft-wants-google-to-censor-microsoft-com-130728/>, archived at <http://perma.cc/J4L6-5XEF>.

82. *Google Transparency Report*, *supra* note 20.

83. *Video DMCA (Copyright) Complaint to Google*, CHILLING EFFECTS (Apr. 17, 2012), <http://www.chillingeffects.org/notice.cgi?sID=291695>, archived at <http://perma.cc/KUN6-G2ZH>; see also Enigmax, *Copyright Holders Punish Themselves with Crazy DMCA Takedowns*, TORRENTFREAK (May 25, 2012), <http://torrentfreak.com/copyright-holders-punish-themselves-with-crazy-dmca-takedowns-120525/>, archived at <http://perma.cc/N9FT-QKPM> (stating that “Warner and their anti-piracy partners managed to undermine their own marketing campaign for *Wrath of the Titans* with DMCAs sent to Google.”).

84. Enigmax, *supra* note 83.

85. Mike Masnick, *DMCA Notices So Stupid It Hurts*, TECHDIRT (May 30, 2012), <http://www.techdirt.com/articles/20120527/23520719089/dmca-notices-so-stupid-it-hurts.shtml>, archived at <http://perma.cc/94FZ-VPUS>.

86. *Id.*

87. *A Guide to YouTube Removals: So My Video Was Removed from YouTube . . . What Do I Need To Know?*, ELECTRONIC FRONTIER FOUNDATION, <https://www.eff.org/ru/issues/intellectual-property/guide-to-youtube-removals> (last visited Oct. 3, 2014), archived at <http://perma.cc/8NW4-6E94>.

for any matches with a reference database of copyright-protected material that copyright owners have provided.⁸⁸ If Content ID detects a match, the copyright holder is notified and given the opportunity to remove the material.⁸⁹ Every day, Content ID scans 400 years of video, and so far has detected infringement in over 200 million videos.⁹⁰ This system works quickly, efficiently, and has greatly diminished the amount of pirated content available on YouTube, but it remains an automated system with known flaws.⁹¹ In the fall of 2012, YouTube was live-streaming the Democratic National Convention and just before Michelle Obama began her speech, the video was blocked because in the background a copyright-protected song was playing.⁹² This song was played throughout the campaign, and the Democratic National Convention almost certainly had rights to play this song,⁹³ but the video was blocked nonetheless.⁹⁴ A similar mistake was made when YouTube was live streaming the Hugo Awards.⁹⁵ The entire stream was blocked right before screenwriter Neil Gaiman accepted an award for his work on an episode of *Dr. Who* because the ceremony played a clip of the episode.⁹⁶ Content ID is simply unable to distinguish when an individual may have legal rights to use copyright-protected material.⁹⁷

These automated programs used for detecting copyright infringement have their demonstrable flaws, but at the rate DMCA requests have been growing, automation may seem like the only way ISPs could possibly keep up. In the month of August 2013 alone, Google received DMCA requests to remove over twenty million URLs.⁹⁸ By the close of 2013, Google was on track to receive requests to remove more than 235 million links,⁹⁹ which is more than quadruple

88. *Id.*

89. *Id.*

90. *Statistics*, YOUTUBE, <http://www.youtube.com/yt/press/statistics.html> (last visited Feb. 21, 2014), *archived at* <http://perma.cc/783Z-7QQ7>.

91. *See, e.g.*, Adam Holland, *Robots Mistakenly Take Down Livestreams*, CHILLING EFFECTS (Sep. 18, 2012), <https://www.chillingeffects.org/weather.cgi?WeatherID=658>, *archived at* <http://perma.cc/FR5R-CFN7>; Zachary Knight, *Copyright Enforcement Bots Seek and Destroy Hugo Awards*, TECHDIRT (Sep. 4, 2012), <http://www.techdirt.com/articles/20120903/18505820259/copyright-enforcement-bots-seek-destroy-hugo-awards.shtml>, *archived at* <http://perma.cc/U4UW-2N3F>.

92. *Id.*

93. Tim Cushing, *Copyright Killbots Strike Again: Official DNC Livestream Taken Down By Just About Every Copyright Holder*, TECHDIRT (Sep. 5, 2012), <http://www.techdirt.com/articles/20120904/22172920275/copyright-killbots-strike-again-official-dnc-livestream-taken-down-just-about-every-copyright-holder.shtml>, *archived at* <http://perma.cc/G5GY-3URJ> (calling the stream “perfectly legal”).

94. Holland, *supra* note 91.

95. Knight, *supra* note 91.

96. *Id.*

97. Holland, *supra* note 91.

98. *Google Transparency Report*, *supra* note 20.

99. Ernesto, *Google Discarded 21,000,000 Takedown Requests in 2013*, TORRENTFREAK

the amount it received just one year earlier.¹⁰⁰ In fact, Google is deleting links to “pirated” material at a rate of nine links per second.¹⁰¹ If Google hired lawyers to personally review all of the requests it received during the week of September 9, 2013, and each of these lawyers worked without breaks eight hours a day, spending only thirty seconds reviewing each URL removal request, Google would still need to hire over 700 lawyers devoted solely to reviewing these requests.¹⁰² The growth of the DMCA notice and takedown procedures through automation has become so rampant that for many businesses, automation has become a necessity before the legal ramifications can be thoroughly considered.¹⁰³

While automated programs are very effective at detecting wholesale copyright infringement, the greatest stumbling block for these programs is when material is protected by the fair use doctrine. At its core, the fair use doctrine allows individuals to legally use material that would otherwise be copyright-protected material.¹⁰⁴ As the United States Supreme Court stated, “anyone . . . who makes a fair use of the work is not an infringer of the copyright with respect to such use.”¹⁰⁵ Under a case-by-case analysis, courts use four factors to determine whether an individual who used copyright-protected material is not liable because the use was considered a fair use.¹⁰⁶ These factors are:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.¹⁰⁷

If the fair use doctrine applies, an individual can use copyright-protected material without permission and remain immune from litigation.¹⁰⁸ It is this doctrine that allows movie reviewers to show clips of films, musicians to parody popular

(Dec. 27, 2013), [http://torrentfreak.com/google-discarded-21000000-takedown-requests-in-2013-131227/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+Torrentfreak+\(Torrentfreak\)](http://torrentfreak.com/google-discarded-21000000-takedown-requests-in-2013-131227/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+Torrentfreak+(Torrentfreak)), archived at <http://perma.cc/LQ8J-CREX>.

100. Zoe Fox, *Google Copyright Infringement Reports to Quadruple This Year*, MASHABLE (July 31, 2013), <http://mashable.com/2013/07/31/google-copyright-reports/>, archived at <http://perma.cc/7KU5-CYN3>.

101. Eric Limer, *Google Is Now Deleting Nine “Pirate” Links Every Second*, GIZMODO (Oct. 5, 2013), <http://gizmodo.com/google-is-now-deleting-nine-pirate-links-every-second-1441566720>, archived at <http://perma.cc/YA3C-5W9K>.

102. *Google Transparency Report*, *supra* note 20.

103. *See* Fox, *supra* note 100.

104. Neil Weinstock Netanel, *Making Sense of Fair Use*, 15 LEWIS & CLARK L. REV. 715, 719 (2011).

105. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 433 (1984).

106. 17 U.S.C. § 107 (2013).

107. *Id.*

108. Netanel, *supra* note 104, at 10.

songs, and teachers to show television shows to their students without ever obtaining permission from the copyright holder.¹⁰⁹

Because the fair use doctrine allows for the authorized use of copyright-protected material, experience has shown that Content ID, and other automated programs simply do not adequately account for fair use.¹¹⁰ For example, in 2009 Jonathan McIntosh remixed scenes from the popular *Twilight* movies with clips from *Buffy the Vampire Slayer* in his video *Buffy v. Edward: Twilight Remixed* in order to critique the misogynistic portrayals of females in the *Twilight* films.¹¹¹ This was such a clear case of fair use that the United States Copyright Office cited it in their own report as an example of “transformative noncommercial” work and an exemplar of fair use.¹¹² Nonetheless, the video was removed from YouTube after Lionsgate Films bought Summit Entertainment and asked that the video be removed.¹¹³

Fair use regarding political speech presents even more worrisome problems. In order to promote his 2008 presidential campaign, John McCain created a YouTube channel to post his political ads and spread publicity.¹¹⁴ Just weeks before the election, several of John McCain’s videos were removed, citing copyright infringement.¹¹⁵ These videos did contain copyrighted materials but clearly fell under the fair use exception because they were part of a political campaign.¹¹⁶ After YouTube was notified of this, the McCain campaign was still forced to wait more than a week for the videos to be restored while losing critical time at the absolute height of the election season.¹¹⁷ As Wendy Seltzer, a staff attorney with the Electronic Frontier Foundation and Fellow with Harvard’s Berkman Center for Internet and Society stated, “[i]f there was ever a clear case of non-infringing fair use—speech protected by the First Amendment—this should have been it: a political candidate, seeking to engage in public multimedia

109. Dan L. Burk & Julie E. Cohen, *Fair Use Infrastructure for Rights Management Systems*, 15 HARV. J.L. & TECH. 41, 43 (2001).

110. See Fred Von Lohmann, *YouTube’s January Fair Use Massacre*, ELECTRONIC FRONTIER FOUNDATION (Feb. 3, 2009), <https://www.eff.org/deeplinks/2009/01/youtubes-january-fair-use-massacre>, archived at <http://perma.cc/AU69-Q4D2> (written in response to YouTube removing a video of a young teenager singing “Winter Wonderland.”).

111. Adam Holland, *Takedown of the Week: YouTube and Lionsgate Films Continue to Ban Paradigmatic Example of Fair Use*, CHILLING EFFECTS (Jan. 10, 2013), http://cached.newslookup.com/cached.php?ref_id=429&siteid=2350&id=3833891&t=1385439475, archived at <http://perma.cc/4MPN-7P49>; see also Daniel Nye Griffiths, *Copyright in the Twilight Zone: The Strange Case of ‘Buffy Versus Edward,’* FORBES (Jan. 15, 2013), <http://www.forbes.com/sites/danielnyegriffiths/2013/01/15/copyright-in-the-twilight-zone-the-strange-case-of-buffy-versus-edward/>, archived at <http://perma.cc/6ZZM-XN9C>.

112. Holland, *supra* note 111.

113. *Id.*

114. Seltzer, *supra* note 39, at 172.

115. *Id.*

116. *Id.* at 172-73.

117. *Id.*

debate, used video snippets from the television programs on which the issues were discussed.”¹¹⁸ Despite the obvious fair use application, YouTube’s automated system removed the material.¹¹⁹

Examples like these illustrate that the stakes regarding DMCA takedown requests are high. ISPs that host third party material do not want to become havens of pirated material, but they also want to protect their users who may want to upload their own artistic expressions. Automation can be a powerful tool for fighting piracy, but a tool that should be employed with caution. Experience has shown that automation, when not given proper oversight, will trample on legitimate fair use of content. This Note seeks to provide legal guidance to businesses that would like to generate and respond to DMCA takedown requests quickly and efficiently, yet still protect fair use.

III. LEGAL ANALYSIS

Automated generation and response to DMCA requests seems inevitable, but before a company chooses to pursue this route it must first consider the legal liabilities that may accompany automation. Can an automated process designed to scour the Internet looking for piracy accurately identify cases of genuine copyright infringement? If not, what are the legal consequences for businesses that use an automated process with known flaws?

Employing an automated process for detecting illegal activity is a growing trend in the United States and has proven to be a valuable resource in fighting illegal activities.¹²⁰ Many cities throughout the country employ “red-light cameras” which use cameras, magnetic fields, and a small computer to detect when someone runs a red light.¹²¹ In fact, many of these programs can collect the date, time of the infraction, the location, the speed of the car as it ran the red light, and the license plate number of the vehicle.¹²² This allows tickets to be sent to the drivers without any police intervention whatsoever.¹²³ Automation can also be used for more complex violations.¹²⁴ In July 2013, the Securities and Exchange Commission announced they would be using an automated process to scour

118. *Id.* at 173.

119. *Id.* at 172.

120. *See, e.g.*, Tom Harris, *How Red-Light Cameras Work*, HOW STUFF WORKS, <http://auto.howstuffworks.com/car-driving-safety/safety-regulatory-devices/red-light-camera.htm> (last visited Feb. 21, 2014), *archived at* <http://perma.cc/2YCW-EFLA>; Press Release, U.S. Securities and Exchange Commission, SEC Announces Enforcement Initiatives to Combat Financial Reporting and Microcap Fraud and Enhance Risk Analysis, *available at* <http://www.sec.gov/News/PressRelease/Detail/PressRelease/1365171624975#.UkQhxIasim5>, *archived at* <http://perma.cc/RA96-T8Z8>.

121. Harris, *supra* note 120.

122. *Id.*

123. *Id.*

124. *Id.*

corporate filings looking for signs of accounting fraud.¹²⁵ This program is called “Robocop” and the SEC plans to expand its capabilities.¹²⁶

However, not all aspects of the law lend themselves to automation. Some legal concepts are not defined clearly enough to allow computer programs to adequately detect when a violation occurs. For example, it would likely be impossible to create a computer program to scour the Internet looking for “hard-core pornography” because there is no bright-line test for determining which depictions of sexual acts are art and which are hard-core pornography.¹²⁷ Justice Stewart’s candid statement that he cannot precisely define hard-core pornography, “[b]ut I know it when I see it,”¹²⁸ simply cannot be converted to an algorithm for an automated process. Without a bright-line test, an automated process has no rule it can apply to determine when there are violations of that rule.¹²⁹

These examples provide two ends of a continuum in which copyright infringement can be compared. Is piracy like running a red light; an act that can be easily detected through automation? Or is piracy more like identifying pornography; something that cannot be simplified to a test and is subject to significant variation? Experience has shown that the answer is both.

In many ways, piracy is like running a red light, and automated processes can easily combat this type of piracy.¹³⁰ Companies like Audible Magic successfully employ an automated process to fight piracy when a website hosts links to complete files of copyright-protected music.¹³¹ Audible Magic relies on automated content recognition, which automatically scans copyright-protected reference materials to create a “digital fingerprint” for that audio file.¹³² This technology essentially records how the file would sound to the human ear, and then uses this reference file to detect matches that vary in “file formats, codecs, bitrates, and compression techniques.”¹³³ Using this automated process, Audible Magic is able to accurately find pirated audio clips in seconds.¹³⁴ Without

125. Press Release, *supra* note 120.

126. Janet Novak, *How SEC’s New Robocop Profiles Companies for Accounting Fraud*, FORBES (Aug. 9, 2013), <http://www.forbes.com/sites/janetnovack/2013/08/09/how-secs-new-robocop-profiles-companies-for-accounting-fraud/>, archived at <http://perma.cc/HHD8-7WL8>.

127. *Jacobellis v. State of Ohio*, 378 U.S. 184, 188 (1964).

128. *Id.* at 197.

129. See, e.g., Joe Marine, *Vimeo Uploads with Copyright Material Will Now be Flagged Automatically, Even if It’s Licensed*, NOFILMSCHOOL.COM (May 22, 2014), <http://nofilmschool.com/2014/05/upload-vimeo-copyright-match-audible-magic>, archived at <http://perma.cc/274U-AFF4>.

130. See, e.g., *Media Identification*, AUDIBLE MAGIC, <http://www.audiblemagiccorp.com/media-identification/> (last visited Oct. 9, 2014), archived at <http://perma.cc/FW6C-JXUC>.

131. *Id.*

132. *Content Registration*, AUDIBLE MAGIC, <http://www.audiblemagiccorp.com/content-registration/> (last visited Oct. 9, 2014), archived at <http://perma.cc/P8MY-3F8P>.

133. *Media Identification*, *supra* note 130.

134. *Broadcast Monitoring*, AUDIBLE MAGIC, <https://www.audiblemagic.com/broadcast->

question, Audible Magic's automated system, and others like it, have helped fight piracy. Discounting the value of these automated programs because of several high-profile blunders would be a mistake because there are many occasions in which piracy is unambiguous. When a movie or song is copied in its entirety, an automated process is a valuable tool.

However, not all cases of piracy involve unadulterated copying of source material.¹³⁵ When copyrighted material is used as a part of a larger artistic expression, the use is less like running a red light and more like distinguishing pornography from art.¹³⁶ In these situations there are few clear rules, and automation is less accurate.¹³⁷

Fair use is the best example of where automation consistently fails. Fair use is difficult to clearly define, and the Second Circuit has declared, "the issue of fair use . . . is the most troublesome in the whole law of copyright."¹³⁸ The four factors a court will use when deciding whether a use is fair are frequently described as subjective and difficult to apply uniformly.¹³⁹ The United States Supreme Court has recognized that, while the factors have been clearly stated, the task of identifying fair use "is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis."¹⁴⁰ The Seventh Circuit has gone so far to explicitly state that the factors in the fair use doctrine "do not constitute an algorithm that enables decisions to be ground out mechanically."¹⁴¹

In a study of the fair use doctrine, Georgetown Law Professor Dan L. Burk and University of Minnesota Professor of Law, Julie E. Cohen, concluded that a fully-automated process will never be able to fully account for fair use, stating, "[i]n reality, an algorithm-based approach to fair use is unlikely to accommodate even the shadow of fair use as formulated in current copyright law."¹⁴² They deduced that creating a program that attempted to account for fair use would "require both a bewildering degree of complexity and an impossible level of prescience."¹⁴³ They further concluded that even if such a program was devised, it would quickly become prone to error because "fair use is a dynamic, equitable doctrine designed to respond to changing conditions of use."¹⁴⁴

Fair use is too fluid and amorphous to ever be truly captured by a computer

monitoring/ (last visited Nov. 27, 2014), *archived at* <http://perma.cc/4XNM-6XX7>.

135. Burk & Cohen, *supra* note 109, at 55-56.

136. *Id.*

137. *Id.*

138. *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661, 662 (2d Cir. 1939).

139. *See Ned Snow, Fair Use as a Matter of Law*, 89 DEN. U. L. REV. 1, 28-29 (2011) (stating, "fairness" is an inherently subjective concept").

140. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994).

141. *Chicago Bd. of Educ. v. Substance, Inc.*, 354 F.3d 624, 629 (7th Cir. 2003).

142. Burk & Cohen, *supra* note 109, at 55.

143. *Id.* at 56.

144. *Id.*

program.¹⁴⁵ It requires an analysis of subjective factors, such as whether the use was “transformative.”¹⁴⁶ Therefore, businesses that seek to fight piracy must acknowledge that implementation of a fully-automated process would likely catch blatant cases of copyright infringement but would also likely trample on cases of fair use.

A. Liability for Filing False DMCA Takedown Requests Under Section 512(f)

If a business implements an automated system that does not adequately account for fair use, what legal liabilities may be incurred? The DMCA includes section 512(f), which states that any party who “knowingly materially misrepresents” in the DMCA takedown request is “liable for any damages, including costs and attorneys’ fees incurred by the alleged infringer.”¹⁴⁷ Thus, copyright-holders may be liable if they file DMCA takedown requests when they know the particular use does not violate any of their rights as a copyright holder.¹⁴⁸ The material misrepresentation standard has been interpreted to “not impose liability for issuing a defective notice *per se*, only for making false claims of infringement.”¹⁴⁹ Sending an incomplete takedown notice, or submitting one that does not properly identify the infringing material does not reach the standard of misrepresentation required by section 512(f).¹⁵⁰ Additionally, plaintiffs must establish that they suffered material harm from a misrepresented DMCA takedown request.¹⁵¹ In fact, the District Court of Maryland willingly conceded that a copyright holder may have knowingly misrepresented his rights on a DMCA takedown request, but after the plaintiff could not prove any damages, the claim was dismissed.¹⁵²

Despite the widespread use of DMCA takedown requests, litigation under section 512(f) for false requests rarely occurs.¹⁵³ There have been only a handful of published cases in which a section 512(f) claim is at issue—out of the hundreds of millions of URLs that have been removed due to DMCA requests.¹⁵⁴ While addressing the issue of liability under section 512(f), the District Court of Maryland concluded, “There is not a great deal of case law interpreting this provision”¹⁵⁵ Because liability under section 512(f) has been rarely litigated,

145. *Id.* at 55.

146. 17 U.S.C. § 107 (2013).

147. Digital Millennium Copyright Act of 1998, 17 U.S.C. § 512(c)(3) (2014).

148. *Id.*

149. *Disney Enters., Inc. v. Hotfile Corp.*, No. 11-20427-CIV., 2013 WL 6336286, at *46 (S.D. Fla. Sept. 20, 2013).

150. *Arista Records, Inc. v. Mp3Board, Inc.*, No. 00 CIV. 4660 (SHS), 2002 WL 1997918, at *15 (S.D.N.Y. Aug. 29, 2002).

151. *Ground Zero Museum Workshop v. Wilson*, 813 F. Supp. 2d 678, 704 (D. Md. 2011).

152. *Id.* at 710.

153. *Id.*

154. *Id.*

155. *Id.*

the legal standards for section 512(f) are still being established. The following analysis is intended to provide a brief overview of what kind of liability a business may incur if it employs an automated system for generating DMCA takedown requests.

1. Knowledge Requirement for Section 512(f) Liability.—Although section 512(f) is intended to punish parties who “knowingly” misrepresent their rights in a DMCA takedown request, courts are still settling what kind of knowledge is required for liability under section 512(f).¹⁵⁶ Does this law require actual knowledge by copyright holders that the particular use does not violate their rights, or does it just require that they reasonably should have known that the use does not violate their copyright?

The Northern District of California addressed this issue when two young men sued Diebold Incorporated claiming violation of section 512(f) after Diebold sought to remove a posting of several internal company emails, which these men posted online.¹⁵⁷ The court stated that Diebold actually knew, or “should have known if it acted with reasonable care or diligence” that this material did not infringe on any copyrights.¹⁵⁸ Under this standard of constructive knowledge, Diebold was found liable under section 512(f).¹⁵⁹ This case established a clear precedent that a copyright holder may be liable for misrepresentation without actual knowledge that their DMCA takedown request asked for the removal of non-infringing material.¹⁶⁰ Rather than require actual knowledge for liability, the court could find liability if the party sending the request “should have known” that such a request was an error.¹⁶¹

Shortly after this decision was made, the Ninth Circuit disregarded this standard when it found the Motion Picture Association of America (“MPAA”) not liable for a section 512(f) suit after they filed a DMCA takedown against a website that claimed to host downloads of full-length pirated movies; however, the website did not actually host any such pirated material.¹⁶² The Ninth Circuit held that section 512(f) requires *actual* knowledge of misrepresentation, stating that “[a] copyright owner cannot be liable simply because an unknowing mistake is made, even if the copyright owner acted unreasonably in making the mistake Rather, there must be a demonstration of some actual knowledge of misrepresentation on the part of the copyright owner.”¹⁶³ The court held that the MPAA had a subjective, good faith belief that there was infringement and was therefore not liable under section 512(f).¹⁶⁴

Several subsequent cases outside the Ninth Circuit applied this subjective,

156. Digital Millennium Copyright Act of 1998, 17 U.S.C. § 512(c)(3) (2014).

157. *Online Policy Group v. Diebold Inc.*, 337 F. Supp. 2d 1195, 1198 (N.D. Cal. 2004).

158. *Id.* at 1204.

159. *Id.*

160. *Id.*

161. *Id.*

162. *Rossi v. Motion Picture Assoc. of Am. Inc.*, 391 F.3d 1000, 1006 (9th Cir. 2004).

163. *Id.* at 1005 (citation omitted).

164. *Id.*

good faith belief standard that requires actual knowledge of misrepresentation. In *Dudnikov v. MGA Entertainment, Inc.*, a husband and wife claimed MGA violated section 512(f) after MGA terminated their eBay listing claiming copyright infringement.¹⁶⁵ The United States District Court for the District of Colorado relied on the *Rossi* precedent and held that the plaintiffs' claim required "substantial evidence that MGA knowingly and materially misrepresented" the purported infringement by the plaintiffs.¹⁶⁶ The court ultimately held that MGA was not liable under section 512(f).¹⁶⁷ Again, in *Third Education Group, Inc. v. Phelps*, a federal district court in Wisconsin was asked to consider the standard that should be applied after a partnership dissolved and one partner copied extensively from the material of the former partnership's website.¹⁶⁸ Citing *Rossi*, the court held a party cannot be found liable for misrepresentation under the DMCA "because of an unknowing mistake, even if that mistake [is] objectively unreasonable."¹⁶⁹ In *Cabell v. Zimmerman*, the United States District Court for the Southern District of New York also required actual knowledge after a man filed a section 512(f) claim after the Actor's Equity Association removed his video from YouTube through a DMCA takedown request.¹⁷⁰ The court stated that a prerequisite for section 512(f) liability is that "a defendant must have actual knowledge that it is making a misrepresentation of fact."¹⁷¹ Although few courts have had a chance to decide whether section 512(f) requires actual knowledge, the Ninth Circuit seems to have set the standard. Future courts will likely follow suit and require actual knowledge.¹⁷²

These cases have only addressed occasions in which a *person* sends a DMCA request.¹⁷³ Under those circumstances it is likely that the party filing a DMCA takedown request will be liable only if the request is sent with actual knowledge that the information is not infringing. In *Ouellette v. Viacom International, Inc.*, the United States District Court for the District of Montana specifically addressed how the "actual knowledge" requirement under section 512(f) applies when a copyright holder employs an automated system for generating takedown

165. *Dudniko v. MGA Entertainment, Inc.*, 410 F. Supp. 2d 1010, 1011 (D. Colo. 2005).

166. *Id.* at 1012.

167. *Id.* at 1013.

168. *Third Educ. Group, Inc. v. Phelps*, 675 F. Supp. 2d 916, 920 (E.D. Wis. 2009).

169. *Id.* at 927.

170. *Cabell v. Zimmerman*, No. 09 Civ. 10134(CM), 2010 WL 996007 at *4 (S.D.N.Y. Mar. 12, 2010).

171. *Id.* (emphasis omitted).

172. *See Disney Enter., Inc. v. Hotfile Corp.*, No. 11-20427-CIV., 2013 WL 6336286 at *46 (S.D. Fla. Sept. 20, 2013) (both parties conceded that actual, subjective knowledge of misrepresentation was required for section 512(f) liability "based upon the theory that one cannot knowingly misrepresent what one does not understand to be false.").

173. In *Rossi* the MPAA admitted that it "relied heavily" on an automated program to locate piracy, but the website that was a party in that case was found with human review. Thus, the court did not analyze the merits of MPAA's automated program. *Rossi v. Motion Picture Assoc. of Am. Inc.*, 391 F.3d 1000, 1005 n.7 (9th Cir. 2004).

requests.¹⁷⁴ In *Ouellette*, a young woman filed a section 512(f) claim against Viacom for removing a video she posted on YouTube, claiming Viacom misrepresented itself in its DMCA takedown request.¹⁷⁵ The court stated that the plaintiff's pleading under *Rossi* required a demonstration that Viacom actually knew that the plaintiff's videos were fair use but nevertheless issued the takedown notice.¹⁷⁶ The plaintiff, however, argued that Viacom used "scanning software" that has a history of abusing the takedown process.¹⁷⁷ While this court did not object to the finding that Viacom's scanning software may have been prone to error, the judge concluded that under *Rossi* the plaintiff was still "required to plead facts that Viacom knew that its 'scanning software' was flagging her non-infringing videos and that Viacom issued a takedown notice nonetheless."¹⁷⁸

For now, it appears that *Rossi* is setting the standard that is likely to be applied to the "knowledge" requirement under section 512(f). While it is yet to be settled by many courts, the majority of courts that have addressed the issue of knowledge under section 512(f) have required actual subjective knowledge of wrongdoing.¹⁷⁹ By setting the standard for "knowledge" under section 512(f) so high, courts have essentially incentivized copyright holders *not* to gain any knowledge about the DMCA request being generated. This approach raises its own liability issues.

2. *Liability for Failing to Account for Fair Use Through Automation.*—Since liability under section 512(f) requires actual subjective knowledge, businesses may be tempted to avoid accounting for fair use at all, in order to remain ignorant of any abuses that may occur. Can a corporation be found liable under section 512(f) after employing an automated program that simply does not take into account fair use at all? This question has become a corollary issue to the actual knowledge requirement in several court cases. More specifically, several plaintiffs have argued that the sender of a DMCA takedown request has avoided gaining actual knowledge of misrepresentation by simply never attempting to analyze takedown requests for fair use at all.¹⁸⁰

The few courts that have addressed this murky question have provided very few clear rules. In *Lenz v. Universal Music Corp.*, a woman brought section 512(f) claims against Universal Music Corporation after the company filed a

174. *Ouellett v. Viacom Intern., Inc.*, No. CV 10-133-M-DWM-JCL, 2012 WL 850921, at *3 (D. Mont. Apr. 25, 2012).

175. *Id.* at *4.

176. *Id.*

177. *Id.*

178. *Id.*

179. See generally Ross Drath, *Hotfile, Megaupload, and the Future of Copyright on the Internet: What Can Cyberlockers Tell Us about DMCA Reform?*, 12 J. Marshall Rev. Intell. Prop. L. 205 (2012) (discussing the knowledge requirement concerning liability for contributory negligence in hosting infringing material).

180. See, e.g., *Lenz v. Universal Music Corp.*, 572 F. Supp. 2d 1150, 1151-52 (N.D. Cal. 2008).

DMCA takedown request with YouTube to remove a twenty-nine second video she posted of her son dancing to a song by Prince without Universal first considering whether this was fair use.¹⁸¹ When Universal moved to dismiss the case, the Northern District of California court denied the motion saying that a good faith DMCA takedown request requires that “the owner must evaluate whether the material makes fair use of the copyright.”¹⁸² The court’s language left little doubt that a party must verify whether a use of copyright-protected material was in fact fair use before the copyright holder issues a DMCA takedown request.¹⁸³ Yet five years after the first iteration made in *Lenz*, the court substantially retreated from this position, stating “mere failure to consider fair use would be insufficient to give rise to liability under [section] 512(f).”¹⁸⁴ Rather, the court returned to *Rossi* and held that Universal would need “actual knowledge” that the takedown contained a misrepresentation.¹⁸⁵ Several months after the *Lenz* opinion was issued, the District Court of Massachusetts also supported the standard of not requiring copyright holders to account for fair use before filing a DMCA takedown request.¹⁸⁶ The court held that a copyright holder did not have to consider fair use before filing a DMCA request because doing so would be “at odds with Congress’s express intent of creating an ‘expeditious,’ ‘rapid response’ to ‘potential infringement’ on the Internet.”¹⁸⁷ The court conceded that not requiring an examination of fair use may hurt a party’s ability to make fair use of another’s property, but retorted that “resetting the balance is for Congress and not the court to strike.”¹⁸⁸ Ultimately, the court concluded that it was not necessary to account for fair use before sending a DMCA takedown request.¹⁸⁹

The most instructive case on the issue of willful blindness of fair use, especially in the context of automation, was made by the United States District Court for the Southern District of Florida in September 2013.¹⁹⁰ In *Disney Enterprises, Inc. v. Hotfile Corp.*, Warner Brothers (“Warner”) sent Hotfile, an offshore file storage company, over 400,000 DMCA takedown requests.¹⁹¹ Warner admitted that at least 600 of these takedown requests were in error.¹⁹² As

181. *Id.*

182. *Id.* at 1154.

183. *Id.*

184. *Lenz v. Universal Music Corp.*, No. 5:07-cv-03783-JF, 2013 WL 271673, at *6 (N.D. Cal. Jan. 24, 2013) (emphasis added).

185. *Id.*

186. *Tuteur v. Crosley-Cocoran*, 961 F. Supp. 2d. 333, 343-44 (D. Mass. 2013).

187. *Id.* at 344.

188. *Id.*

189. *Id.*

190. *Disney Enter., Inc. v. Hotfile Corp.*, No. 11-20427-CIV., 2013 WL 6336286 (S.D. Fla. Sept. 20, 2013).

191. *Id.* at *15.

192. *Id.*

a result, Hotfile filed a counterclaim against Warner under section 512(f).¹⁹³

In its counterclaim, Hotfile argued that Warner employed an automated process for generating DMCA takedown requests that “prevented it from *acquiring* subjective knowledge” of misleading DMCA takedown requests.¹⁹⁴ The process Warner used to generate these DMCA requests is similar to the approach used by many businesses discussed throughout this Note. First, Warner hired a third-party to manage “anti-piracy enforcement,” and that entity used an “automated review process.”¹⁹⁵ Warner also hired employees to verify takedown requests, but these employees only verified that the site was used for Internet piracy and that the link contained content that infringed Warner’s copyright.¹⁹⁶ The court pointed out that during the human review stage, “Warner was concerned with determining whether it owned the works rather than whether the use of the works infringed on its copyrights to support a proper section 512(c) claim.”¹⁹⁷ The system Warner used seemed to rely heavily on an automated search process in which humans tailored the search terms and conducted “spot checks” on the requests that were generated.¹⁹⁸

It is this largely automated system that led to at least 600 DMCA takedown requests sent in error.¹⁹⁹ In fact, the court acknowledged that “Warner readily admits that mistakes do occur.”²⁰⁰ Warner’s employees never downloaded or even reviewed “any Hotfile content before marking it for removal.”²⁰¹ Hotfile cited an occasion in which Warner sent a DMCA takedown request on behalf of content to which it did not even own the copyrights.²⁰² Hotfile cited more examples demonstrating that Warner’s anti-piracy procedures were prone to error, but most of these examples were redacted out of the published opinion.²⁰³ Although Warner’s procedure had known flaws that were “readily” admitted, Warner repeatedly asserted that “its methodology and system features are common in its industry.”²⁰⁴ This assertion is likely true; thus the court’s analysis provides valuable insight as to the standard that will be applied to other large

193. *Id.* at *46.

194. *Id.* at *47.

195. *Id.* at *14.

196. *Id.*

197. *Id.* at *47.

198. *Id.* at *14.

199. *Id.* at *15.

200. *Id.*

201. *Id.*

202. *Id.* at *16.

203. *See id.* at *15 (for example, one paragraph in its entirety reads: “Hotfile also points to instances of anecdotal errors to show how unsound Warner’s search practices might have been. For example, [Redacted] (Thompson Decl. Ex. 4 (Kaplan Dep.) at 16:10-17:4 (DE 354-5).) Warner also apparently [Redacted] (Thompson Decl. Ex. 5 (DE 304-1 (filed under seal); DE 354-6).) A search for the [Redacted] (Thompson Decl. Ex. 16 (DE 304-6 (filed under seal); DE 354-17).) And [Redacted] (Thompson Decl. Ex. 18 (DE 304-6 (filed under seal); DE 354-19).)”).

204. *Id.* at *14-15.

businesses that use automation in generating DMCA takedown requests.

In its decision regarding Hotfile's section 512(f) claim, the court concluded that the claim should survive summary judgment and be presented to the jury.²⁰⁵ The court addressed the issue of using automation to avoid actual knowledge of wrongdoing stating, "Warner's reliance on technology to accomplish the task might prevent it from forming any belief at all."²⁰⁶ The court went on to acknowledge that this issue would be one of first impression, stating that the court was "unaware of any decision to date that actually addressed the need for human review, and the statute does not specify how belief of infringement may be formed or what knowledge may be chargeable to the notifying entity."²⁰⁷ The court, however, did not make a definitive ruling about whether this violates the nature of section 512(f), stating what while the issues of willful blindness through automation and the liability that this process creates are "engaging questions," there was sufficient evidence that Warner "intentionally targeted files it knew it had no right to remove."²⁰⁸ Despite not making a definitive ruling on the issue of willful blindness through automation, the court's analysis demonstrates that a business cannot expect a de facto pardon from the requirement of actual knowledge if it instead chooses to implement an automated process with known flaws. On the contrary, this court's decision demonstrates that a court will look into a DMCA takedown review process and may ultimately leave the determination of section 512(f) liability for a jury.

B. Avoiding Liability Under Section 512(f)

These cases provide a legal framework for businesses seeking a policy for handling DMCA takedowns that offers the least liability. First, any procedure used to respond to DMCA takedown requests must respond to the requests quickly in order for that party to remain within the safe harbor provisions of the DMCA.²⁰⁹ For this reason, automation, as least to some degree, seems to be required. Through automation, copyright owners do not have to personally scour the internet in an endless game of "Whac-A-Mole"²¹⁰ searching for instances of piracy. Automation also provides ISPs the ability to respond to these requests quickly in order to keep up with the onslaught of requests that many ISPs face on a regular basis.²¹¹ Under the first requirement, automation seems like an ideal solution.

In addition, the ideal procedure would attempt to account for fair use. A

205. *Id.* at *48.

206. *Id.* at *47.

207. *Id.*

208. *Id.* at *48.

209. Digital Millennium Copyright Act of 1998, 17 U.S.C. § 512(c)(1)(C) (2010).

210. Nate Anderson, *Rightsholders Tire of Takedown Whac-A-Mole, Seek Gov't Help*, ARS TECHNICA (May 4, 2010, 9:05 AM), <http://arstechnica.com/tech-policy/2010/05/rightsholders-tire-of-takedown-whac-a-mole-seek-govt-help/>, archived at <http://perma.cc/6NMD-VBXY>.

211. Cushing, *supra* note 23.

procedure that ignored possible occasions of fair use through automation would stray into dangerous and uncharted legal territories. An autonomous procedure that avoids fair use considerations would likely be heavily scrutinized by the court, and may ultimately be left for the jury to decide whether there will be liability under section 512(f).²¹² Under this secondary consideration, automation would likely lead to increased litigation and possibly increased liability under section 512(f) and is thus, not an ideal solution.

These parameters define the precarious legal tightrope that all DMCA procedures must walk. Rely on automation too heavily, and fair use is likely to be trampled and liability under section 512(f) increases. Avoid automation altogether, and response time significantly decreases and the business could allow piracy to continue unabated or may even find itself outside of safe harbor protections and liable for hosting pirated material. Leaning too far one way or the other always increases liability. The ideal solution balances these competing needs in a solution that utilizes automation, but also protects fair use.

IV. FINDING A SOLUTION THROUGH CROWDSOURCING

“Crowdsourcing” is defined as “the practice of obtaining needed services, ideas, or content by soliciting contributions from a large group of people and especially from the online community rather than from traditional employees or suppliers.”²¹³ Large ISPs that receive thousands of DMCA requests, yet hire employees or utilize computer programs to filter out copyright-protected material, are ignoring their greatest asset—users that created the content. Every minute users are uploading over 100 hours of content to YouTube.²¹⁴ These videos are then viewed at a rate of over six billion hours per month.²¹⁵ Furthermore, many viewers not only watch these videos, but also provide feedback on the video. More than half of all the videos on YouTube are either rated or commented upon by the users.²¹⁶

These are billions of users that could be utilized to shoulder the enormous task of separating piracy and fair use. Rather than employing a small cadre of employees hopelessly looking for piracy, or utilizing a fully automated system that will certainly flag non-infringing material, an ISP can ask its own users to solve this problem. Why have one person watching millions of videos for piracy when you can have millions of people watching one video? By placing the burden of identifying the material on the users, ISPs are able to make the task far

212. See *Disney Enter., Inc. v. Hotfile Corp.*, No. 11-20427-CIV., 2013 WL 6336286 (S.D. Fla. Sept. 20, 2013).

213. *Crowdsourcing*, MERRIAM-WEBSTER, <http://www.merriam-webster.com/dictionary/crowdsourcing> (last visited Oct. 12, 2014), archived at <http://perma.cc/2G22-9K2V>.

214. *Statistics*, supra note 90.

215. *Id.*

216. *Latest YouTube Facts and Statistics*, TECHWELKIN (Mar. 3, 2012), <http://techwelkin.com/latest-youtube-fact-and-statistics-infographic#UkSl6oasim4>, archived at <http://perma.cc/84R7-KJHQ>.

more manageable.

A. How Would Crowdsourcing Work?

First, ISPs would devise programs like YouTube's Content ID that would separate clearly infringing works from works that present less clear cases of piracy. This Note recommends following the Electronic Frontier Foundation's three strike policy²¹⁷ for filtering the material initially. The Electronic Frontier Foundation ("EFF") is a nonprofit legal organization that advocates for free speech, especially in areas of expanding technology.²¹⁸ The EFF advocates for a policy in which material would be removed when more than ninety percent of that material matches the audio track and video track of copyright-protected material.²¹⁹ If material is automatically filtered out, human creators should be given the opportunity to dispute this finding.²²⁰ This system would eliminate the instances of clearly infringing material, the red-light-running material, quickly and easily.

Using this fully automated system, user-generated content could be separated into three categories: (1) material with no violations detected; (2) material with many violations detected; and (3) material with some violations detected. Under this scheme, material that does not contain any copyrighted material would be hosted without any interference. Other material that contains many violations and is blatant piracy will be removed automatically following the procedure advocated for by the EFF.²²¹ It is only the third category of material, content that contains some copyright-protected material, but is less than a ninety-percent match of audio and video, that would receive further consideration.²²²

Content that falls under the third category would be hosted and accessible, but would have a survey at the end of the material that asks for user feedback as to whether the material is fair use or a copyright infringement. For example, after the first fifty viewers of an online video watch it, the segment of the screen that was devoted to the video could then be replaced with a survey that notifies the user that it must be completed if the video is going to remain accessible. If the content is a printed article, the website could install a pop-up or a survey that becomes available when the user scrolls to the bottom of the article. This survey would take less than fifteen seconds to complete and would only be required of the first fifty consumers of the content. This option would be kept available for future consumers, but may not be as prominent. Once a website has the data from

217. *Fair Use Principles for User Generated Video Content*, ELECTRONIC FRONTIER FOUNDATION, <https://www.eff.org/pages/fair-use-principles-user-generated-video-content> (last visited Oct. 12, 2014), archived at <http://perma.cc/HY25-PDL2>.

218. *About EFF*, ELECTRONIC FRONTIER FOUNDATION, <https://www.eff.org/about> (last visited Feb. 21, 2014), archived at <http://perma.cc/RSZ4-WZDR>.

219. *Fair Use Principles for User Generated Video Content*, *supra* note 217.

220. *Id.*

221. *Id.*

222. *Id.*

at least fifty, or even one thousand users, the party hosting the content could better determine whether something is fair use without using any additional resources.

B. Using Empirical Data to Predict Fair Use?

Theoretically, the fair use doctrine is complex. The doctrine has few bright-line rules and is hard to precisely define. Empirical studies of the fair use doctrine, however, have revealed a completely different picture of fair use. These studies have detected consistent trends and patterns in the application of fair use. Using empirical evidence, the fair use doctrine can be not only understood, but also predicted. ISPs do not need to determine whether the material *should* be considered fair use, rather, they only need to determine whether *a judge is likely to consider* the material fair use. This is a matter of simple probabilities.

Professor Barton Beebe, in *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, studied every published opinion that considered fair use from 1978-2005 and found that judges regularly fall into patterns with their decisions and follow predictable trends when deciding fair use cases.²²³ Building on his work, Pamela Samuelson concluded, after her own empirical study of the data, that “copyright fair use case law is more coherent and more predictable than many commentators seem to believe. Fair use cases tend to fall into common patterns”²²⁴ Lastly, Matthew Sag’s empirical study of fair use, the most recent study available, agreed with this conclusion, saying, “[i]s fair use predictable? The evidence presented here . . . makes it difficult to sustain the common charge of incoherence and unpredictability.”²²⁵ Using human-provided information as well as data collected in these empirical studies, a computer program should be able to reliably predict the likelihood that something will be considered fair use within certain percentages. Using these percentages, the ISP can then decide whether to remove the material or keep it accessible.

The key to unlocking the puzzle of fair use is asking the human users to identify the character of the material through carefully crafted questions. First, the user would be asked to identify the purpose of the material. The user would be asked to “check all that apply” and would be provided with the following categories: “commercial purpose, criticizing the original creator, parody, biography, history, social/political criticism, use in court case, or a purpose not listed here.”²²⁶ These categories, except commercial use, were chosen because Neil Weinstock Netanel found that all of these categories “were held to be fair use to a statistically significant degree” in his review of the empirical studies regarding fair use.²²⁷ In other words, if the purpose of the material was identified

223. Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. PA. L. REV. 549 (2008).

224. Pamela Samuelson, *Unbundling Fair Uses*, 77 FORDHAM L. REV. 2537 (2009).

225. Matthew Sag, *Predicting Fair Use*, 73 OHIO ST. L.J. 47, 79 (2012).

226. See, e.g., Netanel, *supra* note 104, at 750.

227. *Id.*

to be one of these categories, there is a strong likelihood it would be considered fair use. These categories also exclude uses of copyright-protected material that have traditionally been considered fair use such as satire and news reporting, but have not generated statistically significant results for fair use.²²⁸

This is an essential step because it asks a human user to do something a computer program cannot. While an automated program may be able to tell when a video matches a reference file, that program cannot detect the purpose of this reproduction, and fair use allows for reproduction, depending on the purpose. Accurately determining the purpose behind a video is impossible for a computer program, but it is very easy for humans to determine. Using these categories, a computer program can then generate the likelihood that the use is fair use.

For example, Samuelson has found that, despite the United States Supreme Court's insistence in *Campbell v. Acuff-Rose Music Inc.* that parodies are not always fair use and must be considered on a case-by-case basis,²²⁹ every time this issue has been adjudicated since *Campbell* every court has found parody to be fair use.²³⁰ This computer program would therefore, create a strong correlation between cases in which many users identified the material to be a parody and the likelihood that the use was fair use. Using copyrighted material for commercial purposes, on the other hand, has been found to have a negative correlation with fair use. Beebe found that if a defendant has made a non-transformative commercial use of copyrighted material, that defendant only has a 35.5% chance of winning under the fair use defense.²³¹ Using this human-provided data, a program can then create probabilities to calculate the likelihood, to a precise percentage, that something is fair use.

This data can then be corroborated by the second stage of the survey. The second stage will ask a yes or no question: "Is this a transformative work that adds something new, with a further purpose or different character, altering the original with new expression, meaning, or message?" This will be followed by a question that asks, "After viewing this material how likely are you to view the original?" and allows the user to choose between "more likely," "less likely," or "no change." This question corresponds with the fourth factor of the fair use factor test and is highly correlative with a finding of fair use.²³² Professor Beebe found that the outcome of this factor "coincided with the outcome of the overall test in 83.8% of the 297 dispositive opinions."²³³ Sag came to a similar conclusion about the power of finding a transformative use, stating that when a transformative use is present, the chances of finding fair use doubles.²³⁴ In fact, he found that "not knowing anything else about the defendant's use, a plaintiff can expect to win a clear majority of cases where there is no indication of

228. *Id.*

229. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994).

230. Samuelson, *supra* note 224, at 2550.

231. Beebe, *supra* note 223, at 606.

232. 17 U.S.C. § 107 (2013).

233. Beebe, *supra* note 223, at 584.

234. Sag, *supra* note 225, at 76.

transformative use, but otherwise expect to lose all but 38% of the time.”²³⁵ In his review of the material, Netanel found that this correlation has even increased recently, stating, “I also found a consistently high rate of defendant wins, reaching 100% in 2001-2005 and 2006-2010, in those cases in which the court found that the defendant's use was, in fact, unequivocally transformative.”²³⁶ While identifying the use as “transformative” is simply impossible for a computer program, it can be accomplished quite easily by a human who has just consumed the material. The human user simply has to identify whether the work meets the definition of “transformative” supplied by the United States Supreme Court.²³⁷ If this definition is unclear to many users, an ISP could explain it further based on the many corollary definitions supplied in case law. If the survey finds that many users consistently identify a work as transformative, there is a probability nearing one hundred percent that this work is fair use. This conclusion is further corroborated by the second question, which essentially asks the user to identify the effect this use will have on the market for the original. Determining the harm this use will have on the original is one of the key balancing decisions most judges make in determining fair use.²³⁸ If the second question reveals that users are more likely to view the original after viewing this material, judges are far less likely to find that this use hurts the original and is therefore likely to be fair use.²³⁹

Completing these questions would require no typing on the part of the human user and could be accomplished with three clicks of the mouse in less than fifteen seconds. However, this critical human input is the essential ingredient for an automated program to truly account for fair use because it is the key step a computer program cannot make. Once a human provides a program with this data, that program is able to calculate based on empirical data the chances that the material represents fair use to a percentage point. An ISP can then choose to remove the material or leave it accessible based on this percentage. ISPs will then be able to actively combat piracy while protecting legitimate use with a high degree of accuracy.

C. Is Crowdsourcing Effective?

Can people really be trusted to honestly identify piracy? Under this approach, it is possible that people who understand the system would intentionally lie in their responses in order to keep the material available. For instance, if someone watched a pirated episode of *Seinfeld*, they could then identify the source as a parody and increase the chances that it would be deemed fair use. While such actions are always possible, it is possible to mitigate the

235. *Id.*

236. Netanel, *supra* note 104, at 754.

237. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994) (stating that a work is “transformative” if it “adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message”).

238. Beebe, *supra* note 223, at 621.

239. *Id.*

negative consequence of these actions. First, the automated process will automatically remove clearly infringing material. An episode of *Seinfeld* that is pirated in its entirety would likely be removed automatically. Second, the computer program could maintain a database that stores the user's username or IP addresses and the feedback they have provided in the past. If a user has consistently identified something as fair use when many others have identified it as piracy, that user's survey results can have a diminished value or perhaps no value at all. On the other hand, users who have consistently identified piracy or fair use with a high degree of accuracy can have their survey results given greater weight than the average user. In this way, the survey results could take into account competency and weigh results accordingly. Lastly, if an ISP finds that some users are skewing the results, the ISP could simply extend the required survey to a greater audience.

The evidence of past crowdsourced projects has proven that crowdsourcing is able to deliver reliable results. Wikipedia, for example, was created with the noble purpose of allowing access to an encyclopedia to anyone with an Internet connection. Today, Wikipedia has had over one billion edits from more than twenty-seven million users.²⁴⁰ Users can access articles on quantum electrodynamics,²⁴¹ Merovingian art and architecture,²⁴² as well as a listing of all the minor characters to ever appear in Charles M. Schultz's *Peanuts* comic strip, complete with biographies.²⁴³ More importantly, as early as 2005 Wikipedia was found to be about as accurate as the *Encyclopedia Britannica*.²⁴⁴

Crowdsourcing has continued to be adopted not only for simple tasks like reviewing restaurants or movies, but also has recently been the source of labor for many complex and vexing problems. Ordinary citizens have become powerful tools through crowdsourcing and are now identifying billions of galaxies,²⁴⁵

240. John Cabell, *Ten Impressive, Weird and Amazing Facts About Wikipedia*, WIRED (Jan. 12, 2011, 1:29 PM), <http://www.wired.com/business/2011/01/ten-facts-about-wikipedia/2/>, archived at <http://perma.cc/SH2X-X97B>.

241. *Quantum Electrodynamics*, WIKIPEDIA, http://en.wikipedia.org/wiki/Quantum_electrodynamics (last visited Oct. 12, 2014), archived at <http://perma.cc/8MG8-K7SP>.

242. *Merovingian Art and Architecture*, WIKIPEDIA, http://en.wikipedia.org/wiki/Merovingian_art (last visited Oct. 12, 2014), archived at <http://perma.cc/8MG8-K7SP>.

243. *List of Minor Characters in Peanuts*, WIKIPEDIA, http://en.wikipedia.org/wiki/List_of_minor_characters_in_Peanuts (last visited Oct. 12, 2014), archived at <http://perma.cc/8X4B-SJ6M> (a personal favorite character is “shut up and leave me alone”—a nameless, faceless kid who was Charlie's bunkmate during summer camp. The only thing he said throughout several comics was “shut up and leave me alone.”).

244. *Wikipedia Survives Research Test*, BBC NEWS (Dec. 15, 2005), <http://news.bbc.co.uk/2/hi/technology/4530930.stm>, archived at <http://perma.cc/9JPF-E487>.

245. Sara Gates, *Citizen Scientists Classify Galaxies in Massive Crowdsourced Project, But Can You?*, HUFFINGTON POST (Sept. 26, 2013, 8:31 AM), http://www.huffingtonpost.com/2013/09/26/citizen-scientists-classify-galaxies-galaxy-zoo-2_n_3990747.html, archived at <http://perma.cc/RYK8-X9PN>.

classifying historical documents from the national archives,²⁴⁶ detecting fraud in tax returns,²⁴⁷ and even grading students' homework.²⁴⁸ If enough users provide feedback, crowdsourcing is reliable.

D. Solutions for Copyright Holders

Better screening on the part of ISPs through crowdsourcing only addresses a solution for parties who *receive* DMCA takedown requests. How can the parties that generate these requests better protect fair use? What should copyright holders like Microsoft, Warner Brothers, and others do to better honor fair use while still expeditiously removing offending material? These companies could still automate their generation of DMCA requests, however, they should allow greater discretion for ISPs that employ their own automated processes through techniques like crowdsourcing to protect fair use. Copyright holders could adjust the automated programs they use in order to allow ISPs that have their own in-house processes for detecting infringements to be excluded from receiving DMCA requests unless there is blatant infringement.

While initially it may appear that allowing these ISPs greater discretion and generating fewer DMCA requests would result in diminished demand for the original product, this is not likely to be the case. First, part of the fair use test considers whether the use diminishes demand for the original.²⁴⁹ The more users identify a work as making them less likely to view the original, the less likely that work will be protected by the fair use doctrine.

Second, if the material is kept accessible because it has been identified as fair it may actually become an additional source of revenue. In May 2008, Sony music released Chris Brown's single "Forever" and it quickly made it to Billboard's Top Ten on the "Hot List" of most popular songs.²⁵⁰ Over a year later, a couple danced to this song during their wedding and posted the video on YouTube.²⁵¹ After this video was posted, Sony received notification that a

246. Nathan Raab, *Crowdsourcing Technology Offers Organizations New Ways to Engage Public In History*, FORBES (Sept. 20, 2013, 7:36 AM), <http://www.forbes.com/sites/nathanraab/2013/09/20/technology-offers-organizations-new-ways-to-engage-the-public-in-history/>, archived at <http://perma.cc/BC97-J9QP>.

247. Don Mackenzie, *How Crowdsourcing Fraud Detection Can Help Reduce Tax Cheats*, DATA INFORMED (Sept. 23, 2013, 11:40 AM), <http://data-informed.com/crowdsourcing-fraud-detection-can-help-reduce-tax-cheats/>, archived at <http://perma.cc/L6LN-F2D4>.

248. *First Trial of Crowdsourced Grading for Computer Science Homework*, MIT TECHNOLOGY REVIEW (Sept. 4, 2013), <http://www.technologyreview.com/view/519001/first-trial-of-crowdsourced-grading-for-computer-science-homework/>, archived at <http://perma.cc/54YZ-C5JF>.

249. 17 U.S.C. § 107 (2012).

250. *The Hot 100*, BILLBOARD (May 10, 2008), <https://web.archive.org/web/20130524082734/http://www.billboard.com/charts/2008-05-10/the-hot-100>, archived at <http://perma.cc/U46E-MMPA>.

251. Margaret Gould Stewart, *Margaret Gould Stewart: How YouTube Thinks about*

YouTube video matched the audio of the copyright they held for the song and Sony could opt to remove the video.²⁵² Rather than strictly enforcing their copyright and potentially blocking fair use of their material, Sony chose to allow the video to remain accessible.²⁵³ The video has since gone on to get over eighty-three million views²⁵⁴ and eighteen months after Chris Brown's song fell off the charts it was launched back to iTunes's top ten and began earning Sony additional revenue.²⁵⁵ This video was then parodied by NBC's hit show *The Office* in their season finale and once again brought additional attention to the song and additional revenue to Sony.²⁵⁶ Allowing fair use of copyright-protected material not only prevents a copyright holder from possibly being liable under section 512(f) for filing misleading DMCA takedown requests, but also might help a copyright holder's bottom line. Fair use by its very nature, draws attention back to the original and creates additional streams of revenue at no cost. Employing a system that accounts for fair use and relying on this system creates a win-win scenario that will diminish liability while increasing revenue for copyright holders.

E. Walking the Tightrope

Using crowdsourcing, a business can then meet the criteria outlined earlier for an efficient DMCA filtering process. First, this process is "expeditious" as required by law.²⁵⁷ It is unclear what the word "expeditiously" legally requires because it has never been litigated in the context of DMCA takedown requests. Many times the material is removed within minutes of getting such a request. Using crowdsourcing will require that this term be interpreted not to measure time, but rather how quickly material is removed in relation to the rate at which it is consumed. This would be a more accurate and helpful definition. For instance, a video might be posted on a Monday, yet not be watched by anyone until the following Sunday. This would mean waiting a week before anyone provides feedback as to its fair use. Initially, this would not seem expeditious at all. This approach, however, measures what really matters—how many people consume potentially infringing material. If a video is posted, yet no one watches it, no harm could possibly be done. However, if a video is posted and gets over 1,000 views within the first hour, then a crowdsourcing approach would identify

Copyright, TED (Feb. 2010), http://www.ted.com/talks/margaret_stewart_how_youtube_thinks_about_copyright.html, archived at <http://perma.cc/6SU2-N9RX>.

252. *Id.*

253. *Id.*

254. *JK Wedding Entrance Dance*, YOUTUBE, <http://www.youtube.com/watch?v=4-94JhLEiN0> (last visited Oct. 12, 2014), archived at <http://perma.cc/5EAF-87ST>.

255. *Viral Wedding Video Gives Chris Brown's 'Forever' a Boost*, BILLBOARD (July 29, 2009), <http://www.billboard.com/biz/articles/news/1267294/viral-wedding-video-gives-chris-browns-forever-a-boost>, archived at <http://perma.cc/MZ8C-FPKX>.

256. Stewart, *supra* note 251.

257. Digital Millennium Copyright Act of 1998, 17 U.S.C. § 512(c)(1)(C) (2012).

that material quickly and would require that it be removed within a matter of minutes if it is genuine piracy. Although no court has yet taken this approach, it is a logical extension of the purpose behind the DMCA.

Second, this process is accurate and incorporates fair use. Using only fifteen seconds of a user's time, an automated program can substantially increase its level of accuracy. Highly public blunders would be diminished. Users would be more comfortable uploading their creative content. Consumers would be more attracted to the ISP knowing that it is a haven for creative and critical uses of copyrighted material. And both ISPs and copyright holders would have decreased legal liabilities.

CONCLUSION

The landscape of the Internet has changed drastically since 1998. Today the Internet is not only a source of international commerce, but also is a place where families upload their home movies, politicians grow their campaigns, and critics malign incompetence. The World Wide Web has become the world's largest theater where artists debut their newest creations.

Protecting copyrighted material in the modern world has become a daunting task. Copyright holders are forced to constantly comb the ever-changing landscape of the Internet looking for possible infringement. This means every article written, video uploaded, and song played must be reviewed for infringement. This task is being accomplished by automated processes rather than by humans. In addition, many internet-based businesses that host third party content can expect to receive hundreds, if not thousands of DMCA takedown requests every day. Once again this process is being automated in order to simply keep up with the requests.

While the DMCA certainly has its flaws and needs improvement, the larger problem is that the Internet contains billions of pieces of copyright protected material. Some of that material is pirated and some of it is not. How will the pirated material be removed without affecting the non-infringing material? Internet users are constantly writing, filming, editing, recording, or designing new material and making it accessible through the Internet. There must be a system for separating material that is genuine fair use from piracy. Humans cannot do it alone because it would be too time consuming and computers cannot do it alone because it requires a degree of analysis that is exclusively human in nature. If this problem is not addressed soon, it will be left solely to automated processes.

In the early years of the twenty-first century, many Internet-based businesses faced a similar problem as a result of growing automation. Websites that hosted email services, online polls, and blogs were being inundated with computer programs that were designed to act like human users, create accounts, and then generate information with a commercial or sinister purpose. Famously, in November 1999, one website released an online poll asking users which school had the best graduate program in computer science.²⁵⁸ Several schools created

258. *What Is CAPTCHA*, GOOGLE, <http://www.captcha.net/> (last visited July 22,

programs that were designed to mimic human users and voted for their school thousands of times.²⁵⁹ Websites were being flooded by computer programs that were acting as humans. Rather than try to create a computer program that could separate human users from computers without any human input, the solution to this problem was crowdsourcing.²⁶⁰ Now, whenever performing any mundane function on the internet, such as signing up for email or paying a bill, a human is asked to simply look at a distorted text and type what word they believe it looks like.²⁶¹ This process takes several seconds, but it prevents computer programs from acting like humans.²⁶² By dispersing the task to hundreds of millions of people, the once daunting task of separating computer programs from humans has been made manageable. This was a major problem facing the growth of the Internet, and though the solution was a minor inconvenience to millions of people, it has been effectively solved.

Today, the Internet is facing the daunting problem of distinguishing piracy from fair use. And the solution lies in the millions of people who consume the material on the Internet. Users must once again accept a minor inconvenience that is spread over millions of people in order to ensure that the Internet remains safe for both commerce and artistic expression. Through crowdsourcing, advanced computer programs can successfully discover if material is fair use with a high degree of accuracy based on human input. When millions of people answer several short questions in less than fifteen seconds, an advanced computer system can then take this information and extrapolate the likelihood that it is fair use based on empirical data. Most importantly, the users who are already consuming the material, rather than employees or computer programs, are identifying and categorizing the material.

When fair use is protected through a highly sophisticated and reliable process, ISPs will be less inundated with DMCA requests. Copyright holders will be less likely to be found liable under section 512(f) for filing misleading DMCA takedown requests, and the need to file these requests will be greatly diminished because a more reliable system has been created. Websites that adequately protect fair use will be more likely to receive new creative material from users. These users will be more likely to upload their material to these websites because they know their material will be protected. These websites can increase revenue by becoming havens for artistic expression. Furthermore, copyright holders who allow fair use of their copyright-protected material will more likely receive additional streams of revenue as users take the copyright-protected material and transform it. And most importantly, through crowdsourcing the consumers of the Internet, not computer programs, will determine the composition of the Internet. The future of the Internet would be limited not by the accuracy of our computer programs, but rather by the power of our imagination.

2014), *archived at* <http://perma.cc/2YZ4-HVXM>.

259. *Id.*

260. *Id.*

261. *Id.*

262. *Id.*

INDIANA'S MIDWIFERY STATUTE AND THE LEGAL BARRIERS THAT WILL RENDER IT UNWORKABLE

JOANNE ROUSE*

*"If women lose the right to say where and how they birth their children, then they will have lost something that's as dear to life as breathing."*¹

INTRODUCTION

The State of Indiana recently legalized certified direct entry midwifery.² Surely the new law, championed as a "huge step forward for families in Indiana"³ and the product of decades of lobbying efforts,⁴ would not merely maintain the status quo.⁵ Surely the new law, aimed to bring together two historically disparate groups, would not promote a greater resentment of one another.⁶ Surely the new law would not deprive Hoosier women of their United States Constitutional right to privacy or to the free exercise of their religion.⁷ Yet, the language of the new midwifery statute produces these results that surely no law should produce.

Behind the portrayal of this law as a giant leap for midwife accessibility in Indiana, however, is the strong likelihood that very few aspiring midwives will be able to comply with the requirements needed to practice legally in the State of Indiana.⁸ Two provisions, in particular, will produce an unworkable statute: the

* J.D. Candidate, Indiana University Robert H. McKinney School of Law, 2015; B.A., Marquette University, 2011. I would like to thank Professor Wright, for his invaluable insight and guidance throughout my note writing process, and my family for their unending love and support.

1. AMI MCKAY, *THE BIRTH HOUSE* 361 (reprint ed. 2007).

2. H.B. 1135, 118th Leg., 1st Sess. (Ind. 2013), available at <http://www.in.gov/apps/lisa/session/billwatch/billinfo?year=2013&session=1&request=getBill&docno=1135>, archived at <http://perma.cc/6F22-A4F3>. Midwifery is generally divided into two groups of practitioners. Certified Nurse Midwives obtain a nursing degree and, thereafter, receive advanced training in midwifery and have legal status in all fifty states. Direct Entry Midwives are educated in midwifery through a variety of routes, including a midwifery school, a program distinct from the study of nursing, or through apprenticeship, and their legal status varies from state-to-state. Indiana legalized "Certified Direct Entry Midwifery" in 2013, which is a variation of Direct Entry Midwifery. See *infra* Part II.B.1.

3. Maureen Hayden, *New Law Legalizes Midwifery in Indiana*, KOKOMO TRIB. (June 8, 2013), available at <http://kokomotribune.com/local/x1076949700/New-law-legalizes-midwifery-in-indiana>, archived at <http://perma.cc/XLS6-63N6>.

4. Ellie Price, *New Law Allows Non-Nurse Midwives to Practice in Indiana*, STATEHOUSE FILE (June 18, 2013), <http://thestatehousefile.com/new-law-allows-non-nurse-midwives-to-practice-in-indiana/11904/>, archived at <http://perma.cc/BQ5B-ZJH6>.

5. See *infra* Part III.

6. See *infra* Part I.A.2, III.

7. See Part II.B.3.

8. IND. CODE § 25-23.4-3-1(b)(2) (2013) ("[A]n individual may not engage in the practice

requirement that Certified Direct Entry Midwives (“CDEMs”) must have a “collaborating agreement” with a physician⁹ and the requirement that CDEMs must maintain sufficient liability insurance in order to become certified.¹⁰ Because the statute does not provide immunity or any liability protection for collaborating physicians, very few physicians will be willing to enter into the collaborative agreement.¹¹ Furthermore, it is unlikely that many CDEMs will be able to locate liability insurance at an affordable price.¹² Although excited about the formal legalization of CDEMs in Indiana, Mary Ann Griffin, president of the Indiana Midwives Association, lamented that “only about a dozen midwives practicing in Indiana would likely qualify to be certified.”¹³

The purpose of this Note is to encourage the Indiana Legislature to amend its certified direct entry midwifery statute to eliminate the collaborative agreement with a physician requirement and the liability insurance requirement. Thus, this Note first proposes an amendment to the statute that provides for full liability protection for physicians who choose to collaborate informally with CDEMs, and, second, proposes an amendment that encourages, but does not require, CDEMs to maintain sufficient liability insurance until the State can find such insurance at an affordable price.

Part I of this Note briefly explores the history of midwifery from colonial times to the present and explains why midwifery experienced a sharp decline in the early twentieth century. It explains the various types of midwives and differentiates between the medical model of care supported by physicians and the midwifery model of care endorsed by midwives. Part II reviews the statutory regulation and constitutional landscape in the United States for the sake of better understanding the likely effects of the Indiana statute. It highlights where midwifery regulation currently stands, how various approaches to regulation compare to one another, and provides a detailed study of California midwifery legislation. Finally, Part III examines the strengths and weaknesses of Indiana’s certified direct entry midwifery statute. It proposes specific amendments by looking to the successes and failures of other regulatory schemes.

of midwifery unless . . . the individual has a Certified Direct Entry Midwife certificate . . . and has a collaborative agreement with a physician . . .”).

9. *Id.* § 25-23.4-5-1.

10. *Id.* § 25-23.4-3-1(c)(10); *see also* MILTON FRIEDMAN, CAPITALISM AND FREEDOM 141 (1962) (“In practice, the considerations taken into account in determining who shall get a license often involve matters that, so far as a layman can see, have no relation whatsoever to professional competence. This is not surprising. If a few individuals are going to decide whether other individuals may pursue an occupation, all sorts of irrelevant considerations are likely to enter.”).

11. *See infra* Part III.B.

12. *See infra* Part III.B.

13. Hayden, *supra* note 3.

I. THE HISTORY OF MIDWIFERY AND THE MIDWIFERY MODEL OF CARE

A. *The History of Midwives*

Understanding the origins of midwifery in the United States and the changes midwifery has experienced over the past 150 years greatly aids in determining the substance of a workable midwifery statute today. The midwives' story has been one of struggle for centuries.¹⁴ Despite the continued resistance, midwives have managed to remain a viable birthing option for women looking for an alternative to an obstetrician-attended hospital birth.¹⁵

1. *Midwifery in Colonial America.*—Midwives were the primary birth attendants, participating in nearly all births, in the original thirteen colonies of the United States.¹⁶ The colonial settlers brought the practice of midwifery to America from Europe where the midwife was the primary care provider during pregnancy, labor, and post-partum.¹⁷ As it was in Europe, midwifery remained a female-dominated profession in the colonies.¹⁸ Midwives trained primarily through apprenticeship under the guidance of a more experienced midwife.¹⁹ The use of a midwife during childbirth became imbedded in colonial culture and childbirth became a social and communal event in which female relatives, friends, and neighbors, in addition to the female midwife, took part.²⁰

Childbirth was not considered a medical event.²¹ The use of midwives in the home was especially apt for colonial America due to the widespread, rural population and the rarity of hospitals.²² Physicians only attended the most

14. Sarah Anne Stover, Note, *Born by the Woman, Caught by the Midwife: The Case for Legalizing Direct-Entry Midwifery in All Fifty States*, 21 HEALTH MATRIX 307, 312-13 (2011).

15. Benjamin Grant Chojnacki, Note, *Protecting Maternal Autonomy from the Living Room to the Delivery Room*, 23 J.L. & HEALTH 45, 47 (2010).

16. Lisa L. Chalidze, *Misinformed Consent: Non-medical Bases for American Birth Recommendations as a Human Rights Issue*, 54 N.Y.L. SCH. L. REV. 59, 66 (2010); see also Christopher Rausch, Note, *The Midwife and the Forceps: The Wild Terrain of Midwifery Law in the United States and Where North Dakota is Heading in the Birthing Debate*, 84 N.D. L. REV. 219, 224 (2008) (noting that the practice of midwifery dates back much further than the early eighteenth century and positing that it may be the oldest health profession in history).

17. Jason M. Storck, *A State of Uncertainty: Ohio's Deficient Scheme of Midwifery Regulation in Historical and National Context*, 8 QUINNIPIAC HEALTH L.J. 89, 90 (2004).

18. Rausch, *supra* note 16, at 225.

19. Stacey A. Tovino, *American Midwifery Litigation and State Legislative Preferences for Physician-Controlled Childbirth*, 11 CARDOZO WOMEN'S L.J. 61, 63 (2004).

20. *Id.*; see also Stover, *supra* note 14, at 313 (quoting JUDITH PENCE ROOKS, MIDWIFERY AND CHILDBIRTH IN AMERICA 3 (1997) (translating the English word "midwife" to literally mean "to be 'with woman' during childbirth")).

21. Tovino, *supra* note 19, at 63.

22. Rachel A. D. Marquardt, Note, *Balancing Babies, Birth, and Belief: A Legal Argument Against Planned Homebirth*, 16 J. GENDER RACE & JUST. 607, 609 (2013).

difficult births requiring the surgical removal of the fetus.²³ Physicians, however, did not have many drugs or surgical instruments available to them, and this lack of technology meant that there was little difference between the services offered by a physician and by a midwife.²⁴ This relative equality in results and popular perception led to a “system of cooperation” and “professional courtesy” between midwives and physicians for most of the eighteenth century.²⁵ Additionally, many physicians practiced medicine only part time and held other occupations, such as land proprietorships and politics,²⁶ and generally left midwives undisturbed to provide care for women in pregnancy and labor.²⁷

2. *The Rise of the Medical Profession to the Exclusion of Midwifery.*—This “system of cooperation” in which midwives delivered nearly all children in the home during the eighteenth century gave way to a “system of exclusion”²⁸ in which physicians delivered more than eighty percent of all children in hospitals by 1950.²⁹ The reasons for this drastic change are two-fold: the rise of the medical profession and the shifting population demographic from rural to urban settings.³⁰ The resulting system of exclusion fueled an intense rivalry between obstetricians and midwives that continues to some extent to the present day.³¹

Two reports on medical education, published in 1910 and 1912, ignited the rise of professionalized medicine in childbirth.³² These reports identified deficiencies in obstetrical training.³³ After observing the Johns Hopkins Medical School’s obstetrical training program, J. Whitridge Williams, Professor of Obstetrics, concluded that “the average practitioner, through his lack of preparation for the practice of obstetrics, may do his patients as much harm as the much-maligned midwife.”³⁴ As alluded to by Williams, the male-dominated medical profession no longer regarded midwives as tolerable in the profession of childbirth.³⁵ Technological advances such as anesthesia and obstetrical forceps available exclusively to physicians provided a visual point of reference to

23. Laura D. Hermer, *Midwifery: Strategies on the Road to Universal Legalization*, 13 HEALTH MATRIX 325, 335 (2003).

24. Tovino, *supra* note 19, at 64.

25. *Id.* (quoting LAUREL THATCHER ULRICH, *A MIDWIFE’S TALE: THE LIFE OF MARTHA BALLARD, BASED ON HER DIARY, 1785-1812*, 61 (1991)).

26. *Id.*

27. Rausch, *supra* note 16, at 225-26.

28. Deborah M. Fisch, *Baby Steps: The Changing Relationship Between Michigan Obstetricians and Certified Professional Midwives*, 14 MARQ. ELDER’S ADVISOR 87, 89 (2012).

29. Rausch, *supra* note 16, at 226.

30. Chalidze, *supra* note 16, at 67.

31. *Id.*

32. *Id.* at 68.

33. *Id.*

34. Tovino, *supra* note 19, at 66 (quoting JUDITH WALZER LEAVITT, *BROUGHT TO BED: CHILD-REARING IN AMERICA, 1750-1950*, 63 (1986)).

35. Rausch, *supra* note 16, at 226.

distinguish the practice of obstetrics from the practice of midwifery.³⁶

To remedy the lack of training, the reports recommended that obstetric students perform significantly more deliveries in hospitals during their training.³⁷ The combination of the urbanization of America, which resulted in a larger percentage of Americans in proximity to hospitals, and the mass immigration of poor Europeans, who were willing to use their delivery as a teaching tool for young doctors in exchange for free obstetrical services, was just the recipe for this recommended training.³⁸ As such, obstetricians viewed midwives as direct competition for patients.³⁹ One legal scholar aptly described the changing relationship between physicians and midwives: “the seeds for bitter conflict were sown early in the twentieth century between obstetricians—virtually all of them male and eager to ply their ever-growing surgical and technological skills—and midwives, virtually all of them female, already being marginalized by exclusion from the scientific fraternity.”⁴⁰

Besides poor immigrants used as training tools, middle and upper class women were the first to regularly utilize obstetricians.⁴¹ Physicians cited the germ theory of disease transmission, which experienced increasing acceptance in the early nineteenth century, to explain why the home was not a safe environment for a woman to deliver her baby.⁴² Childbirth itself was regarded as a dangerous procedure that was safer and less painful under the care of an obstetrician in a hospital setting, a “fact” that appealed to women who were able to afford an obstetrician-attended hospital birth.⁴³

Indeed, maternal mortality rates were as high as 600-700 deaths per 100,000 childbirths in the early twentieth century.⁴⁴ These numbers began to decline by the 1930s when hospital childbirths under the direction of an obstetrician gained popularity, and physicians convinced pregnant women that this trend proved that childbirth is a pathological act requiring their disease-oriented approach to care.⁴⁵ This correlation between decreased maternal mortality rates and the use of medicine to the exclusion of midwifery, however, did not represent a causal relationship.⁴⁶ Instead, the increased use of antibiotics around this time was

36. *Id.*

37. Chalidze, *supra* note 16, at 68.

38. Storck, *supra* note 17, at 93.

39. *Id.* at 92.

40. Chalidze, *supra* note 16, at 68; *see also* FRIEDMAN, *supra* note 10, at 148 (“The most obvious social cost is that any one of these measures, whether it be registration, certification, or licensure, almost inevitably becomes a tool in the hands of a special producer group to obtain a monopoly position at the expense of the rest of the public.”).

41. Tovino, *supra* note 19, at 67.

42. Storck, *supra* note 17, at 92-93.

43. Stover, *supra* note 14, at 315; *see also infra* Part II.B.2.

44. Hermer, *supra* note 23, at 337.

45. *Id.* at 336-37.

46. *Id.* at 337-38.

largely responsible for the decline in deaths during childbirth.⁴⁷ The rate of maternal mortality declined at a similar rate in most other western countries, all with very different birth practices, suggesting that the type of childbirth attendant used had little to do with the decline of maternal mortality.⁴⁸

Regardless of this misperception, the medical, disease-oriented approach to childbirth cemented itself in mainstream American culture.⁴⁹ A few decades into the nineteenth century, the previous sentiment that childbirth was a joyous, natural, and communal event had vanished.⁵⁰ The popular acceptance that an obstetrician delivered birth in a hospital was the only option for childbirth continued for the next half-century, with obstetricians establishing a near-monopoly of all childbirth by the 1960s.⁵¹

3. *The "Resurgence" of Midwifery.*—Midwifery experienced resurgence among urban, suburban, and middle class white women in the 1970s.⁵² This grassroots movement championed the ideas of "natural childbirth," "prepared childbirth," and supportive care in the home by midwives.⁵³ They protested the view that every pregnancy and childbirth was a disease requiring routine medical intervention and extended hospital stays.⁵⁴ These beliefs echoed the larger efforts during this time for women to reclaim power over their bodies and retain bodily integrity.⁵⁵ Even though this movement to resurge midwifery continues today,⁵⁶ physicians still attended ninety-five percent of all births in 2000, seventy percent of which included normal childbirths and healthy women.⁵⁷

B. The Midwifery Model of Care vs. The Medical Model of Care

Realizing and understanding the difference between the services midwives offer and the services obstetricians offer is essential to fully grasp the pitfalls of Indiana's Certified Direct Entry Midwifery legislation and postulate how it can

47. *Id.* at 337.

48. *Id.* at 337-38.

49. Storck, *supra* note 17, at 93; *see also infra* Part II.B.2.

50. Storck, *supra* note 17, at 93 n.17.

51. Tovino, *supra* note 19, at 67-68.

52. Hermer, *supra* note 23, at 339.

53. Stover, *supra* note 14, at 316.

54. Marquardt, *supra* note 22, at 609; *see, e.g.*, Marc A. Rodwin, *Patient Accountability and Quality of Care: Lessons from Medical Consumerism and the Patients' Rights, Women's Health and Disability Rights Movements*, 20 AM. J.L. & MED. 147, 158 (1994) ("[W]omen were expected to be passive in child birth . . . [M]others were often denied information, restrained while in labor, and sometimes drugged and strapped. To fit the schedules of doctors, births were often induced when not necessary; other times they were delayed by holding patients' legs together.").

55. Marquardt, *supra* note 22, at 609.

56. Storck, *supra* note 17, at 96.

57. Kathlyn Marie Happe, *Health and Welfare Chapter 303: Is California Edging Towards a "Consultive" Relationship Between Midwives and Physicians?*, 32 MCGEORGE L. REV. 713, 717-18 (2001).

be improved. These various birth attendants, including physicians, Certified Nurse-Midwives, and Direct Entry Midwives, can all contribute to a woman's safe, positive birth experience.⁵⁸ While the methods and philosophies are different among these birth attendants, particularly between physicians and midwives,⁵⁹ the infant and maternal mortality rates are quite similar.⁶⁰ Legislation can greatly affect the birth attendants' relationships with one another, and, ideally, legislation will help create a cooperative environment in which physicians and all types of midwives work together to create a dual system of childbirth care.⁶¹

1. *The Midwifery Model of Care.*—Midwives prescribe to a “wellness approach,” which emphasizes low-risk childbirth as a normal, natural process for women.⁶² Well-trained midwives are experts in screening and caring for normal pregnancies and low-risk births.⁶³ They do not accept high-risk cases, like women with high blood pressure, women with previously complicated pregnancies, and women with a family history of childbirth difficulties.⁶⁴ If a complication arises during labor, trained midwives should timely recognize the abnormality and safely transfer the woman to the hospital.⁶⁵ For low-risk, normal cases, however, midwives are fully capable of safely caring for the mother and baby through the entire pregnancy and childbirth process.⁶⁶

A main tenant of this holistic, wellness approach is that midwives encourage mothers during pregnancy and childbirth, rather than control them.⁶⁷ Instead of focusing solely on the woman's uterus, midwives attend to the woman as a whole person.⁶⁸ Midwives believe that a woman's social and psychological state can greatly affect her pregnancy and childbirth.⁶⁹ To ensure that the woman is socially and psychologically healthy, a midwife inquires into the woman's expectations of her pregnancy and labor, her morals, beliefs, fears, hesitations, and desires.⁷⁰ During childbirth, midwives prefer to watch and wait for physiologic processes to progress naturally and remain with the woman

58. *See infra* Part I.B.1-2.

59. *Id.*

60. *See infra* Part I.B.3.

61. *See infra* Part III.

62. Hermer, *supra* note 23, at 332.

63. Julie Harmon, Note, *Statutory Regulation of Midwives: A Study of California Law*, 8 WM. & MARY J. WOMEN & L. 115, 117 (2001).

64. *Id.*

65. *Id.*

66. *Id.* at 118.

67. Rausch, *supra* note 16, at 226; *see* Stover, *supra* note 14, at 320 (noting midwives do not deliver babies but instead attend to the laboring woman and catch the baby; this difference in wording “recognizes that the pregnant woman's body is the mechanism that actually delivers the baby”).

68. Hermer, *supra* note 23, at 332.

69. *Id.*

70. Stover, *supra* note 14, at 320.

throughout the entire birth process.⁷¹ This holistic approach to pregnancy and childbirth can make midwifery practice a time-intensive and relationship-intensive approach⁷² but also reduces liability.⁷³

Despite the amount of time a midwife spends with each woman, midwifery services are significantly less expensive than a physician-attended labor in a hospital.⁷⁴ The midwives' hands-off approach encourages midwives to place a great trust in the body's ability to safely deliver the baby and to use medical interventionist methods only when absolutely necessary.⁷⁵ They do not allow the possibility of complications to "preempt all other values associated with the woman's experience of bearing and giving birth to a child."⁷⁶ The low rate of intervention, including the non-use of costly tests and equipment such as sonograms and fetal monitors, is the main reason for the cost-effectiveness of midwifery services.⁷⁷

There are two general classifications of midwives: Certified Nurse-Midwives ("CNMs") and Direct-Entry Midwives ("DEMs").⁷⁸ CNMs first receive basic nursing education and become registered nurses.⁷⁹ They must then obtain a Master's degree in nursing and pass the certification exam administered by the American Midwifery Certification Board.⁸⁰ These requirements make CNMs the type of midwife with the "highest degree of traditionally accepted medical training."⁸¹ The vast majority of midwives are CNMs,⁸² and they work almost exclusively in hospital settings.⁸³ CNMs are licensed health care providers legally authorized to practice in all fifty states.⁸⁴

In contrast, DEMs are "independent practitioner[s] educated in the discipline of midwifery through self-study, apprenticeship, a midwifery school, a college, or university-based program distinct from the discipline of nursing."⁸⁵ These

71. *Id.*

72. *Id.*

73. Fisch, *supra* note 28, at 109; *see also* Harmon, *supra* note 63, at 121 (explaining that, in addition to the close personal relationship between midwife and pregnant mother, the fact that midwives only take low-risk cases contributes to midwives being involved in fewer malpractice cases than obstetrics).

74. Harmon, *supra* note 63, at 118.

75. Chojnacki, *supra* note 15, at 48.

76. Stover, *supra* note 14, at 320 (quoting Judith P. Rooks, *The Midwifery Model of Care*, 44 J. NURSE-MIDWIFERY 370, 370 (1999)).

77. Harmon, *supra* note 63, at 118.

78. Chojnacki, *supra* note 15, at 49.

79. Hermer, *supra* note 23, at 333.

80. Marquardt, *supra* note 22, at 611.

81. Hermer, *supra* note 23, at 333.

82. AMERICAN COLLEGE OF NURSE-MIDWIVES, FACT SHEET: ESSENTIAL FACTS ABOUT MIDWIVES 1 (2013) [hereinafter ACNM FACT SHEET].

83. Hermer, *supra* note 23, at 333.

84. ACNM FACT SHEET, *supra* note 82, at 1.

85. *Become a Midwife*, MIDWIVES ALLIANCE OF N. AM., <http://mana.org/about->

midwives, more than CNMs, fully prescribe to the midwifery model of care and frequently attend homebirths.⁸⁶ As each state has the power to enact laws to protect its citizens' health and safety, state laws vary in the legality, standards of practice, and requirements for licensure or certification of DEMs.⁸⁷ Some DEMs either choose or are required to obtain certification through the North American Registry of Midwives ("NARM").⁸⁸ These midwives, known as Certified Professional Midwives ("CPMs"), establish competency "through training, education and supervised clinical experience, followed by successful completion of a skills assessment and written exam."⁸⁹ Although Indiana's use of the term "Certified Direct Entry Midwife" is unique, CDEMs are a type of DEM with specific requirements for state certification.⁹⁰ Some midwives, known as lay midwives, choose not to obtain state licenses but instead gain experience without formal training through apprenticeship and practice.⁹¹

2. *The Medical Model of Care.*—While the midwifery model of care embraces a "wellness" approach,⁹² the medical model of care embraces a "disease-oriented" approach.⁹³ Because obstetrics views childbirth as an illness, rather than a natural process, its focus "was and remains the diagnosis and treatment of pathology: complications of pregnancy and management of diseases affecting pregnant women and the fetuses they carry."⁹⁴ Obstetricians believe that "no case is normal until it is over."⁹⁵ Because many problems can potentially arise during childbirth, obstetricians strongly encourage women to deliver in a hospital setting.⁹⁶ This approach has also resulted in a high rate of obstetrical

midwives/become-a-midwife (last visited Oct. 12, 2014), *archived at* <http://perma.cc/L33R-RGTA>.

86. Harmon, *supra* note 63, at 119-20.

87. *See infra* Part II.A.

88. Rausch, *supra* note 16, at 224.

89. *How to Become a CPM*, N. AM. REGISTRY OF MIDWIVES, <http://narm.org/certification/how-to-become-a-cpm/> (last visited Oct. 12, 2014), *archived at* <http://perma.cc/8HA4-LPWW>.

90. *See, e.g.*, ALASKA STAT. § 08.65 (2014) (using the term "Certified Direct-Entry Midwives" in the Alaska statute but requiring training and credentials similar to those required by NARM and different than those required by Indiana); *see infra* Part III.A.

91. Happe, *supra* note 57, at 716; *see also* Chojnacki, *supra* note 15, at 49-50 (noting that some lay midwives "avoid certification because they view the training as harmful or irrelevant, while others practice illegally in states that do not permit them to attend births").

92. *See supra* Part I.B.1.

93. Rausch, *supra* note 16, at 227.

94. Hermer, *supra* note 23, at 330 (quoting ROOKS, *supra* note 20, at 4).

95. *Id.*

96. *Planned Home Birth*, Committee Opinion No. 476 (The American College of Obstetrics and Gynecologists) at 3 (2011) [hereinafter ACOG Committee Opinion]; *see also* Jessica Reaves, *Use of Midwives Rises, Challenging the State to Respond*, N.Y. TIMES (Sept. 23, 2010), http://www.nytimes.com/2010/09/24/us/24encmidwives.html?pagewanted=all&_r=0, *archived at* <http://perma.cc/35BG-A3LT> ("'We just don't think home is a safe environment for delivery,' said Dr. Jacques Abramowicz . . . Fellow of the American College of Obstetrics and Gynecology. 'Childbirth is very dynamic, and it can be a very dangerous process. In the vast majority of cases,

interventions.⁹⁷

Obstetricians have many patients to tend to at once, which means they periodically check in with the patients and rely on nurses and machines to monitor labor.⁹⁸ Some women find the hospital experience to be a “medical, passive and alienating event.”⁹⁹ By and large, however, childbirth in a hospital attended by an obstetrician continues to be the norm for the vast majority of American women.¹⁰⁰

3. *The Data.*—Because the constitutionality of Direct Entry Midwifery regulation hinges on the presence of a legitimate state interest,¹⁰¹ it is important to examine the data regarding the public safety risks and benefits of midwifery. Even though midwifery has been around since colonial times, high-quality evidence surrounding this debate is relatively limited.¹⁰² Women working with a midwife or planning a homebirth have been reluctant to participate in clinical trials, so most of the data comes from observational studies.¹⁰³ The low rates of midwife-attended births are definitive, however, and in 2011, only 0.007% of births were attended by a DEM.¹⁰⁴

One prospective cohort study surveyed the United States and Canada, where midwives are not well-integrated into the healthcare system, and evaluated the safety of homebirths involving DEMs.¹⁰⁵ This study is one of the largest studies involving DEMs and homebirth,¹⁰⁶ but the results are similar to other studies of the practice of midwifery.¹⁰⁷ It found that women who planned a homebirth with

nothing happens. However, if an emergency occurs, it happens very fast—in two, three, four minutes.”).

97. Hermer, *supra* note 23, at 331; *see, e.g.*, ACOG Committee Opinion, *supra* note 96, at 2 (including interventions such as epidural analgesia, electronic fetal heart rate monitoring, episiotomy, operative vaginal delivery, and cesarean delivery).

98. Hermer, *supra* note 23, at 331.

99. *Id.* at 331-32.

100. Storck, *supra* note 17, at 95-96.

101. *See infra* Part II.B.

102. ACOG Committee Opinion, *supra* note 96, at 1.

103. *Id.*

104. JOYCE A. MARTIN ET AL., NATIONAL VITAL STATISTICS REPORTS: BIRTHS: FINAL DATA FOR 2011, U.S. DEP'T OF HEALTH AND HUMAN SERVICES: CENTER FOR DISEASE CONTROL AND PREVENTION Table 20 (2011) (finding that ninety-one percent of births were attended by a physician and 0.08% were attended by a CNM).

105. Kenneth C. Johnson & Betty-Anne Daviss, *Outcomes of Planned Home Births with Certified Professional Midwives: Large Prospective Study in North America*, 330 BRITISH MED. J. 1416, 1416 (2005).

106. *Id.* at 1419-20.

107. *See, e.g.*, A. Mark Durand, *The Safety of Home Birth: The Farm Study*, 82(3) AM. J. PUB. HEALTH 450, 451 (1992) (finding there was no significant difference between homebirth and hospital birth regarding fetal and neonatal death or labor-related complications); Patricia A. Janssen et al., *Licensed Midwife-Attended, Out-of-Hospital Births in Washington State: Are They Safe?*, Abstract, 21 BIRTH 141, 141-48 (1994) (finding no significant differences between out-of-hospital

a DEM experienced low rates of intrapartum and neonatal mortality, similar to rates of low-risk births in a hospital setting.¹⁰⁸ There were no maternal deaths.¹⁰⁹ The study also found that rates of medical intervention in a midwife-assisted birth at home were less than half those in a hospital setting.¹¹⁰ The authors recommended increasing accessibility to DEMs for pregnant women.¹¹¹

Advocates of both the midwifery model and the medical model agree that use of interventions in labor and delivery are much higher among physician-attended childbirth than DEM-attended childbirth.¹¹² Midwifery advocates contend that “most obstetrical interventions during labor and delivery have little, if any, [positive] effect on the majority of the causes of maternal and neonatal morbidity and mortality.”¹¹³ Furthermore, these advocates explain that some intervention methods, such as regular use of cesarean sections, are dangerous and result in increased maternal morbidity.¹¹⁴ The medical community defends its use of intervention procedures. The American College of Obstetrics and Gynecology (“ACOG”) claims that the goal of intervention methods is to “improve the health of children by intervening before birth to correct or treat prenatally diagnosed abnormalities,” but it stresses that no intervention can be performed without the mother’s informed consent.¹¹⁵ A national nursing organization explains that electronic fetal monitoring is an “appropriate and effective method[] to assess and promote maternal and fetal well-being.”¹¹⁶

Regardless of the benefit or harm of intervention procedures, the use of these methods in an obstetrician-attended birth results in significantly higher costs to

births attended by midwives and physician-attended births in a hospital); *but see* Jenny W.Y. Pang et al., *Outcomes of Planned Home Births in Washington State: 1989-1996*, 100 OBSTETRICS & GYNECOLOGY 253, 253 (2002) (finding that planned homebirths had greater infant and maternal risks than did hospital births).

108. Johnson & Daviss, *supra* note 105, at 1419.

109. *Id.* at 1417.

110. *Id.* at 1419 (“Compared with the relatively low risk hospital group, intended home births were associated with lower rates of electronic fetal monitoring [9.6% versus 84.3%], episiotomy [2.1% versus 33.0%], cesarean section [3.7% versus 19.0%], and vacuum extraction [0.6% versus 5.5%].”).

111. *Id.* at 1421.

112. *See* ACOG Committee Opinion, *supra* note 96, at 2; Stover, *supra* note 14, at 328.

113. Hermer, *supra* note 23, at 342.

114. *Id.*

115. *Maternal-Fetal Intervention and Fetal Care Center*, Committee Opinion No. 501 (The American College of Obstetrics and Gynecologists), at 1 (2011); *see* Stover, *supra* note 14, at 329 (claiming that “[p]hysician and institutional convenience, the incentives of a fee-for-service payment system, the adverse effects of the malpractice system, limited reliance on best-evidence maternity guidelines, and reliance on obstetric specialists to provide care in the normal pregnancy are all frequently cited as the reasons for high intervention rates in low-risk births in hospital settings”).

116. FETAL HEART MONITORING, ASS’N OF WOMEN’S HEALTH, OBSTETRIC AND NEONATAL NURSES 1 (2008).

mothers than a midwife-attended birth.¹¹⁷ The prospective cohort study, explained above, noted that “an uncomplicated vaginal birth in a hospital in the United States cost[s] on average three times as much as a similar birth at home with a midwife.”¹¹⁸ Childbirth is the most common reason for hospitalization,¹¹⁹ with over 3.9 million women giving birth in hospitals.¹²⁰ Furthermore, the scope of midwifery services is much greater than that of obstetric services, which makes the former a more cost-efficient endeavor for low-risk patients than the numbers would suggest.¹²¹

4. *Can the Midwifery Model and the Medical Model Be Reconciled?*—It is obvious, then, that obstetricians and DEMs view childbirth differently.¹²² Obstetricians prefer to be prepared for any complications that may arise, while midwives structure their practice on the view that childbirth is a normal, natural process.¹²³ One approach, however, is not necessarily always superior. Rather, the midwifery model and the medical model operate best when working in cooperation with the other in a dual system of care.¹²⁴ Ideally, obstetricians care for women with high-risk pregnancies in a hospital setting, and DEMs care for women with low-risk pregnancies in the home.¹²⁵ The obstetrics community is now more open to the idea of formally trained DEMs attending to women with low-risk pregnancies than it has been in the past.¹²⁶ ACOG explained that while “hospitals and birthing centers are the safest setting for birth, it respects the right of a woman to make a medically informed decision about delivery.”¹²⁷ As Indiana has traditionally been a very physician-friendly state,¹²⁸ it is particularly important for the Indiana legislature to craft legislation that can foster a cooperative relationship between obstetricians and CDEMs.¹²⁹

117. Amy F. Cohen, Note, *The Midwifery Stalemate and Childbirth Choice: Recognizing Mothers-to-Be as the Best Late Pregnancy Decisionmakers*, 80 IND. L.J. 849, 851 (2005).

118. Johnson & Daviss, *supra* note 105, at 1420.

119. Rebecca A. Spence, *Abandoning Women to Their Rights: What Happens When Feminist Jurisprudence Ignores Birthing Rights*, 19 CARDOZO J.L. & GENDER 75, 78 (2012).

120. MARTIN ET AL., *supra* note 104, at Table 20.

121. *See supra* Part I.B.1

122. *See supra* Part I.B.1-2.

123. *See supra* Part I.B.1-2.

124. Fisch, *supra* note 28, at 117-18.

125. *Id.* at 116 (explaining the Netherland’s dual system of care for childbirth).

126. *See* Hermer, *supra* note 23, at 335 (quoting Joseph B. DeLee, *Progress Toward Ideal Obstetrics*, 6 TRANSACTIONS AM. ASS’N FOR THE STUDY AND PREVENTION OF INFANT MORTALITY 114-23 (1915) (“The midwife is a relic of barbarism.”)).

127. ACOG Committee Opinion, *supra* note 96, at 1.

128. Bob Keaveney, *Physician-Friendly States*, PHYSICIANS PRACTICE (July 1, 2003) <http://www.physicianspractice.com/articles/physician-friendly-states> (last visited Oct. 12, 2014), archived at <http://perma.cc/XH86-MY9J>.

129. *See infra* Part III.B.

II. STATUTORY REGULATION AND CONSTITUTIONAL IMPLICATIONS

Surveying the statutory and constitutional landscape of DEMs throughout the country will aid one's ability to discern why Indiana's CDEM statute should be amended and why the state legislature should be tasked with amending the statute. Each state has the power to craft statutes to regulate the midwives who practice within its jurisdiction.¹³⁰ Courts have used a rational basis standard to consider whether the statutes are rationally related to a legitimate state interest in healthy childbirth,¹³¹ but this Note proposes to heighten the level of review of the CDEM statute to strict scrutiny.¹³²

A. State-by-State Regulation of Direct-Entry Midwives

As each state has the power to regulate the practice of direct entry midwifery, it is unsurprising that across the nation midwives experience varying degrees of friendliness and hostility from the legal system.¹³³ States may permit DEMs to practice, prohibit DEMs from practice, regulate and restrict DEMs' practice, or leave the issue unaddressed.¹³⁴

1. *States That License, Certify, Register, or Permit Direct Entry Midwifery.*—Three states, including Indiana, regulate DEMs through certification.¹³⁵ Twenty-one states regulate DEMs through state licensure.¹³⁶ A license is not required to practice in Oregon,¹³⁷ but the state does regulate how a DEM becomes licensed.¹³⁸ Colorado regulates DEMs by requiring DEMs to

130. Tovino, *supra* note 19, at 68; *see generally supra* Part II.B.1 (noting that CNMs are legal in all fifty states).

131. Hermer, *supra* note 23, at 327.

132. *See* Part II.B.3.

133. Midwives Alliance of N. Am. & N. Am. Registry of Midwives, *Direct-Entry Midwifery State-by-State Legal Status*, NARM.ORG (Aug. 8, 2013), at narm.org/pdf/files/statechart080213.pdf, archived at <http://perma.cc/N5CB-735C> [hereinafter *State Legal Status*].

134. Hermer, *supra* note 23, at 353-59.

135. IND. CODE §§ 25-23.4-1-1 to -8-1 (2013); N.H. REV. STAT. ANN. §§ 326-D:1 to -D:14 (2013); TENN. CODE ANN. §§ 63-29-101 to -116 (2013).

136. ALASKA STAT. § 08.65.050 (2013); ARIZ. REV. STAT. ANN. §§ 36-751 to -759 (2013); ARK. CODE ANN. §§ 17-85-102 to -107 (2013); CA. BUS. & PROF. CODE §§ 2505-2521 (West 2013); FLA. STAT. § 467.001 to -.209 (2013); IDAHO CODE ANN. § 54-5501 to -5513 (2013); LA. REV. STAT. ANN. §§ 37:3240 to -3259 (2013); MINN. STAT. §§ 147D.01-145D.27 (2013); MONT. CODE ANN. §§ 37-27-101 to -325 (2013); N.J. STAT. ANN. §§ 45:10-1 to -22 (West 2013); N.M. STAT. ANN. § 24-1-3 (West 2013); N.Y. EDUC. LAW § 6958 (McKinney 2013); R.I. GEN. LAWS § 23-13-9 (2013); S.C. CODE ANN. §§ 44-89-10 to -100 (2013); TEX. CODE ANN. §§ 63-29-101- 53-29-116 (2013); UTAH CODE ANN. §§ 58-77-101 to -603 (West 2013); VT. STAT. ANN. TIT. 26, § 4181 04191 (2013); VA. CODE ANN. §§ 54.1-2957.7 to -.13 (2013); WASH. REV. CODE §§ 18.50.010 to -.900 (2013); WIS. STAT. §§ 440.9805-44.9888 (2013); WYO. STAT. ANN. §§ 33-46-101 to -107 (2013).

137. OR. REV. STAT. § 687.415 (2013).

138. *Id.* §§ 687.405 to -.890.

register with the state,¹³⁹ and Delaware requires DEMs to obtain a permit from the state.¹⁴⁰ Twenty-six states, including Indiana, require DEMs practicing within its borders to pass the NARM exam as part of the regulating process.¹⁴¹

Indiana, Delaware, New Jersey, New York, and Tennessee require physician supervision of DEMs.¹⁴² California required this supervision until the State Legislature changed its code during the 2013 legislative session.¹⁴³ The reasons why this requirement is problematic are explained in Parts II.B.2 and III. For now, it is helpful to explore the physician-DEM relationship in other state statutes.

Several state statutes encourage physicians and DEMs to foster cooperative relationships. A cooperative relationship is generally defined as “structural integration of [physicians and midwives] by means of formal protocol for interaction between them.”¹⁴⁴ This positive interaction, trust, and respect by both parties is key to creating a dual system of childbirth care for Hoosier women, and American women in general.¹⁴⁵ Idaho, for example, begins its statutory regulation of DEMs by acknowledging the importance of the availability of midwifery services, in addition to obstetric services:

The legislature finds and declares that the practice of midwifery has been a part of the culture and tradition of Idaho since before pioneer days and that for personal, religious and economic reasons some Idaho citizens choose midwifery care. The purpose of this chapter is to preserve the rights of families to deliver their children in a setting of their choice, to provide additional maternity care options for Idaho's families, to protect the public health, safety and welfare and to provide a mechanism to assure quality care.¹⁴⁶

Arkansas suggests that “[e]ach Licensed Lay Midwife is encouraged to develop a close working relationship with one or more specific Physician in obstetrical practice or CNM in obstetrical practice who agree to serve as a Referral source for the Lay Midwife. This relationship is optional.”¹⁴⁷ The relationship is not required for licensure, but it is encouraged.¹⁴⁸ This dual system provides a woman with the opportunity to choose the midwifery model of care for her

139. COLO. REV. STAT. §§ 12-37-101 to -110 (2013).

140. DEL. CODE ANN. tit. 16 § 122(3)(h) (2013).

141. State Legal Status, *supra* note 133.

142. 16 DEL. ADMIN. CODE § 4106(4.3) (2014); IND. CODE § 25-23.4-5 (2014); N.J. ADMIN. CODE § 13:35-2A.6 (2014); N.Y. EDUC. LAW § 6958 (McKinney 2014); TENN. CODE ANN. § 63-29-115(a) (2014).

143. *See infra* Part II.A.2.

144. Fisch, *supra* note 28, at 105.

145. *Id.* at 117-18.

146. IDAHO CODE ANN. § 54-5501 (2014).

147. ARKANSAS STATE BOARD OF HEALTH, RULES AND REGULATIONS FOR GOVERNING THE PRACTICE OF LAY MIDWIFERY IN ARKANSAS § 500 (2008).

148. *Id.*

childbirth experience while also assuring that, should a medical emergency or abnormality arise, a physician, who is familiar with her pregnancy, will be able to help.

Several statutes require DEMs to have a written plan to transfer patients to a physician or hospital in the event of emergencies.¹⁴⁹ Minnesota requires applicants for licensure to develop a medical consultation plan, such as what conditions mandate consultation with a licensed health care provider, the transfer of care to a licensed health care provider, and emergency transfer to a hospital.¹⁵⁰ The plan must meet certain criteria established by an independent organization endorsed by the state.¹⁵¹ Other states, such as Montana, require DEMs to “advise all women accepted for midwifery care to consult with a physician or certified nurse-midwife at least twice during the pregnancy.”¹⁵² Importantly, DEMs are not required to have a consultative relationship themselves with the physician or CNM but only have to advise their patients of the benefits of seeing another healthcare provider during pregnancy.¹⁵³ These procedures are more typical than the physician collaboration requirement endorsed by Indiana, which requires a collaborating agreement for *all* patients, regardless of the low-risk or high-risk nature of the pregnancy.¹⁵⁴

Several states make sure to include language that protects physicians from liability when receiving referral patients or emergency patients from DEMs. This liability protection fosters cooperative relationships, rather than encouraging physicians to view DEMs merely as an extremely costly liability.¹⁵⁵ Louisiana, for example, prohibits licensed DEMs from providing care to patients who are deemed by physicians, after undergoing a risk assessment, to have high-risk pregnancies.¹⁵⁶ The statute explicitly provides that the physician-patient relationship only exists for purposes of the risk assessment and does not continue

149. Hermer, *supra* note 23, at 354.

150. MINN. STAT. § 147D.11(a) (2014).

151. *Id.* at § 147D.11(b); *see also* COLO. REV. STAT. §§ 12-37-105(6) (2014) (“A direct-entry midwife shall prepare a plan, in the form and manner required by the director, for emergency situations. The plan must include procedures to be followed in situations in which the time required for transportation to the nearest facility capable of providing appropriate treatment exceeds limits established by the director by rule. A copy of such plan shall be given to each client as part of the informed consent required by subsection (5) of this statute.”); S.C. CODE ANN. REGS. 61-24 (1993) (“The Midwife must be able at all times to recognize the warning signs of abnormal or potentially abnormal conditions necessitating referral to a physician. It shall be the midwife’s duty to consult with a physician whenever there are significant deviations from the normal.”).

152. MONT. CODE ANN. § 37-27-315 (2014).

153. *Id.* § 37-27-101 to -325.

154. 16 DEL. ADMIN. CODE § 4106(4.3) (2014); IND. CODE § 25-23.4-5-1 (2014); N.J. ADMIN. CODE § 13:35-2A.6 (2014); N.Y. EDUC. LAW § 6958(2014); TENN. CODE ANN. § 63-29-115(a) (2014).

155. *See infra* Part I.A.2; *see supra* Part III.B.

156. LA. REV. STAT. ANN. § 37:3244(B) (2014).

after the conclusion of that assessment.¹⁵⁷ The risk assessment does not create a “legal relationship between the physician and the licensed midwife or any duty, responsibility, or obligation by the physician to supervise, collaborate, back-up, or oversee the licensed midwife’s care of the patient.”¹⁵⁸ Although physicians may still be disinclined to work with DEMs for reasons other than liability,¹⁵⁹ statutory protection from automatic various liability claims may push physicians and DEMs toward a more cooperative relationship.¹⁶⁰ Furthermore, while the midwifery model of care itself shields DEMs from many lawsuits,¹⁶¹ if a DEM practices for long enough, the DEM will eventually be exposed to liability. As such, some states require DEMs to provide information regarding their liability insurance in the patient’s informed consent form.¹⁶² It appears that Indiana is the only state to require DEMs to find and maintain sufficient liability insurance to practice.¹⁶³

2. *A Study of Midwifery Regulation in California.*—The California State Legislature (“State Legislature”) recently amended the state’s midwifery statute to eliminate the physician supervision requirement for DEMs, and it is especially

157. *Id.* § 37:3258(A).

158. *Id.* § 37:3258(B)(2); *see also* FLA. STAT. § 467.017(2) (2014) (“Any physician . . . providing medical care or treatment to a woman or infant due to an emergency arising during delivery or birth as a consequence of the care received by a [direct-entry] midwife . . . shall not be held liable for any civil damages as a result of such medical care or treatment unless such damages result from providing, or failing to provide, medical care or treatment under circumstances demonstrating a reckless disregard for the consequences so as to affect the life or health of another.”); IDAHO CODE ANN. § 54-5512 (2014) (“No physician, hospital, emergency room personnel, emergency medical technician or ambulance personnel shall be liable in any civil action arising out of any injury resulting from an act or omission of a licensed midwife, even if the health care provider has consulted with or accepted a referral from the licensed midwife. A physician who consults with a licensed midwife but who does not examine or treat a client of the midwife shall not be deemed to have created a physician-patient relationship with such client.”); N.M. CODE R. § 16.11.3.12(D) (Lexis Nexis 2014) (“Any consultative relationship with a physician shall not by itself provide the basis for finding a physician liable for any acts or omissions by a licensed midwife.”).

159. *See supra* Part I.B.4.

160. Fisch, *supra* note 28, at 111.

161. *Id.* at 109.

162. *See, e.g.*, FLA. STAT. § 467.014(2014) (“A licensed midwife shall include in the informed consent plan presented to the parents the status of the midwife’s malpractice insurance, including the amount of malpractice insurance, if any.”); WIS. STAT. § 440.985(2)(2014) (requiring a licensed midwife to provide client with information regarding “[w]hether the licensed midwife has malpractice liability insurance coverage and the policy of any such coverage”); *see also* COLO. REV. STAT. §§ 12-37-105(5)(a)(III)(E), 12-37-105(5)(a)(IV), 12-39-109(3) (2014) (requiring DEMs to inform patients whether or not they carry liability insurance until the state “finds that liability insurance is available at an affordable price, [then] registrants shall be required to carry such insurance”).

163. IND. CODE § 25-23.4-3-1(c)(10) (2014).

useful to review the evolution of California's law in this discussion about Indiana's statute. In 1993, the State Legislature enacted the California Licensed Midwifery Practice Act of 1993 ("CLMPA"), which professionalized non-nurse midwives for the first time in the State of California.¹⁶⁴ The purpose of the law was to allow mothers to legally choose a midwife-assisted homebirth as a safe, cost-effective alternative to physician-attended hospital birth.¹⁶⁵ The CLMPA defined the term midwifery and required midwives to work under the supervision of a licensed obstetrician.¹⁶⁶ The term "supervision" was not meant to require the physical presence of the supervising obstetrician.¹⁶⁷ This understanding of the physician supervision requirement is nearly identical to Indiana's physician collaboration requirement.¹⁶⁸

The physician supervision requirement quickly proved to be an "unintended legal barrier which ha[d] rendered the legislation unworkable and unusable for California women and families."¹⁶⁹ Many obstetricians were unwilling to supervise a DEM who would deliver babies primarily in the home.¹⁷⁰ Even if a DEM could find an obstetrician who was not opposed to homebirths, most obstetricians would still be unable to supervise the DEM because their malpractice insurance carrier did not allow it.¹⁷¹

From 1993 through 2001, only one DEM was able to secure physician supervision.¹⁷² Many DEMs continued to attend homebirths anyway and some opted to refer patients to and collaborate with sympathetic physicians, although the collaboration was in an unofficial capacity to avoid liability concerns.¹⁷³ One midwife explained her frustration: "[i]t prevents us from being in the system, where we want to be Many of us have developed individual relationships with physicians that are happy to collaborate with us, who consult with us, who we work closely with, but it has to be underground."¹⁷⁴ The law was so unworkable that even the Medical Board of California recognized the difficult position of DEMs and obstetricians, and, at times, refused to bring charges to

164. Tovino, *supra* note 19, at 95.

165. Kathlyn Marie Happe, *Review of Selected 2000 California Legislation: Health and Welfare Chapter 303: Is California Edging Towards a "Consultive" Relationship Between Midwives and Physicians?*, 32 MCGEORGE L. REV. 713, 713 (2001).

166. Tovino, *supra* note 19, at 95.

167. *Id.*

168. *See* IND. CODE § 25-23.4-5-1 (2014).

169. Letter from Corina Robles, Secretary-Treasurer, National Certified Professional Midwives, to Senator Liz Figueroa 1 (Feb. 28, 2000) (quoted in Happe, *supra* note 165, at 714).

170. Hermer, *supra* note 23, at 354.

171. *Id.*

172. Tovino, *supra* note 19, at 95 (attributing this supervision to that fact that the DEM was also a physician's assistant).

173. *Id.* at 96.

174. Jeremy B. White, *California Midwives Push to Scrap Doctor-Supervision Requirement for Home-Births*, SACRAMENTO BEE, July 18, 2013, at 1A.

licensed DEMs practicing without a formal supervision agreement.¹⁷⁵ The possibility of criminal prosecution still existed, however.¹⁷⁶ In the end, it was California mothers who suffered because when they “choose the midwife model of care [they] dangerously separate themselves from the medical community entirely in order to ensure their midwife is not at risk of being caught engaging in an illegal activity.”¹⁷⁷ In 2000, the State Legislature introduced an amendment to get rid of the physician supervision requirement, but this provision was defeated before the amendment became law.¹⁷⁸

During the 2013 legislative session, the State Legislature abolished the physician supervision requirement.¹⁷⁹ Under the revised law, the licensed DEM must have a written plan for referral of complications to a physician for consultation but does not need to identify a particular physician.¹⁸⁰ If the DEM does need to consult with a physician for a complication or deviation from normal pregnancy, the consultation does not create a physician-patient relationship.¹⁸¹ If the physician determines that the complication will not render the pregnancy high-risk, the DEM may continue to be the primary care provider.¹⁸² These changes mean that physicians can freely consult with DEMs without liability concerns.¹⁸³ The bill’s sponsor, Assemblywoman Susan Bonilla, explained that “[t]his is a historic new law because it finally ensures that women who choose to have midwives deliver their babies will have the peace-of-mind knowing that proper safeguards are in place to provide them with physician care if necessary.”¹⁸⁴ A representative from ACOG spoke out in support of the bill, stating that even though ACOG maintains that a hospital or birth center is the safest place for childbirth, she hoped this bill would make homebirth safer for California mothers.¹⁸⁵

The new law will foster an effective, cooperative relationship between DEMs and physicians.¹⁸⁶ This relationship brings California one step closer to a dual system of care, in which the midwifery model of care can offer a safe, cost-effective alternative for low-risk pregnancies in the home setting.¹⁸⁷ The California State Legislature’s willingness to listen to the medical community,

175. Tovino, *supra* note 19, at 96-97.

176. *Id.* at 97.

177. Happe, *supra* note 165, at 723.

178. Tovino, *supra* note 19, at 97.

179. A.B. 1308, 2013-2014 Reg. Sess. (Cal. 2013).

180. CAL. BUS. & PROF. CODE § 2507(a)(8) (West 2014).

181. *Id.* § 2508(a)(12).

182. *Id.* § 2507(c)(2).

183. Lisa Renner, *New Independence for California Midwives*, CALIFORNIA HEALTH REPORT (Dec. 18, 2013), <http://www.healthycal.org/archives/14240>, archived at <http://perma.cc/GM6N-9R8Q>.

184. *Id.*

185. *Id.*

186. See Fisch, *supra* note 28, at 117-18 (explaining the benefits of a cooperative relationship).

187. *Id.*

midwifery community, and California families resulted in successful change from which families wanting the homebirth experience and the midwifery model of care win.

3. *States That Do Not Regulate Direct Entry Midwifery.*—Ten states do not regulate Direct Entry Midwifery but allow the practice within its borders through either judicial interpretation or statutory inference.¹⁸⁸ Four states neither legally define Direct Entry Midwifery nor prohibit it, leaving it unregulated.¹⁸⁹ This lack of regulation and guidance is problematic for all birth attendants, including obstetricians, midwives, and women seeking options for childbirth. Even though the practice of Direct Entry Midwifery is not explicitly prohibited, DEMs potentially face charges of unlawfully practicing medicine if they use certain emergency interventions before getting their patients to the hospital.¹⁹⁰ Furthermore, without any required training, anyone may call him or herself a DEM while lacking the essential skills needed for safe childbirth.¹⁹¹

4. *States that Prohibit Direct Entry Midwifery.*—Seven states and the District of Columbia prohibit Direct Entry Midwifery through statute, judicial interpretation, or stricture of practice.¹⁹² Two states do not prohibit Direct Entry Midwifery by statute but prohibit its practice by making licensure unavailable.¹⁹³ Until July 2013, Indiana also prohibited Direct Entry Midwifery. The debate between opponents and supporters of legalization is a fierce one, with opponents citing safety reasons for keeping DEMs illegal, and supporters calling on state legislatures to respect the deep tradition of midwifery.¹⁹⁴ Despite their illegal

188. ME. REV. STAT. TIT. 32, § 13811 (2013) (recognizing and approving of CPMs); MISS. CODE ANN. § 73-25-33 (2013) (“nothing in [the practice of medicine act] shall apply to females engaged solely in the practice of midwifery”); MO. ANN. STAT. § 376.1753 (West 2013) (legalizing practice of tocology for a person with a certification by an organization accredited by the National Organization of Competency Assurance); *Albini v. Conn. Med. Examining Bd.*, 72 A.3d 1208, 1214-17 (Conn. App. Ct. 2013) (holding that the practice of midwifery is not the practice of medicine); *State Bd. of Nursing v. Ruebke*, 913 P.2d 142, 156 (Kan. 1996) (holding that the practice of medicine does not include a midwife’s aiding in childbirth); *see also* State Legal Status, *supra* note 133.

189. *See* State Legal Status, *supra* note 133 (showing that Hawaii, Nebraska, Ohio, and West Virginia leave Direct Entry Midwifery unregulated).

190. Hermer, *supra* note 23, at 355.

191. Marquardt, *supra* note 22, at 612.

192. 415 ILL. COMP. STAT. 60/3 (2013) (prohibiting Direct Entry Midwifery through its practice of medicine act); IOWA CODE §§ 147.2, 148.1 (2013) (same); KY. REV. STAT. ANN. § 311.560 (2013) (same); MD. CODE ANN., Health Occup. § 14-301 (2013); N.C. GEN. STAT. §§ 90-178.1 to -7 (2013) (prohibiting Direct Entry Midwifery through its Midwifery statute and only allowing CNMs); 49 PA. CONS. STAT. § 16.11 (2013) (prohibiting Direct Entry Midwifery through its practice of medicine act); S.D. CODIFIED LAWS § 36-4-8 (2013) (same); D.C. CODE § 7-751.01(6) (2013) (excluding DEMs from its definition of “other health professional”).

193. ALA. CODE § 34-19-3 (2013); GA. CODE ANN. § 31-26-1 to -7 (2013).

194. Rausch, *supra* note 16, at 234.

status, many DEMs practice underground in these states.¹⁹⁵ Prohibiting the practice of Direct Entry Midwifery is the antithesis of promoting a cooperative relationship between physicians and midwives and a dual system of childbirth for American women.

B. Possible Constitutional Challenges to Direct Entry Midwifery Regulation

Even though very few midwives will be able to fulfill the CDEM requirements to practice legally in the state of Indiana, it is unlikely that those wishing to increase the number of CDEMs can successfully change the law through constitutional challenges before the Indiana courts. The United States Supreme Court and the Indiana Supreme Court have not addressed the issue of whether a woman has maternal rights in birthing, such as the right to choose a birth attendant, but several other state courts of last resort have responded and answered in similar fashion.¹⁹⁶ No court has been asked to address a hybrid-rights exception claim in which a free exercise claim is accompanied by a right to privacy claim, but this novel constitutional analysis is worth exploring.¹⁹⁷ Perhaps as a consequence of the uncertainty of birthing rights and midwives' role surrounding these rights, prosecutions against midwives have been brought in half of the states.¹⁹⁸ By understanding what avenues exist to successfully change Indiana's midwifery law, and what avenues will be almost certainly unsuccessful, midwifery advocates will be able to most effectively change Indiana's law to increase the number of capable, willing, and legal CDEMs in the state.¹⁹⁹

1. Fundamental Right Challenge: Fundamental Right to Privacy.—Uncertified Direct Entry Midwives may choose to challenge the Indiana law as

195. *Id.*

196. Marquardt, *supra* note 22, at 619-20.

197. *See infra* Part II.B.3.

198. Rausch, *supra* note 16, at 236-38 (including prosecutions for practicing medicine, nursing, or nurse-midwifery without a license).

199. Several cases exist in which a midwifery advocate successfully challenged a state's practice of medicine act, or functional equivalent, as void for vagueness. The states did not regulate Direct Entry Midwifery in any way. Because Indiana has an extensive and detailed certified direct entry midwifery law, those cases are inapplicable to this Note and will not be discussed in detail. *See* Albini v. Conn. Med. Examining Bd., 72 A.3d 1208, 1214-17 (Conn. App. Ct. 2013) (holding that the practice of midwifery is not the practice of medicine and should not be regulated by the Medical Examining Board); Peckmann v. Thompson, 745 F. Supp. 1388, 1393 (C.D. Ill. 1990) (holding that the Illinois Medicine Practices Act was unconstitutionally vague with respect to midwifery); Leggett v. Tenn. Bd. of Nursing, 612 S.W. 476, 481 (Tenn. Ct. App. 1981) (holding that the practice of midwifery was not the practice of medicine and the Board of Nursing could not punish a nurse acting as a lay midwife); *cf.* State v. Kimpel, 665 So. 2d 990, 993 (Ala. Crim. App. 1995) (denying the void for vagueness challenge and upholding the state's law prohibiting the practice of both nurse and lay midwifery); State *ex rel.* Mo. State Bd. of Registration for Healing Arts v. Southworth, 704 S.W.2d 219, 223-24 (Mo. 1986) (holding that the state's law prohibiting the practice of midwifery without a license was not void for vagueness).

unconstitutional for violating an expectant mother's right to privacy. The right to privacy, a constitutional right derived from the First, Fourth, Ninth, and Fourteenth Amendments, protects personal choices pertaining to child-rearing, marriage, procreation, and abortion.²⁰⁰ Accused of practicing midwifery illegally, several DEMs have argued that a woman's fundamental right to privacy includes the freedom to choose whom to assist in childbirth; therefore, the midwifery laws should be analyzed using strict scrutiny.²⁰¹

No court has accepted this argument.²⁰² The court in *Bowland v. Municipal Court for Santa Cruz County Judicial District*²⁰³ was the first to address this claim. In rejecting the midwives' assertion that the freedom to choose one's childbirth attendant is fundamental as encompassed in the right to privacy, the court explained that "the right of privacy has never been interpreted so broadly as to protect a woman's choice of the manner and circumstances in which her baby is born."²⁰⁴ It noted that *Roe v. Wade*²⁰⁵ and its progeny had specifically excluded the right to make these birthing choices from the privacy right.²⁰⁶ In the context of abortion, these cases have held that at the point of the fetus's viability, well before childbirth, the state's interest in the life of the unborn child supersedes the woman's privacy right in her own body.²⁰⁷ The *Bowland* court concluded that these policy reasons for the prohibition of abortion after viability extend to the requirement that those assisting in childbirth have valid licenses: the legislature may require midwives to be properly trained to protect the safety and welfare of their patients.²⁰⁸ Thus, the court held that the right to choose whomever one wants to assist in childbirth is not fundamental, and the law regulating midwifery should be analyzed using rational basis review.²⁰⁹

Subsequent courts considering a mother's right to choose who will assist in childbirth have applied similar reasoning and reached the same result. The court in *Leigh v. Board of Registration in Nursing* further explained the relationship between a woman's right to privacy post-viability and the state's interest in

200. *Bowland v. Mun. Court for Santa Cruz Cnty. Judicial Dist.*, 556 P.2d 1081, 1089 (Cal. 1976).

201. *See, e.g., Kimpel*, 665 So.2d at 994; *Bowland*, 556 P.2d at 1088-89; *People v. Rosburg*, 805 P.2d 432, 437 (Colo. 1991); *Hunter v. State*, 676 A.2d 968, 975 (Md. Ct. Spec. App. 1996); *Leigh v. Bd. of Registration in Nursing*, 506 N.E.2d 91, 93-94 (Mass. 1987).

202. *See, e.g., Kimpel*, 665 So. 2d at 994; *Bowland*, 556 P.2d at 1089; *Rosburg*, 805 P.2d at 437; *Hunter*, 676 A.2d at 975; *Leigh*, 506 N.E.2d at 94.

203. *Bowland*, 556 P.2d at 1089.

204. *Id.*; *see* David M. Smolin, *The Jurisprudence of Privacy in a Splintered Supreme Court*, 75 MARQ. L. REV. 975, 1011 (1992) ("The court's implicit statement that the right to abort is narrower than the right to choose the 'manner and circumstances' of birth is illogical. Both undergoing an abortion and employing a midwife are choices concerning childbirth.").

205. *Roe v. Wade*, 410 U.S. 113 (1973).

206. *Bowland*, 556 P.2d at 1089.

207. *Id.*

208. *Id.*

209. *Id.*

protecting the health and safety of both child and mother:

The statute does not require women to give birth in a hospital, nor does it force women to obtain medical treatment. The statute simply requires nurses who practice in the expanded role of midwife to be licensed and to practice in a licensed facility as part of a health care team. The statute does not interfere with any “fundamental right” established by *Roe* and its progeny.²¹⁰

Because any privacy challenge to Indiana’s law would hinge on the right of a woman to decide who attends her childbirth being a fundamental right and this argument has been repeatedly rejected by courts in other jurisdictions, any attempt to argue this right as fundamental to receive strict scrutiny analysis will almost certainly fail.²¹¹

2. *Due Process Challenge: Right to Practice in a Chosen Profession.*—The right to practice a chosen profession is a property interest protected by the Fifth and Fourteenth Amendments; therefore, state laws restricting this right must be rationally related to a legitimate state interest.²¹² *Sammon v. New Jersey Board of Medical Examiners*²¹³ is particularly helpful in analyzing the effectiveness of a due process challenge to Indiana’s law because New Jersey’s Midwifery statute is similar to Indiana’s statute, as both require state regulated Direct Entry midwives to pass an examination, complete midwifery education or some functional equivalent, and obtain proof of physician endorsement in the case of New Jersey and physician collaboration in the case of Indiana.²¹⁴ Several unlicensed midwives and parents wishing to use their services in childbirth filed suit claiming that the New Jersey statute violated their due process rights under the Fourteenth Amendment.²¹⁵ After settling issues of standing, the Third Circuit addressed the midwives’ complaint that the statute unconstitutionally deprived them of their ability to earn a living in their chosen profession and that the statute makes it practically impossible for direct entry midwives to obtain licenses.²¹⁶ The court found that the midwives’ interests in practicing their chosen profession were not fundamental and applied rational basis review.²¹⁷

To survive rational basis review, the state must identify a legitimate state interest that the legislature rationally could conclude was served by the statute.²¹⁸ The Third Circuit found that the state interests in protecting the health and

210. *Leigh v. Bd. of Registration in Nursing*, 506 N.E.2d 91, 94 (Mass. 1987).

211. *See State v. Kimpel*, 665 So. 2d 990, 994 (Ala. Crim. App. 1995); *Bowland*, 556 P.2d at 1089; *People v. Rosburg*, 805 P.2d 432, 437 (Colo. 1991); *Leigh*, 506 N.E.2d at 94.

212. *Lange-Kessler v. Dep’t of Educ. of the State of N.Y.*, 109 F.3d 137, 140 (2d Cir. 1997).

213. 66 F.3d 639 (3d Cir. 1995).

214. N.J. ADMIN. CODE §§ 13:35-2A (2014); IND. CODE § 25-23.4 (2014).

215. *Sammon*, 66 F.3d at 640-41.

216. *Id.* at 645.

217. *Id.*

218. *Id.*

welfare of the mother and child were legitimate.²¹⁹ Furthermore, it found that the regulatory scheme designed to assure that DEMs are qualified was rationally related to the state interest.²²⁰ Regarding the physician supervision requirement, the court acknowledged that this requirement may make it more difficult for DEMs to obtain licenses but noted that soliciting physicians' views on potential midwifery candidates is not irrational.²²¹ Disputes of fact, such as the safety of properly trained but unlicensed midwives, are not legally relevant under a substantive due process analysis.²²² Thus, the court upheld the New Jersey state law.²²³ Given the similarity between Indiana's midwifery law and New Jersey's midwifery law and the consistency with which courts have rejected the due process challenge to midwifery regulation,²²⁴ a due process challenge to Indiana's law will also likely fail.

3. *First Amendment Challenge: The Hybrid-Rights Exception.*—Unlike the fundamental rights challenge and the due process challenge, a first amendment challenge has never been asserted to defend an expectant mother's right to choose her childbirth attendant. The hybrid-rights exception, first presented in *Employment Division, Department of Human Resources of Oregon v. Smith*,²²⁵ provides a colorful argument to the constitutional implications of CDEM regulation on Indiana's significant Amish population.²²⁶ The Court in *Smith* pronounced that, as a general rule, a facially neutral and generally applicable law is constitutional, regardless of how the law affects the exercise of religion, and a compelling state interest need not justify such regulation.²²⁷ An exception to the

219. *Id.* at 646.

220. *Id.*

221. *Id.* at 647.

222. *Id.*

223. *Id.*

224. *See* *Bowland v. Mun. Court for Santa Cruz Cnty. Judicial Dist.*, 556 P.2d 1081, 1088 (Cal. 1976) ("The state . . . clearly has a strong and demonstrable interest in protecting its citizens from persons who claim some expertise in the healing arts, but whose qualifications have not been established by the receipt of an appropriate certificate."); *Lange-Kessler v. Dep't of Educ. of the State of N.Y.*, 109 F.3d 137, 141 (2d Cir. 1997) (finding that the formal education and written practice agreement with a licensed physician was rationally related to the legitimate state interest of protecting the health and welfare of mothers and infants).

225. 494 U.S. 872, 881 (1990) ("The only decision in which we have held that the First Amendment bars application of a neutral, generally applicable law to religiously motivated action have involved not the Free Exercise Clause alone, but the Free Exercise Clause in conjunction with other constitutional protections, such as freedom of speech and of the press or the right of parents to direct the education of their children.") (citations omitted).

226. *See* Molly Manns, *Indiana's Amish Population*, IN CONTEXT (Dec. 2012), <http://www.incontext.indiana.edu/2012/nov-dec/article2.asp>, archived at <http://perma.cc/Q7VL-PAEE> (noting that 45,144 Amish adherents live in Indiana, which comprises nineteen percent of the Amish in the United States as a whole).

227. Ryan M. Akers, *Begging the High Court for Clarification: Hybrid Rights Under Employment Division v. Smith*, 17 REGENT U. L. REV. 77, 80 (2005).

general rule exists in which courts should use strict scrutiny analysis in hybrid situations where litigants couple a free exercise claim with another constitutional claim.²²⁸ The Court used a previous case, *Wisconsin v. Yoder*,²²⁹ as the basis for the hybrid-rights exception.²³⁰ In *Yoder*, the Court upheld claims of free exercise and the right to control the education of one's children using strict scrutiny analysis and granted Amish parents an exemption from compulsory school laws for their minor children.²³¹ The hybrid-rights exception elicited heated debate from scholars and resulted in varied outcomes from courts.²³² The Seventh Circuit addressed this issue in *Civil Liberties for Urban Believers v. City of Chicago*.²³³ It explained that a hybrid-rights claim requires a strict scrutiny analysis, but it found that the plaintiffs' accompanying claims lacked merit.²³⁴ Thus, it is unclear what approach the Seventh Circuit adopted.²³⁵

Indiana's CDEM statute is a neutral law of general applicability, as it applies to all Hoosiers equally regardless of religious affiliation.²³⁶ Certain conservative Old Order Amish families and communities firmly believe that childbirth should occur naturally in the home.²³⁷ Because only few qualified DEMs will be able to

228. Hope Lu, *Addressing the Hybrid-Rights Exception: How the Colorable-Plus Approach Can Revive the Free Exercise Clause*, 63 CASE W. RES. L. REV. 257, 263 (2012).

229. 406 U.S. 205 (1972).

230. Lu, *supra* note 228, at 263-64.

231. *Id.* (citing *Yoder*, 406 U.S. at 235-36).

232. *Id.* at 265-71 (explaining that some courts dismiss the hybrid-rights exception as dicta and refuse to recognize the exception until the United States Supreme Court provides more direction, some courts apply strict scrutiny only when an independently viable constitutional claim accompanies a free exercise claim, other courts apply strict scrutiny only when a colorable claim that an additional constitutional right has been violated accompanies a free exercise claim, and still other courts apply a variation of these previously listed approaches).

233. 342 F.3d 752, 764-65 (7th Cir. 2003).

234. *Id.* at 765 (quoting *Miller v. Reed*, 176 F.3d 1202, 1207-08 (9th Cir. 1999)) (explaining that the court found that the plaintiffs' freedom of speech, freedom of assembly, and equal protection claims lacked merit and that "a plaintiff does not allege a hybrid rights claim entitled to strict scrutiny analysis merely by combining a free exercise claim with an utterly meritless claim of the violation of another alleged fundamental right").

235. John L. Tuttle, Note, *Adding Color: An Argument for the Colorable Showing Approach to Hybrid Rights Claims Under Employment Division v. Smith*, 3 AVE MARIA L. REV. 741, 763 (2005).

236. *Cf.* *Emp't Div., Dep't of Human Res. of Or. v. Smith*, 494 U.S. 872, 878-79 (1990) (concluding that Oregon's statute prohibiting knowing or intentional possession of a controlled substance was a neutral law of general applicability, even when applied to the religious use of peyote); *Wisconsin v. Yoder*, 406 U.S. 205, 213-14 (1972) (concluding that Wisconsin's schooling requirements and regulations were neutral laws of general applicability, even when applied to Amish parent's religious objections).

237. DONALD B. KRAYBILL, *THE AMISH AND THE STATE* 177-78 (2003); *see also* PAMELA EDITH KLASSEN, *BLESSED EVENTS: RELIGION AND HOME BIRTH IN AMERICA* 115 (2001) ("Amish women interpret their choice to give birth at home as a practice in continuity with their daily lives

practice legally in Indiana,²³⁸ it is possible that an expectant mother in a rural, Amish community will be unable to locate a CDEM to assist in her homebirth. If a litigant challenged the statute by either a free exercise claim or a right to privacy claim from this Amish adherent, the court would simply apply rational basis review, and uphold the statute.²³⁹ If the expectant mother used the alternative route of the hybrid-rights exception and asserted a free exercise claim accompanied by a right to privacy claim, however, her claim could potentially receive a strict scrutiny analysis, and the court would strike the statute down.²⁴⁰

III. AN UNWORKABLE STATUTE

Indiana recently legalized the practice of Direct Entry Midwifery for the first time.²⁴¹ In a push to legalize and regulate these midwives, for the past twenty years, Indiana state legislators brought bills before the legislature.²⁴² Some of the strongest support for legalizing Direct Entry Midwifery came from members of the Amish community, who opposed hospital births for religious reasons and desired a safe, regulated alternative to hospital births in the form of midwife attended homebirths.²⁴³ Despite the infancy of the new law, midwives performed homebirths in Indiana for hundreds of years.²⁴⁴ The Indiana State Department of Health reported that there were 1058 intended live births at home in 2010, and of those births, only 357 were assisted by Certified Nurse Midwives.²⁴⁵ In 2010, Certified Nurse Midwifery was the only type of midwifery legal in Indiana, which means that the remaining 701 intended homebirths were either attended by a DEM or planned as a freebirth.²⁴⁶ State Representative Ed Clere, chairman of the

(and hence their religion).”).

238. *See infra* Part III.B.

239. *See Smith*, 494 U.S. at 878-79 (“We have never held that an individual’s religious beliefs excuse him from compliance with an otherwise valid law prohibiting conduct that the State is free to regulate.”); *see generally* Part II.B.1-2 (analyzing right to privacy claims in the context of midwifery regulation using rational basis review).

240. *See Smith*, 494 U.S. at 881 (explaining the hybrid-rights exception).

241. *See State v. Smith*, 459 N.E.2d 401, 405 (Ind. 1984) (“[T]he practice of midwifery without a license would constitute the unauthorized practice of medicine.”).

242. Price, *supra* note 4.

243. Hayden, *supra* note 3.

244. *Id.*

245. Niki Kelly, *Panel Approves Stricter Rules in Midwife Bill*, J. GAZETTE (Apr. 4, 2013, 10:36 AM), <http://www.journalgazette.net/article/20130404/LOCAL/304049949/-1/local11>, archived at <http://perma.cc/6GX3-BSHY>; *see also* Dann Denny, *More Hoosier Parents Choosing to Give Birth at Home, with the Help of a Midwife*, IND. ECON. DIG. (Oct. 19, 2011, 9:49 AM), <http://www.indianaeconomicdigest.net/main.asp?SectionID=31&SubSectionID=120&ArticleID=62220>, archived at <http://perma.cc/Z26U-2X6H> (estimating that 1000 Hoosier women give birth at home every year, usually with the assistance of a midwife).

246. *See* Anna Hickman, Note, *Born (Not So) Free: Legal Limits on the Practice of Unassisted Childbirth or Freebirthing in the United States*, 94 MINN. L. REV. 1651, 1652-53 (2010)

House Public Health Committee, put the significance of the new midwifery law in perspective: “This is not creating a new practice of midwifery The practice has been going on in Indiana since the frontier days. All this does is make it safer and more transparent.”²⁴⁷

A. A Review of Indiana’s Certified Direct Entry Midwifery Statute

Before dissecting the strengths and weaknesses of Indiana’s Certified Direct Midwifery Statute,²⁴⁸ it is necessary to highlight some of its provisions for purposes of this Note’s discussion. Practicing midwifery without a certificate is a Class D felony,²⁴⁹ and the Indiana Medical Licensing Board is responsible for certifying CDEMs.²⁵⁰ Rather than recognizing and adopting standards set forth by the National Association of Certified Professional Midwives, the Indiana legislature created its own standards and title in the Certified Direct Entry Midwife.²⁵¹ To practice legally, a CDEM candidate must complete a certain level of education²⁵² and maintain sufficient liability insurance²⁵³ to receive a certificate, and, in addition to the certificate, a CDEM must have a collaborative agreement with a supervising physician.²⁵⁴

“Physician collaboration” mandates that the physician shall review all patient encounters that the CDEM has with a patient at any time requested by the physician and once during the first and third trimester, and the percentage of charts that the physician must review is set forth in the statute based on the CDEM’s experience.²⁵⁵ Collaboration with a CDEM does not require the physical presence of the physician at the time and place at which the CDEM renders services,²⁵⁶ but the physician must be located in an area close to where the delivery will occur.²⁵⁷ The patient must sign an informed disclosure of practice

(defining freebirthing, or unassisted childbirth, as giving birth without a physician or a midwife in attendance).

247. Hayden, *supra* note 3.

248. IND. CODE § 25-23.4 (2014).

249. *Id.* § 25-23.4-3-7(b).

250. *Id.* § 25-23.4-2-6.

251. *Id.* § 25-23.4-1-4.

252. *Id.* § 25-23.4-3-1(c) (requiring that CDEMs possess either an associate degree in nursing, associate degree in midwifery accredited by the Midwifery Education Accreditation Council (“MEAC”), or a bachelor’s degree from a postsecondary education institution and that CDEMs satisfactorily complete all requirements of the CPM); *cf.* CERTIFIED PROFESSIONAL MIDWIFE: CANDIDATE INFORMATION BOOKLET, N. A.M. REGISTRY OF MIDWIVES (2013) (requiring no post-secondary degree).

253. IND. CODE § 25-23.4-3-1(c)(10) (2014).

254. *Id.* § 25-23.4-3-1(b)(2).

255. *Id.* § 25-23.4-5-1(b).

256. *Id.* § 25.23.4-5-1(a).

257. *Id.* § 25.23.4-4-1(a)(6); *see also* Kelly, *supra* note 245 (noting that the provisions in the CDEM statute are similar to those concerning the physician assistant-physician relationship).

form in which the patient agrees to waive her right to sue a physician, health care provider, or the hospital for the acts of the CDEM.²⁵⁸ This provision appears to shield the physician from vicarious liability from the actions of the CDEM, but the physician may still be liable for the care she provides directly to the patient.

The CDEM statute requires a CDEM to refer an at-risk or emergency patient to a physician for consultation.²⁵⁹ Most obstetricians practice in a hospital setting, yet the statute leaves the decision of whether to extend clinical privileges to CDEMs up to the hospital.²⁶⁰ When referring an at-risk patient to a physician for consultation, the CDEM could lose her ability to be the patient's primary care provider. Similar to consulting physicians, courts may not hold hospitals jointly or severally liable for the acts or omissions of a CDEM.²⁶¹

B. Why the CDEM Statute Will Prove Unworkable

Ultimately, Indiana's CDEM statute will prove unworkable and fall short of the legislature's goal to safely and effectively regulate DEMs.²⁶² Specifically, the physician collaboration requirement and the insurance maintenance requirement will prevent many otherwise qualified DEMs from practicing legally.²⁶³ Without a workable statute, the illegal practice of midwifery will continue, much as it had before the passing of the statute.²⁶⁴ A DEM practicing without a certificate and a collaborative agreement risks criminal prosecution²⁶⁵ and will be hesitant to consult with a physician.²⁶⁶ The CDEM statute forces women who wish to have a homebirth with a CDEM for personal or religious reasons to use the services of a DEM illegally, deliver in a hospital, or pursue a hybrid-rights claim, the result of which is uncertain.²⁶⁷ This reality is the antithesis of the desired dual system of childbirth care, in which DEMs care for women with low-risk pregnancies and physicians care for women with high-risk pregnancies, and the two communities work together for the health of Hoosier women.²⁶⁸ By examining why these two

258. IND. CODE § 25-23.4-4-3(14) (2014).

259. *Id.* § 25-23.4-4-3(11).

260. *Id.* § 25-23.4-7-1.

261. *Id.* § 25-23.4-8-1.

262. *Cf.* Hermer, *supra* note 23, at 354 (noting the same result in California).

263. *Cf. id.* (explaining the same result in California from California's physician supervision requirement); STATE OF COLO. DEP'T OF REGULATORY AGENCIES, LIABILITY INSURANCE FOR DIRECT ENTRY MIDWIVES (2011) [hereinafter COLORADO LIABILITY INSURANCE] (finding no sufficient liability insurance for its registered DEMs).

264. *Cf.* Hermer, *supra* note 23, at 354 (noting the same result in California).

265. *See, e.g.,* Scott Weissner, *Woman Pleads to Unlawful Midwifery*, GOSHEN NEWS (Feb. 19, 2014), <http://www.goshennews.com/local/x1196445797/Woman-pleads-to-unlawful-midwifery>, archived at <http://perma.cc/3NYN-8MVK> (entering a guilty plea to unlawful practice of medicine and facing a 330-day sentence and probation).

266. Tovino, *supra* note 19, at 96 (finding the same result in California).

267. *See supra* Part II.B.3.

268. Fisch, *supra* note 28, at 116.

sections of Indiana's CDEM statute could be a legal barrier to render the law unworkable and how the legislature can amend that statute, the state could offer Hoosier families the safe, cost-effective option of CDEM-assisted childbirth aimed for by the state legislators.²⁶⁹

The current Indiana CDEM statute creates a reality in which these midwives depend on physicians to work and strips them of any sort of autonomy in their midwifery practice.²⁷⁰ Furthermore, midwives living in rural areas of Indiana have a limited number of physicians from whom to seek this collaborative relationship.²⁷¹ As a result, the offer of state certification will likely be more of an illusory one because only a very small number of physicians will be willing to enter into the required collaborative agreement.²⁷² Indeed, this problematic situation occurred in California, whose DEMs were subject to a similar provision.²⁷³ The lack of official physician-DEM relationships and the pervasive presence of unofficial physician-DEM relationships even led the California Department of Medicine to cease punishing those DEMs not in an official relationship with a physician.²⁷⁴ The California legislature listened to the medical and midwifery communities alike to remove the supervision requirement.²⁷⁵

It is understandable that, because of the perceived risk of liability, an obstetrician might be extremely hesitant to become part of the collaborative relationship with a CDEM. The statute attempts to protect physicians from vicarious liability claims,²⁷⁶ but the physician can still be liable for the treatment the physician provides directly to the patient.²⁷⁷ Furthermore, malpractice insurance carriers may not allow physicians to engage in formal collaborative relationships with CDEMs.²⁷⁸ The perceived liability and malpractice insurance

269. Cf. Tovino, *supra* note 19, at 97 (explaining how California amended its midwifery statute to achieve a workable statute).

270. Fisch, *supra* note 28, at 104.

271. IND. CODE § 25.23.4-4-1(a)(6) (2014) (“The collaborating physician should be located in an area close to where the delivery will occur.”); see *Indiana Tangles with Shortage of Rural Doctors*, HERALD BULLETIN (June 23, 2013), <http://www.heraldbulletin.com/breakingnews/x493358090/Indiana-tangles-with-shortage-of-rural-doctors>, archived at <http://perma.cc/9EMK-FGWZ> [hereinafter *Rural Doctors*] (noting the shortage of physicians in rural areas of Indiana).

272. Cf. Hermer, *supra* note 23, at 354 (noting the same result in California).

273. *Id.*

274. Tovino, *supra* note 19, at 63.

275. A.B. 1308, 2013-2014 Reg. Sess. (CA 2013); CA BUS. & PROF. CODE § 2507-08 (2014).

276. IND. CODE § 25-23.4-4-3(14) (2014) (“The informed disclosure of practice form must . . . contain the following information A statement that the client understands that the client is waiving the right to sue a physician or health care provider for the acts of omissions of the client’s certified direct entry midwife.”).

277. Kimberly A. Emil, *Indiana’s New Certified Direct Entry Midwife Law Takes Effect July 1, 2013*, HALL, RENDER, KILLIAN, HEATH & LYMAN, P.C.: LITIGATION ANALYSIS (June 14, 2013), <http://blogs.hallrender.com/litigation/2013/06/14/indianas-new-certified-direct-entry-midwife-law-takes-effect-july-1-2013/>, archived at <http://perma.cc/VYV5-Y4R2>.

278. See Hermer, *supra* note 23, at 354 (noting that most California obstetricians were unable

issues will likely be the biggest hurdle for CDEMs to overcome in their attempts to satisfy the collaboration agreement requirement, but many physicians' personal opinions of these midwives will also make physicians reluctant to enter into the collaboration relationship.²⁷⁹ One Hoosier obstetrician acknowledged that most homebirths occur free of complications, but when homebirths do go wrong, obstetricians "see the worst of the worst We have a skewed perspective."²⁸⁰ She "know[s] people who have had home births and had a wonderful experience. It sounds really nice, and 90 percent of the time they go well . . . [But w]hat's your backup plan?"²⁸¹ On paper, Indiana's physician collaboration requirement appears to provide an answer to this obstetrician's question; however, in reality, the result of this collaboration requirement will be a large number of midwives practicing illegally, who are not subject to the standard of care as outlined in the statute and who will avoid any sort of relationship with physicians.²⁸² The midwifery community will continue to be on the fringe of the maternal health community, much like when Direct Entry Midwifery was illegal.²⁸³

The issue of liability insurance maintenance has a more uncertain impact on the workability of Indiana's CDEM statute,²⁸⁴ but it will likely hinder and prevent many otherwise qualified midwives from practicing. Colorado law does not presently require DEMs to carry liability insurance; however, once the state is able to find affordable liability insurance, the state will require its registered DEMs to carry that insurance.²⁸⁵ The Colorado legislature passed this law in 2006, but the Colorado Division of Registrations has yet to find affordable liability insurance.²⁸⁶ If the members of Colorado's government cannot locate liability insurance at an affordable price, it is unlikely that Indiana's DEMs, who are probably not well-versed in insurance shopping, will be able to find sufficient, affordable liability insurance.²⁸⁷ Thus, mandating CDEMs to enter into a physician collaboration agreement and maintain sufficient liability insurance will likely impose unintended legal barriers to the creation of a dual system of childbirth care and will evade the legislature's goal of legalizing Certified Direct Entry Midwifery and giving Hoosier mothers a safe, regulated alternative to physician-attended hospital births.²⁸⁸

to supervise DEMs because their malpractice insurance carrier did not allow it).

279. See, e.g., Emily Champion, *Home Birth Supporters Praise New Indiana Law*, CHESTERTON TRIB. (June 13, 2013), http://www.chestertontribune.com/Indiana%20News/home_birth_supporters_praise_new.htm, archived at <http://perma.cc/8GFD-MJEM>.

280. *Id.*

281. *Id.*

282. *Cf.* Tovino, *supra* note 19, at 95 (finding the same trend in California).

283. *Cf.* White, *supra* note 174, at 1A (explaining the same result in California).

284. No other state requires DEMs to maintain sufficient liability insurance, so it is difficult to find answers elsewhere.

285. COLO. REV. STAT. § 12-39-109(3) (2014).

286. COLORADO LIABILITY INSURANCE, *supra* note 263.

287. *Cf. id.*

288. See *Proposed HB 1135*, COMMITTEE ON PUBLIC HEALTH REPORT (Feb. 18, 2013),

C. Moving Forward

With a few amendments to Indiana's Certified Direct Entry Midwifery statute, the state legislature can honor Hoosier women's choices to plan homebirths with the help of CDEMs in a safe, regulated, and effective manner. The Indiana legislature effectively delineates the scope of practice for Certified Direct Entry Midwifery through the statute and requires a level of education of CDEMs that could instill respect for CDEMs throughout the state. One Hoosier midwife comments, "[w]e believe strongly in our responsibility to be accountable for people in our state We appreciate stringent educational requirements for midwives. That's fine, that's good. That's in the interest of families who hire us" ²⁸⁹ The statute should enable these midwives to receive certificates and practice legally. It should recognize that "[p]lanned home births are safer when care is provided as part of a collaborative delivery model in which medical professionals may freely consult on patient care to maximize patient safety and positive outcomes." ²⁹⁰ The current physician collaboration agreement and maintenance of sufficient liability insurance requirements do not advance this goal. ²⁹¹

The legislature should remove the physician collaboration requirement. Instead, it should encourage CDEMs and obstetricians to collaborate informally. ²⁹² Given the shortage of physicians in rural areas of Indiana ²⁹³ and the many Amish communities throughout the state, ²⁹⁴ it is especially important to give otherwise qualified midwives the chance to practice legally with the necessary degree of independence. ²⁹⁵ An Amish woman's United States Constitutional rights to free exercise of religion and of privacy are at stake. ²⁹⁶ Thus, removing the physician collaboration requirement will assure Hoosier mothers, Amish or otherwise, that they can have their low-risk pregnancy assisted

<http://www.in.gov/legislative/bills/2013/HCRF/AM113503.001.html>, archived at <http://perma.cc/LKV7-UEJS> [hereinafter *Proposed HB 1135*] (requiring CDEMs to maintain sufficient liability insurance "if the board finds: (A) liability insurance is available to [CDEMs] in Indiana; and (B) the cost of liability insurance is comparable to the cost of liability insurance for licensed home birth midwives in other states," but the committee rejected this version of HB 1135) (emphasis added).

289. *Campion*, *supra* note 279.

290. A.B. 1308, 2013-2014 Reg. Sess. (CA 2013).

291. *See supra* Part III.B.

292. *See, e.g.*, ARKANSAS STATE BOARD OF HEALTH, *supra* note 147, § 500.

293. *Rural Doctors*, *supra* note 271.

294. *Manns*, *supra* note 226.

295. *See Smolin*, *supra* note 204, at 1009 ("states containing numerous counties with no available hospitals and no available physicians have nonetheless overregulated or prohibited midwifery, leaving rural women with no prenatal and birthing care within a reasonable distance of their homes").

296. *See* Part II.B.3.

by a CDEM and that, if something does go wrong during homebirths, they will be able to be brought to a physician.

Although the midwifery community and the medical community still approach childbirth differently, a recent press release from ACOG paves the way to the existence of a strong and respectful relationship between them.²⁹⁷ In February 2011, it noted that the organization “believes that hospitals and birthing centers are the safest setting for birth, [but] it respects the right of a woman to make a medically informed decision about delivery.”²⁹⁸ To continue developing this informal collaborative relationship, however, an effective Indiana statute needs to include specific language shielding the collaborative physician from liability.²⁹⁹ The current statute only requires a statement in the informed consent form that the patient understands she is waiving her right to sue a physician for the acts or omissions of the CDEM,³⁰⁰ which does not sufficiently shield the physician from liability as a jury could be unable to separate harm caused by the physician from harm caused by the CDEM.³⁰¹ The Committee on Public Health introduced a version of the CDEM statute that provided the necessary protection for physicians, but the version was ultimately rejected.³⁰² The statute needs to include specific language that physicians who choose either to collaborate informally with CDEMs or to care for CDEM patients on an emergency basis are immune from liability in the absence of a physician’s grossly reckless behavior.³⁰³ Without such liability protection, DEMs have virtually no chance of fostering the collaborative relationship that will make childbirth safest for Hoosier women.³⁰⁴

Additionally, the Indiana legislature should remove the requirement that CDEMs must maintain sufficient liability insurance for certification. Ideally, of course, CDEMs will maintain sufficient liability insurance, but until the Indiana legislature or the Indiana Medical Licensing Board presents them with an affordable plan, the insurance requirement may prevent otherwise qualified DEMs from practicing legally in Indiana because many insurance plans will be extremely costly and unaffordable for an independent CDEM. As with the codification of protecting physicians from vicarious liability, the Committee on Public Health considered this “wait-and-see” approach, but this was ultimately rejected.³⁰⁵ The state legislature should also ensure that Hoosier women receiving health coverage through Medicaid are covered. This is an important issue in Indiana as forty-one percent of all births in the state are covered by Medicaid.³⁰⁶

297. ACOG Committee Opinion, *supra* note 96, at 1.

298. *Id.*

299. Fisch, *supra* note 28, at 111.

300. IND. CODE § 25-23.4-4-3(14) (2014).

301. Fisch, *supra* note 28, at 111.

302. *See Proposed HB 1135, supra* note 288.

303. *See, e.g.*, FLA. STAT. § 467.0017(2) (2014); IDAHO CODE ANN. § 54-5512 (2014); LA. REV. STAT. ANN. § 37:3244(B) (2014); N.M. CODE R. § 16.11.3.12 (2014).

304. *Cf.* Hermer, *supra* note 23, at 354 (noting the same result in California).

305. *See Proposed HB 1135, supra* note 288.

306. NATIONAL WOMEN’S LAW CENTER WOMEN AND MEDICAID IN INDIANA (AS OF

CONCLUSION

Although the CDEM statute produces results that surely no statute should produce, with a few amendments, the statute can affect the change aimed for by legislators, strengthen the relationships between physicians and midwives, and respect Hoosier women's constitutional rights. The current statute will simply prove unworkable, and very few otherwise qualified midwives will be able to practice legally and will likely continue to practice illegally in the state without a certificate or a collaborative agreement. In order to ensure that every Hoosier woman has access to a safe, regulated homebirth assisted by a CDEM with a strong professional relationship with a physician in a dual system of childbirth care, the Indiana legislature should amend the CDEM statute to achieve its stated purpose.

PROTECTING THE RIGHTS OF CHILDREN OF SAME-SEX PARENTS IN INDIANA BY ADOPTING A VERSION OF THE UNIFORM PARENTAGE ACT

ELIZABETH TRAYLOR*

INTRODUCTION

On October 31, 2013, the Indiana Court of Appeals issued an opinion in the matter of *A.C. v. N.J.*, a custody dispute that involved a same-sex couple and the child that they conceived together through artificial reproductive technology (“ART”).¹ In that opinion, the court called on the Indiana legislature to fill the gap in Indiana law for non-traditional families such as this one.² This occasion was not the first time, nor will it likely be the last, that a court has asked the legislature to devise a legal framework for the growing number of non-traditional families in Indiana; however, the legislature has yet to act.³ Despite the rapidly growing number of families created by same-sex and heterosexual couples through ART, Indiana law has yet to grow with them.⁴ Indiana law currently defines “parent” narrowly,⁵ which ultimately results in some children being deprived of fundamental parental relationships; families that are unrecognized by Indiana law; and judges sorting out this legal uncertainty in court rooms.

Part I of this Note gives a brief overview of the history of parentage laws in the United States and discusses how the U.S. Supreme Court established a standard for determining paternity that defined a father’s constitutional right to be a parent. Next, Part II discusses the current state of Indiana statutes and case law as they pertain to families and parentage, and demonstrates how these tools are failing Indiana families. This lack of guidance creates practical problems in Indiana courts, generates uncertainty among families, and often deprives children of important relationships in their lives. Part III discusses the nature of the problem as the numbers of non-traditional families in Indiana and the United States grow, and shows that the children of these families have similar due process and equal protection rights to a family that the U.S. Supreme Court has recognized for adults. Finally, Part IV explores ways to fill Indiana’s legal gap, ultimately proposing that Indiana adopt its own version of the Uniform Parentage

* J.D. candidate, 2015, Indiana University Robert H. McKinney School of Law; B.A., 2002, John Carroll University, Cleveland, Ohio.

1. *A.C. v. N.J.*, 1 N.E.3d 685, 687 (Ind. Ct. App. 2013).

2. *Id.* at 692.

3. *See In re A.B.*, 818 N.E.2d 126, 131 (Ind. Ct. App. 2004), *vacated by King v. S.B.*, 837 N.E.2d 965 (Ind. 2005) (“We encourage the Indiana legislature to help us address this current social reality by enacting laws to protect children who, through no choice of their own, find themselves born into unconventional familial settings.”).

4. THE WILLIAMS INSTITUTE, INDIANA CENSUS SNAPSHOT: 2010 (2010), *available at* http://williamsinstitute.law.ucla.edu/wp-content/uploads/Census2010Snapshot_Indiana_v2.pdf [hereinafter INDIANA CENSUS SNAPSHOT: 2010].

5. IND. CODE § 31-9-2-88 (2013).

Act (“UPA”) as the Indiana Uniform Parentage Act (“INUPA”) in order to better address the issues presented by families that Indiana law currently leaves behind.

I. DEFINING FAMILY AND PARENTAGE

In the matter of *A.C. v. N.J.*, the Indiana Court of Appeals grappled with the rights of a non-biological parent’s visitation rights. The parent was part of a same-sex couple and the child was conceived through ART.⁶ In that case, the court expressed concern over the current state of Indiana law in this area.⁷ In the opinion, Judge Friedlander laments that:

We feel the vacuum of such guidance even more acutely now . . . what began as a trickle is rapidly becoming a torrent, and the number of children whose lives are impacted by rules that have yet to be written only increases with the passage of time. They, and we, would welcome a legislative roadmap to help navigate the novel legal landscape in which we have arrived.⁸

Justice Rush, of the Indiana Supreme Court, agreed with Judge Friedlander’s concerns and also pointed out this lack of legislative guidance.⁹

The day after *A.C. v. N.J.* was decided, another case, *In re Paternity of Infant T*, was denied transfer by the Indiana Supreme Court. Justice Rush dissented in that opinion saying that she would “grant transfer . . . and leave it to the General Assembly to consider broader legislation to guide and protect future children and families through the still-uncharted waters of assisted reproductive technologies.”¹⁰ *In re Paternity of Infant T* involved ART and surrogacy.¹¹ The biological father sought to disestablish the parentage of the surrogate and establish his paternity as the biological father.¹² This case is illustrative of the fact that parentage issues also include heterosexual couples who seek to produce children through ART.¹³

Before a discussion can be had about the gaps and deficiencies that exist in Indiana’s legal system for certain families, it is necessary to first consider the historical developments that have played a role in defining a family and the

6. *A.C.*, 1 N.E.3d at 685.

7. *Id.* at 692.

8. *Id.*

9. See, e.g., *In re Paternity of Infant T*, 999 N.E.2d 843, 843 (Ind. 2013) (Rush, J., dissenting); see also Gary J. Gates, *LGBT Parenting in the United States*, THE WILLIAMS INSTITUTE (Feb. 2013), available at <http://williamsinstitute.law.ucla.edu/wp-content/uploads/LGBT-Parenting.pdf>, archived at <http://perma.cc/T5CN-4VYG>.

10. *In re Paternity of Infant T*, 991 N.E.2d 596 (Ind. Ct. App.), trans. denied, 999 N.E.2d 843 (Ind. 2013) (Rush, J., dissenting).

11. *Id.*

12. *Id.*

13. *Id.*

current state of the parentage laws in the United States.

A. *The Marital Presumption*

Traditionally, the law defined families within the context of marriage under “the marital presumption.”¹⁴ This doctrine assumed that a mother’s husband was a child’s father.¹⁵ This definition of family fulfills several purposes including: efficient identification of a child’s father;¹⁶ legal recognition of a traditional family consisting of a husband, wife, and children; and protecting a child from illegitimacy.¹⁷ Furthermore, this framework largely identified a father’s role as an economic one. Fathers were expected to provide for their children, and their children, in turn, were expected to provide labor.¹⁸ This economic view of the father’s role contributed to the idea that children are their parents’ property; this view has been perpetuated in American custody decisions.¹⁹ One commenter observed that this “enduring legacy of genetic ownership grounded in patriarchal traditions has shaped our legal definition of parenthood.”²⁰ The concept of children as property has resulted in parents’ assertions of “rights,” and in courts’ recognition of a parent’s constitutional rights, regarding possession and control of a child.²¹

Although the marital presumption was a useful tool for identifying fathers in eighteenth and nineteenth century England and America, the current definition of parents and families has changed dramatically.²² Families are no longer necessarily comprised of a mother, father, and children. It is increasingly unlikely today that children are cared for solely by a stay-at-home parent.²³ Rather, in 1999, over two thirds of preschool children were cared for by people other than their parents.²⁴

Additionally, according to the Centers for Disease Control, almost forty-one percent of births in 2011 were to unmarried women.²⁵ The changes in the

14. Jane C. Murphy, *Legal Images of Fatherhood: Welfare Reform, Child Support Enforcement, and Fatherless Children*, 81 NOTRE DAME L. REV. 325, 326 (2005).

15. *Id.*

16. Melanie B. Jacobs, *Overcoming the Marital Presumption*, 50 FAM. CT. REV. 289, 290 (2012).

17. Murphy, *supra* note 14, at 326.

18. *Id.*

19. *Id.*

20. Barbara Bennett Woodhouse, *Hatching the Egg: A Child-Centered Perspective on Parents’ Rights*, 14 CARDOZO L. REV. 1747, 1811 (1993).

21. *See id.*

22. Murphy, *supra* note 14, at 326.

23. Matthew M. Kavanagh, *Rewriting the Legal Family: Beyond Exclusivity to a Care-Based Standard*, 16 YALE J.L. & FEMINISM 83, 93 (2004).

24. *Id.*

25. JOYCE A. MARTIN, M.P.H. ET AL, NATIONAL VITAL STATISTICS REPORT, VOL. 62 NO. 1 (June 28, 2013), available at <http://www.cdc.gov/nchs/fastats/unmarried-childbearing.htm>,

structure, the increase in the birthrate outside of marriage, the legal legitimacy of non-marital children, and scientific advances that allowed for easier determination of paternity all led to a shift in the definition of parent recognized by the U.S. Supreme Court.²⁶ Once the marital presumption was no longer a reliable indicator of fatherhood, the role of a father began to expand beyond the financial aspects.²⁷ Unmarried fathers were permitted to prove their status as a “legal father” by showing both their “biological connection” and that they had forged a relationship with the child.²⁸ Several U.S. Supreme Court decisions in the 1970s confirmed a parent’s constitutional right to be a parent on equal protection²⁹ and due process grounds through what has been referred to as the “biology plus” test.³⁰

B. *The U.S. Supreme Court and “Biology Plus”*

The U.S. Supreme Court rarely decides domestic relations issues because family law is within the purview of the states.³¹ However, in the few cases the Court has taken up regarding domestic relations issues, the Court has confirmed a parent’s liberty interest in the “companionship, care, custody, and management of his or her children.”³² The U.S. Supreme Court has also had several occasions to decide issues of paternity.

In one of the first paternity cases, *Stanley v. Illinois*, the Court recognized the liberty interest of an unmarried biological parent.³³ There, an unmarried father and mother with three children lived together for eighteen years.³⁴ After the mother died, the children were taken away from their father, and became wards of the state because Illinois law did not recognize unwed fathers as legal parents.³⁵ The Court found that the father had valid claims on both equal

archived at <http://perma.cc/N9UN-GN5N>.

26. Murphy, *supra* note 14, at 326; *see, e.g.*, *Stanley v. Illinois*, 405 U.S. 645 (1972).

27. Murphy, *supra* note 14, at 344.

28. *Id.* at 337.

29. The Due Process Clause of the Fourteenth Amendment to the U.S. Constitution provides that no state shall “deprive any person of life, liberty, or property, without due process of law.” U.S. CONST. amend. XIV, § 1. *See also* *Meyer v. Nebraska*, 262 U.S. 390, 390 (1923) (“[W]ithout due process of law, ‘liberty’ denotes, not merely freedom from bodily restraint, but also the right of the individual to . . . marry, establish a home, and bring up children, . . . and generally to enjoy those privileges long recognized at common law as essential to the orderly pursuit of happiness by free men.”).

30. Melanie B. Jacobs, *My Two Dads: Disaggregating Biological and Social Paternity*, 38 ARIZ. ST. L.J. 809, 827 (2006).

31. *See In re Burrus*, 136 U.S. 586, 586 (1890).

32. *Stanley v. Illinois*, 405 U.S. 645, 651 (1972); *see also* *Pierce v. Soc’y of the Sisters of the Holy Names of Jesus & Mary*, 268 U.S. 510 (1925); *Meyer v. Nebraska*, 262 U.S. 390 (1923).

33. *Stanley*, 405 U.S. at 646.

34. *Id.*

35. *Id.* at 647.

protection and due process grounds because the vital interest a man has, “in the children he has sired and raised, undeniably warrants deference and, absent a powerful countervailing interest, protection.”³⁶ After *Stanley* was decided, the Court issued three opinions dealing with step-parent adoption and paternity, which established the “biology plus” standard.³⁷ This standard required men to demonstrate, in addition to their biological connection to a child, that they “had actively engaged in parenting.”³⁸

In the most recent related U.S. Supreme Court decision, *Lehr v. Robinson*, Justice Stevens noted that biology is merely a starting point for a parental right, noting that:

[T]he significance of the biological connection is that it offers the natural father an opportunity that no other male possesses to develop a relationship with his offspring. If he grasps that opportunity and accepts some measure of responsibility for the child's future, he may enjoy the blessings of the parent-child relationship and make uniquely valuable contributions to the child's development. If he fails to do so, the Federal Constitution will not automatically compel a State to listen to his opinion of where the child's best interests lie.³⁹

This line of cases following *Stanley* indicate that the U.S. Supreme Court favors a “family unit,” yet caution that a father risks losing his parental rights if he does not actively parent a child.⁴⁰ The U.S. Supreme Court appears to prefer a “family unit” that is comprised of parents who are actively parenting, regardless of their biological connection to the child.⁴¹ If, according to the Court, biology is not enough for establishing a parental relationship, then in the context of same-sex parentage, perhaps a parent without a biological connection, such as a non-biological same-sex mother, could establish parentage through demonstrating a “full commitment to the responsibilities of parenthood.”⁴² Although the Court has not expressly decided a case involving the scope of same-sex parenting rights, precedent shows the Court’s interest in protecting established, functioning family units. Nevertheless, states need not wait for the U.S. Supreme Court to evaluate

36. *Id.* at 651.

37. Murphy, *supra* note 14, at 336. See *Lehr v. Robertson*, 463 U.S. 248, 262 (1983) (declining to extend constitutional protection to a biological father’s rights to his daughter); *Caban v. Mohammed*, 441 U.S. 380, 394 (1979) (holding that a father’s equal protection and due process rights were violated because adoption statute “discriminate[d] against unwed fathers even when their identity [was] known and they [had] manifested a significant paternal interest in the child”); *Quilloin v. Walcott*, 434 U.S. 246, 255 (1978) (holding that adoption of son by mother’s new husband was not a violation of biological father’s rights because he never sought physical or legal custody of his son and the Court was protecting “a family unit already in existence”).

38. Jacobs, *supra* note 30, at 828.

39. *Lehr*, 463 U.S. at 262.

40. See *id.* at 267.

41. See *id.* at 268.

42. *Id.* at 248.

the constitutional rights of a same-sex parents, and they are free to enact laws defining parentage within the guidelines the Court has set forth.

II. CURRENT STATE OF PARENTAGE IN INDIANA

A. *The Indiana Code*

In 1997, the Indiana General Assembly rewrote the family and juvenile laws of Indiana so that they would be “clear, concise, and easy to interpret and apply.”⁴³ While that goal might have been accomplished in 1997, the Indiana Code still has gaps that exclude many Indiana families. The Indiana Code narrowly defines a parent as “a biological or an adoptive parent.”⁴⁴ It further provides that “[u]nless otherwise specified, the term includes both parents, regardless of their marital status.”⁴⁵ This also includes an “alleged father,”⁴⁶ which is “any man claiming to be or charged with being a child’s biological father.”⁴⁷ There is not an Indiana statute that provides for the intent of parents to raise a child as their own, recognized as “intentional parents,”⁴⁸ except in surrogacy situations;⁴⁹ however, Indiana does recognize a de facto custodian as:

[A] person who has been the primary caregiver for, and financial support of, a child who has resided with the person for at least:

- (1) six (6) months if the child is less than three (3) years of age;
- or
- (2) one (1) year if the child is at least three (3) years of age.⁵⁰

Although the intent of this statute is to allow third parties to have standing in determining the custody of a child,⁵¹ there is still a presumption in favor of the biological parent that must be overcome in order to show that a de facto custodian is in the best interests of the child.⁵² Indiana law does provide for a presumption of paternity in cases where the “man and the child’s biological mother are or have been married to each other” and if the child is born “not later than three hundred

43. IND. CODE § 31-10-1-1 (2013).

44. *Id.* § 31-9-2-88(a).

45. *Id.*

46. *Id.* § 31-9-2-9.

47. *Id.* § 31-9-2-88(b).

48. California law provides that a “presumed parent” could be one who “receives the child into his or her home and openly holds out the child as his or her natural child.” CAL. FAM. CODE § 7611(d) (West 2013).

49. *See* IND. CODE § 31-9-2-63 (2013) (providing that an “intended biological parent” is one who is a “party to a surrogate agreement who: (1) agrees to be or is genetically related to a child borne by a surrogate; and (2) is not the surrogate’s spouse.”).

50. *Id.* § 31-9-2-35.5.

51. *See In re Guardianship of L.R.T. & A.J.B.*, 979 N.E.2d 688 (Ind. Ct. App. 2012), *trans. denied*, 938 N.E.2d 1157 (Ind. 2013); *A.J.L. v. D.A.L.*, 912 N.E.2d 866 (Ind. Ct. App. 2009).

52. *In re Guardianship of L.R.T. & A.J.B.*, 979 N.E.2d. at 690.

(300) days after the marriage is terminated by death, annulment, or dissolution.”⁵³ Indiana law also recognizes paternity in cases where a marriage is void due to a prior existing marriage,⁵⁴ between cousins,⁵⁵ and involves mental incompetence.⁵⁶ This is in line with Indiana’s general policy that informs the family law that seeks to “recognize the importance of families and children in our society,”⁵⁷ as these provisions seek to protect children by establishing paternity even when there is a marriage that Indiana law does not recognize.⁵⁸ The gaps in the Indiana Code have resulted in case law that does not provide much guidance to families, judges, and lawyers as they seek to protect different types of families in Indiana, especially same-sex families.

B. Indiana Case Law

As *A.C. v. N.J.* illustrates, Indiana case law does not provide much guidance for same-sex couples.⁵⁹ In this case, two women who had been together for two years and had celebrated a commitment ceremony decided to conceive a child through artificial insemination.⁶⁰ The biological mother carried the child while her partner worked and supported the family financially.⁶¹ Their son was born in April, 2008.⁶² The partner was present at the birth of the child and cut the umbilical cord.⁶³ The family lived together for two years as a “family unit.”⁶⁴ There was discussion of the partner adopting the child, but no one ever started the process.⁶⁵ This was mainly due to the expense of an adoption, and the partner and mother had already agreed to raise the child together.⁶⁶ In 2010, the biological mother and the partner ended their relationship and the partner was allowed visitation time with the child, while the biological mother had primary custody.⁶⁷ Eventually, this arrangement ceased to work and allegations were made of the partner not providing any financial support.⁶⁸ When the biological mother denied

53. IND. CODE § 31-14-7-1 (2013).

54. *Id.* § 31-11-8-2.

55. *Id.* § 31-11-8-3.

56. *Id.* § 31-11-8-4.

57. *Id.* § 31-10-2-1.

58. *Id.* § 31-11-1.

59. *A.C. v. N.J.*, 1 N.E.3d 685, 687 (Ind. Ct. App. 2013).

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.*

66. Brief for Appellant at 4, *A.C. v. N.J.*, 1 N.E.3d 685 (Ind. Ct. App. 2013) (No. 20A04-1301-DR-37).

67. *A.C.*, 1 N.E.3d at 687-88.

68. *Id.* at 688.

the partner access to the child, the partner filed a suit seeking custody.⁶⁹

In the suit, the partner asserted three theories as to why she should be granted custody of the child even though she was not biologically related to the child and was, under Indiana law, a legal stranger to the child.⁷⁰ The first theory was that it was the intention of the parties that they would both be considered the child's parents, the second was that it was in the child's best interest that she have custody, and finally, that she was a "de facto custodian."⁷¹ The trial court rejected all three of these arguments and concluded that the partner did not even have standing to bring a suit for visitation.⁷² It is necessary here to engage in a brief discussion of which parties in Indiana can and cannot bring custody and visitation suits.

Standing in a custody dispute refers to which parties can bring a suit for custody or visitation.⁷³ Typically, this regards the parents of a child,⁷⁴ but Indiana case law varies as to which parties might have that ability to bring these types of challenges. The existing case law recognizes that step-parents might have standing in a custody proceeding.⁷⁵ Furthermore, the Indiana legislature created the Grandparent Visitation Act,⁷⁶ which "left the development of the law on the rights of parties, other than parents and grandparents, to the sound discretion of the courts."⁷⁷

Indiana jurisprudence responded to the U.S. Supreme Court's decision in *Troxel v. Granville*, which drastically limited third-party rights of visitation by giving great weight to a parent's decision.⁷⁸ The Indiana courts concluded that when considering visitation, they would consider the following factors: "the presumption that a fit parent acts in his or her child's best interests, the special weight afforded a fit parent's decision to deny visitation, and whether the parent

69. *Id.*

70. *Id.* at 687.

71. *Id.* at 688.

72. *Id.* at 694.

73. BLACK'S LAW DICTIONARY *Standing* (9th ed. 2009).

74. *Id.*

75. *See Collins v. Gilbreath*, 403 N.E.2d 921, 923-24 (Ind. Ct. App. 1980) (holding that awarding visitation to a step-father was proper in light of the fact that the children had recently lost their mother and this would help the transition to their new life with their biological father, but also noting that the holding was narrow and was not extended to unrelated third persons or grandparents).

76. IND. CODE § 31-1-11.7-2 (repealed 1997).

77. *Tinsley v. Plummer*, 519 N.E.2d 752, 754 (Ind. Ct. App. 1988).

78. In *Troxel v. Granville*, a mother wanted to limit the time her children spent with their paternal grandparents following the death of her husband, but a Washington statute allowed for any person to petition for custody at any time and the paternal grandparents sought visitation. The U.S. Supreme Court concluded that the statute was too broad and infringed on a biological mother's substantive due process rights to make decisions in the best interests of her children. *Troxel v. Granville*, 530 U.S. 57 (2000).

had denied or simply limited visitation.⁷⁹ Although Indiana courts were showing great deference to parental decisions regarding visitation, the courts did not specifically limit third-party standing only to step-parents.⁸⁰ However, in *Worrell v. Elkhart County Office of Family & Children*, the Indiana Supreme Court concluded that foster parents did not have standing as third-parties seeking visitation, thus setting an actual limitation on who could seek visitation.⁸¹

Although these decisions affect step-parents, grandparents, and foster parents, the rights of same-sex parents remain largely undefined.⁸² In terms of same-sex standing, there is uncertainty regarding “whether former same-sex partners might fall within the class of nonparents with standing to seek third-party visitation.”⁸³ Although in *A.C. v. N.J.* the trial court concluded that the partner did not have standing to seek custody, the Indiana Court of Appeals concluded that the partner did have standing to seek custody of the child. The Indiana Court of Appeals noted that it was likely that “custodial and parental relationships may exist with third parties other than stepparents.”⁸⁴ In coming to this conclusion, the Indiana Court of Appeals looked at the facts that indicated what kind of relationship the partner had with the child, including the partner’s and the biological mother’s intent to raise the child together and the parental bond between the partner and the child.⁸⁵ These facts indicated to the court that it was in the best interest of the child to maintain a relationship with the partner.⁸⁶ In the wake of *A.C. v. N.J.*, same-sex couples now have access to the courts when resolving custody disputes, yet it remains largely uncertain what rights the courts will recognize.

Prior to the decision in *A.C. v. N.J.*, Indiana courts had few occasions to decide the rights of same-sex couples in custody cases,⁸⁷ and the jurisprudence that exists is inconclusive.⁸⁸ In addressing the partner’s other two arguments, based on the intent of the couple to raise the child together and her status as a de facto parent, the *A.C. v. N.J.* court looked to a ten-year-old case where it decided a similar same-sex custody issue. That case, *In re A.B.*, involved a same-sex couple that had been in a relationship for nine years and chose to have a child through ART.⁸⁹ When the couple’s relationship ended, the biological mother, who carried the child, allowed liberal visitation to her partner who also paid child

79. *A.C. v. N.J.*, 1 N.E.3d 685, 695 (Ind. Ct. App. 2013).

80. *Id.*

81. *Worrell v. Elkhart Cnty. Office of Family & Children*, 704 N.E.2d 1027, 1029 (Ind. 1998).

82. *A.C.*, 1 N.E.3d at 696.

83. *Id.*

84. *Id.* at 697.

85. *Id.* at 693.

86. *Id.*

87. *See M.S. v. C.S.* 938 N.E.2d 278 (Ind. Ct. App. 2010); *In re A.B.*, 818 N.E.2d 126, 131 (Ind. Ct. App. 2004), *vacated by King v. S.B.*, 837 N.E.2d 965 (Ind. 2005).

88. *See generally A.C.*, 1 N.E.3d at 685; *In re A.B.*, 818 N.E.2d at 126.

89. *In re A.B.*, 818 N.E.2d at 128.

support.⁹⁰ The biological mother eventually denied visitation to the partner, and the partner filed an action seeking to be recognized as the child's legal parent or, in the alternative, to be recognized as a de facto parent with visitation rights.⁹¹ The trial court dismissed the case and did not recognize any right for the partner to have visitation with the child.⁹² This is another illustration of the problem that many same-sex parents face when seeking to enforce their parental rights. Until there is a legal recognition of the same-sex parent's role in a child's life, courts will continue to dismiss claims at the outset, similar to the trial court decision in *A.C. v. N.J.*⁹³

In *In re A.B.*, the Indiana Court of Appeals noted that it was "sympathetic" to the claim, and observed a strong "apparent bonding" between the partner and the child.⁹⁴ However, that court also stated that, "it is sufficient to note that [the partner] has no relationship to [the child] within the context of any relationship presently given legal recognition by the State of Indiana that might permit her to claim parentage of [the child]."⁹⁵ Just like the court in *A.C. v. N.J.*, this court asked for guidance from the legislature stating, "[it is] sufficiently prescient to anticipate that the law will have to extend some form of recognition to gay and lesbian relationships to create a structure within which a myriad of legal issues emanating from such partnerships."⁹⁶ What is striking about this statement is that it was made in 2004, more than a decade ago, and the Indiana legislature has yet to act, despite repeated requests for guidance from Indiana courts.⁹⁷

The Indiana Court of Appeals, in *In re A.B.*, ultimately overturned the trial court's dismissal and concluded that, "when two women involved in a domestic relationship agree to bear and raise a child together by artificial insemination of one of the partners with donor semen, both women are the legal parents of the resulting child."⁹⁸ Although the opinion from the Indiana Court of Appeals offered much needed guidance, on transfer, the Indiana Supreme Court vacated this opinion.⁹⁹ While the Indiana Supreme Court agreed that the case should not be dismissed for failure to state a claim, it narrowed the holding to a procedural posture.¹⁰⁰ The Indiana Supreme Court found that "at least some of the relief sought" by the partner fell within the discretion of the trial court to determine because Indiana courts do have the ability to "place a child with a person other

90. *Id.*

91. *Id.*

92. *See generally id.*

93. *A.C.*, 1 N.E.3d at 697.

94. *In re A.B.*, 818 N.E.2d at 128.

95. *Id.* at 129.

96. *Id.* at 128-29.

97. *See, e.g., id.*; *see also In re Paternity of Infant T.*, 991 N.E.2d 596 (Ind. Ct. App.), *trans. denied*, 999 N.E.2d 843 (Ind. 2013) (Rush, J., dissenting); *A.C.*, 1 N.E.3d at 692.

98. *In re A.B.*, 818 N.E.2d at 131-32.

99. *King v. S.B.*, 837 N.E.2d 965 (Ind. 2005).

100. *Id.* at 967.

than the natural parent.”¹⁰¹ The Indiana Supreme Court also recognized that “Indiana law ‘provide[s] a measure of protection for the rights of the natural parent, but more importantly, it embodies innumerable social, psychological, cultural, and biological considerations that significantly benefit the child and serve the child’s best interests.”¹⁰² While this opinion seems to open the door for same-sex parents to at least be heard on the issue of visitation, it is hardly a clear path. Justice Dickson, in his dissent, makes it clear that this is not an area that will be easily settled.¹⁰³ In his opinion, this result was not representative of the will of the people of Indiana.¹⁰⁴ As the court notes in *A.C. v. N.J.*, “the status of the law surrounding a lesbian partner’s right, if any, to enjoy the rights of a legal parent of a child . . . remains uncertain.”¹⁰⁵

In its decision in *A.C. v. N.J.* the court of appeals looked to the Indiana Supreme Court’s decision to vacate *In re A.B.* for guidance in addressing the de facto parent and intention of the parties claim by the partner.¹⁰⁶ The court further concluded that in light of the Indiana Supreme Court’s apparent disapproval of its decision in *In re A.B.*, it agreed with the trial court and would not enforce an agreement based on the intent of the parties to raise the child together.¹⁰⁷ The court further added in *A.C. v. N.J.* that it would leave the decision to recognize that type of agreement to the Indiana Supreme Court.¹⁰⁸ The *A.C. v. N.J.* court addressed the de facto parent argument in a footnote, and concluded that even if the partner could be considered a de facto parent, she would have to overcome the presumption in favor of the natural parent, and the Court of Appeals agreed with the trial court that she had not successfully overcome this presumption.¹⁰⁹ Finally, the court recognized that the partner had standing to seek visitation with the child as a third party and remanded the decision to the lower court to consider the request for visitation.¹¹⁰

As *A.C. v. N.J.* and *In re A.B.* both illustrate, in same-sex custody and visitation disputes the Indiana courts currently have very few tools.¹¹¹ The Indiana Code provides no avenue for a same-sex parent to assert a right to

101. *Id.*

102. *See id.* (citing *In re Guardianship of B.H.*, 770 N.E.2d 283, 287 (Ind. 2002)).

103. *See King*, 837 N.E.2d at 971 (Dickson, J., dissenting).

104. *See id.* (Justice Dickson stating, “The common law should not, in my opinion, be used to provide non-statutory privileges arising out of same-sex domestic relationships when, as here, not only is Indiana public opinion deeply fractured, but also a significant majority of Indiana citizens favor a public policy that does not promote same-sex families.”).

105. *A.C. v. N.J.*, 1 N.E.3d 685, 692 (Ind. Ct. App. 2013).

106. *Id.*

107. *Id.* at 693.

108. *Id.*

109. *Id.* at 697 n.6.

110. *Id.* at 697.

111. *A.C.*, 1 N.E. 3d at 685; *see also In re A.B.* 818, N.E.2d 126 (Ind. Ct. App. 2004), *vacated by King v. S.B.*, 837 N.E.2d 265 (Ind. 2005).

visitation¹¹² and Indiana case law does not directly address the practical problems that judges face in resolving these family matters.¹¹³ The occurrence of these types of issues will continue to grow steadily along with the rise in the number of families being created by same-sex partners.¹¹⁴

III. THE GROWING PROBLEM AND ADDRESSING THE RIGHTS OF CHILDREN OF SAME-SEX FAMILIES

A. The Growing Number of Non-Traditional Families in Indiana and the United States

As Judge Friedlander correctly points out in *A.C. v. N.J.*, the number of family situations like this are “rapidly becoming a torrent.”¹¹⁵ According to the Centers for Disease Control (“CDC”), the rate of ART has doubled over the past decade with one percent of all births in the United States from ART.¹¹⁶ According to a study by the Williams Institute, “[m]ore than 111,000 same-sex couples are raising an estimated 170,000 biological, step, or adopted children [in the United States].”¹¹⁷ Specifically, Indiana has 11,074 same-sex couples, and nineteen percent of those couples raising their own children.¹¹⁸ Families look different than they did decades ago and are being created in a variety of ways, through ART, adoption, divorce, and remarriage. Indiana law has not yet caught up with these changes in families and there continues to be a dearth of legislation to help these families define themselves and gain legal protection.

This problem is only going to become more pronounced after the recent U.S. Supreme Court decision in *United States v. Windsor*.¹¹⁹ This decision struck down Section Three of the Defense of Marriage Act (“DOMA”), which defined

112. IND. CODE § 31-17-5-1 (2013).

113. *See A.C.*, 1 N.E.3d at 685.

114. Gates, *supra* note 9. A poll conducted by Bellweather Research and Consulting on behalf of Freedom Indiana, the organization fighting the legislation that would amend the Indiana Constitution to include a definition of marriage as between one man and one woman, stated that twenty-eight percent of Hoosiers indicate that their support for same-sex marriage has grown over the last few years. *See also* Memorandum from Bellweather Research and Consulting to Freedom Indiana (Sep. 22, 2013), *available at* <https://docs.google.com/file/d/0B26QIHJ1fUtGTjV4S2ZLUkYwM3c/edit>, *archived at* <http://perma.cc/DH96-V826>.

115. *A.C.*, 1 N.E.3d at 692.

116. *Assisted Reproductive Technology: Most Recent ART Data*, CENTERS FOR DISEASE CONTROL AND PREVENTION (July 30, 2014, 11:04pm), <http://www.cdc.gov/ART>, *archived at* <http://perma.cc/UXJ9-SD7B>.

117. *See* Gates, *supra* note 9.

118. *See* INDIANA CENSUS SNAPSHOT: 2010, *supra* note 4.

119. In *United States v. Windsor*, the United Supreme Court held that section 3 of the Defense of Marriage Act (“DOMA”), which defined marriage as between a man and a woman, violated the Fifth Amendment and was therefore unconstitutional. *United States v. Windsor*, 133 S. Ct. 2675 (2013).

marriage as between a man and a woman, as a violation of the Fifth Amendment.¹²⁰ Justice Kennedy noted in the opinion, that the DOMA “makes it even more difficult for the children to understand the integrity and closeness of their own family and its concord with other families in their community and in their daily lives.”¹²¹ This is also true for families affected by the void of state legislation recognizing families that might not be created in the traditional mold of two married, opposite sex parents and their biological children. Indiana also has a statute that recognizes marriage as only between a man and a woman.¹²² Additionally, the statute provides, “[o]nly a female may marry a male” and that “[o]nly a male may marry a female.”¹²³ Furthermore, the Indiana Code states that Indiana will not recognize “[a] marriage between persons of the same gender . . . even if the marriage is lawful in the place where it is solemnized.”¹²⁴ Not only does Indiana not recognize same-sex marriage at all, even couples who have a legal same-sex marriage in another state have no legal status in Indiana.¹²⁵ This presents numerous problems for same-sex families that choose to move to Indiana. For example, if a same-sex couple that is legally married in a state that recognizes same-sex marriage, such as Iowa,¹²⁶ moves to Indiana, the state would not recognize their marriage.¹²⁷ Additionally, any children they might have would need to be adopted.¹²⁸ Furthermore, the couple would no longer have the right to visit each other in the hospital, make medical decisions, gain access to the family court system, or to any child support statutes.¹²⁹ It is difficult to meet the best interests of a child when the state of Indiana does not recognize or protect that child’s family structure.¹³⁰

Without a clear directive from the legislature, the Indiana courts are forced

120. DOMA was passed by Congress in 1996 and was signed into law by President Clinton. Section 2 provides that States do not have to recognize “a relationship between persons of the same sex that is treated as a marriage under the laws of such other State, territory, possession, or tribe, or a right or claim arising from such relationship,” while section 3 defines marriage as between one man and one woman. 28 U.S.C.A. § 1738C; 1 U.S.C.A. § 7.

121. *Windsor*, 133 S. Ct. at 2694.

122. IND. CODE § 31-11-1-1 (2013).

123. *Id.*

124. *Id.*

125. *See id.*

126. *See* Jeff Eckhoff & Grant Schulte, *Unanimous Ruling: Iowa Marriage No Longer Limited to One Man, One Woman*, DES MOINES REGISTER (Apr. 3, 2009), <http://www.desmoinesregister.com/article/20090403/NEWS/90403010>, archived at <http://perma.cc/KL4S-5UKU> (In 2009, Iowa became the third state to legalize same-sex marriages).

127. *See In re Adoption of K.S.P.*, 804 N.E.2d 1253 (Ind. Ct. App. 2004) (holding that a same-sex partner may adopt biological children of her partner).

128. *Id.*

129. Evan Wolfson, *Protections Denied to Same Sex Couples and Their Kids, from Why Marriage Matters: Appendix B*, FREEDOM TO MARRY <http://www.freedomtomarry.org/pages/from-why-marriage-matters-appendix-b-by-evan-wolfson>, archived at <http://perma.cc/5GGS-KJES>.

130. IND. CODE § 31-11-1-1 (2013).

to make important decisions about parentage based on precedent that is murky at best.¹³¹ The legislature needs to act to protect these families and children. The definition of “parent” has changed dramatically over the past several decades and the law needs to be flexible in order to accommodate these new family structures.

B. The Substantive Due Process and Equal Protection Rights of Children

Courts routinely make decisions regarding the rights of parents in custody cases. As discussed previously, the concept of “biology plus,” used by the U.S. Supreme Court in unwed father cases, confirmed a parent’s constitutional right to be a parent on equal protection and due process grounds.¹³² Additionally, *A.C. v. N.J.* indicates that, in Indiana, same-sex parents likely have standing to seek custody while their actual rights remain undetermined.¹³³ What is less defined, and equally important, is whether children have a substantive due process or equal protection right to maintain a relationship with a parent. Children do have constitutional rights, and the U.S. Supreme Court has recognized children’s rights in several instances.¹³⁴ In *Wisconsin v. Yoder*, the Court noted that “children are ‘persons’ within the meaning of the Bill of Rights. We have so held over and over again.”¹³⁵ Additionally, the U.S. Supreme Court has held that “neither the Fourteenth Amendment nor the Bill of Rights is for adults alone.”¹³⁶ While courts, including the U.S. Supreme Court, have not explicitly determined the substantive due process rights of children, these same courts have not explicitly denied the existence of the right either.

1. The U.S. Supreme Court and the Substantive Due Process Rights of Children.—In 1989, just after the Court decided the line of cases that established the “biology plus” standard for unwed fathers, it decided the case of *Michael H. v. Gerald D.*¹³⁷ In this case, a married woman began having an affair with her neighbor, became pregnant, and had a daughter.¹³⁸ Eventually, the relationship soured and the mother returned, with the child, to her husband. The neighbor filed an action to establish his paternity rights and allow for visitation.¹³⁹ Eventually, the husband intervened, citing California law, which presumes that a husband cohabiting with his wife is the father of any children born of the marriage.¹⁴⁰ The neighbor challenged the California law as a violation of his procedural and substantive due process rights.¹⁴¹ The parents, on behalf of the

131. See generally *A.C. v. N.J.*, 1 N.E. 3d 685, 692 (Ind. Ct. App. 2013).

132. Jacobs, *supra* note 30, at 827.

133. *A.C. v. N.J.*, 1 N.E. 3d 685, 692 (Ind. Ct. App. 2013).

134. See, e.g., *Wisconsin v. Yoder*, 406 U.S. 205 (1972) (Douglas, J., dissenting).

135. *Id.* at 243.

136. *In re Gault*, 387 U.S. 1, 13 (1967).

137. See generally *Michael H. v. Gerald D.*, 491 U.S. 110 (1989).

138. *Id.* at 113.

139. *Id.* at 114.

140. *Id.* at 116.

141. *Id.*

daughter, also raised a due process argument and asserted “that if she had more than one psychological or *de facto* father, she was entitled to maintain her filial relationship, with all of the attendant rights, duties, and obligations, with both.”¹⁴²

Ultimately, the Court rejected the neighbor’s procedural due process argument, and in addressing the substantive due process argument, the Court recognized that there is a fundamental liberty interest in preserving a father’s relationship with a child.¹⁴³ The Court took a different angle, when it said, “the natural father’s unique opportunity conflicts with the similarly unique opportunity of the husband of the marriage; and it is not unconstitutional for the State to give categorical preference to the latter.”¹⁴⁴ In assessing the daughter’s substantive due process right to a relationship with her biological father, the Court said that it has “never had occasion to decide whether a child has a liberty interest, symmetrical with that of her parent, in maintaining her filial relationship. We need not do so here because, even assuming that such a right exists, [the daughter’s] claim must fail.”¹⁴⁵ The Court goes on to say that even if the child “has a liberty interest in maintaining a filial relationship with her natural father, [the neighbor] we find that, at best, her claim is the obverse of [her natural father’s] and fails for the same reasons.”¹⁴⁶ While the Court in *Michael H.* denied the daughter’s substantive due process claim, it did not do so because the right did not exist.¹⁴⁷ Rather, the Court denied the claim because recognition of the right would acknowledge a parental relationship with two fathers and that fell outside the norm of what the Court conceived as a traditional family relationship.¹⁴⁸ Instead, the Court chose not to decide whether she has the right.¹⁴⁹

In a more recent case, *Adoptive Couple v. Baby Girl*, the U.S. Supreme Court again declined to discuss a child’s substantive due process right to maintain a parental relationship.¹⁵⁰ In that case, a woman discovered that she was pregnant and after her relationship with the baby’s father, a Cherokee Indian, deteriorated she sent him a text message asking if he would give up his parental rights.¹⁵¹ He assented and the mother proceeded with the adoption process and chose an adoptive couple from South Carolina.¹⁵² After consenting to the adoption, the biological father challenged it in South Carolina; the South Carolina Family Court found the adoption to be invalid.¹⁵³ The South Carolina Supreme Court affirmed, and the twenty-seven-month-old baby girl was returned to her

142. *Id.* at 114.

143. *Id.* at 122.

144. *Id.* at 129.

145. *Id.* at 130.

146. *Id.* at 131.

147. *Id.* at 128.

148. *Id.* at 130.

149. *Id.* at 131-32.

150. *See generally* *Adoptive Couple v. Baby Girl*, 133 S. Ct. 2552 (2013).

151. *Id.* at 2558.

152. *Id.*

153. *Id.* at 2559.

biological father whom she had never met, after living with the adoptive couple for the first twenty-seven months of her life.¹⁵⁴ On appeal, the U.S. Supreme Court held that the adoption was valid because a Federal statute protecting Native American children was not applicable to the biological father because he never had “legal or physical custody” of the baby girl as of the time of the adoption proceedings.¹⁵⁵ That decision legitimized the adoption, and she was eventually returned to the adoptive couple.¹⁵⁶

In a brief to the U.S. Supreme Court, the baby girl’s liberty interest in maintaining a relationship with her biological father was argued on her behalf.¹⁵⁷ The brief stated that “foremost among these ‘intimate human relationships’ is ‘the creation and sustenance of a family.’”¹⁵⁸ Additionally, it was argued that children as well as adults have a liberty interest in preserving their familial relationships.¹⁵⁹ Similar to *Michael H*, the majority did not make a decision regarding the baby girl’s liberty interest in maintaining a relationship with her biological father. Although, Justice Sotomayor recognized in her dissent that biological fathers have an interest in forming a relationship with their children and that “children have a reciprocal interest in knowing their biological parents.”¹⁶⁰ This notion of a “reciprocal right” for children, cited by Justice Sotomayor, originated in another U.S. Supreme Court case, *Santosky v. Kramer*.¹⁶¹

Santosky v. Kramer was decided in 1982 and involved a challenge to a New York statute that allowed for the termination of parental rights if the state finds that child is “permanently neglected.”¹⁶² In *Santosky*, the state permanently removed three children from their parents due to “incidents reflecting parental neglect.”¹⁶³ The parents challenged the removal of their children as a violation of their due process rights.¹⁶⁴ The Court held that the parents’ due process rights were violated and that before a state can remove children from their parents, there needs to be a showing of clear and convincing evidence of neglect.¹⁶⁵ In coming to this decision, the Court stated that “the child and his parents share a vital interest in preventing erroneous termination of their natural relationship” and that

154. *Id.*

155. *Id.* at 2562.

156. *South Carolina Drops Extradition Request for Baby Veronica's Father*, ASSOCIATED PRESS (Oct. 2, 2013, 9:26 PM), http://www.cbsnews.com/8301-201_162-57605799/south-carolina-drops-extradition-request-for-baby-veronicas-father/, archived at <http://perma.cc/7WAN-VMXY>.

157. Brief for Guardian Ad Litem, as Representative of Respondent Baby Girl at 56, *Adoptive Couple v. Baby Girl*, 133 S. Ct. 2553 (2013) (No. 12-399) (quoting *Roberts v. U.S. Jaycees*, 468 U.S. 609, 617-19 (1984)).

158. *Id.*

159. *See generally id.*

160. *Adoptive Couple*, 133 S. Ct. at 2582.

161. *Id.*

162. *Santosky v. Kramer*, 455 U.S. 745, 747 (1982).

163. *Id.* at 750.

164. *Id.*

165. *See generally id.* at 747-48.

“the interests of the child and his natural parents coincide.”¹⁶⁶ The Court also noted that this loss is “far-reaching” and extends to the loss of support, maintenance, and inheritance.¹⁶⁷ Here, the U.S. Supreme Court acknowledged the reciprocal rights that children have to a relationship with their parents.¹⁶⁸

Finally, in *Roe v. Conn*, a case decided by the District Court of Alabama, the court stated that the Constitution recognizes a “fundamental right to family integrity.”¹⁶⁹ In this case, a child was removed from his mother’s home without notice or a hearing.¹⁷⁰ The action was premised on an Alabama statute that allowed for the summary removal of a child if a juvenile court judge believed removal was necessary for the child’s welfare.¹⁷¹ The mother and child challenged the statute and the District Court concluded that because of the existence of a fundamental right to family integrity, the “state’s severance of [the mother’s] parent-child relationship and of [the child’s] child-parent relationship will receive strict judicial scrutiny.”¹⁷² In applying the strict scrutiny standard to the Alabama statute, the court in this case held that the statute was unconstitutional.¹⁷³ This case demonstrates a court’s willingness to recognize a fundamental right that both children and parents have to preserve their “family integrity” and to apply the strict scrutiny standard when assessing that right.¹⁷⁴ Children of same-sex parents have the same right to preserve their “family integrity.”

While the substantive due process rights of children to maintain their family relationships have yet to be fully defined, judicial precedent has not foreclosed the possibility. Courts have recognized that children have rights under the Constitution and those rights include a right to “family integrity.”¹⁷⁵ Additionally, this right will most likely receive strict scrutiny.¹⁷⁶ If this right is to be protected in Indiana, then the legislature must enact laws that protect the right to “family integrity” for children of same-sex parents.

2. *Children, as Well as Adults, Deserve Equal Protection Under the Laws.*—In addition to a potential substantive due process argument, there is also an equal protection argument for children of same-sex parents.¹⁷⁷ An analogy can be drawn between the protections that were denied non-marital children and the

166. *Id.* at 760-61.

167. *Id.* at 760-61 n.11.

168. *See generally id.* at 745.

169. *Roe v. Conn*, 417 F. Supp. 769, 778 (1976).

170. *Id.* at 773.

171. *Id.*

172. *Id.* at 777.

173. *Id.*

174. *See generally id.*

175. *Id.* at 778.

176. *Id.* at 777.

177. *See* Catherine E. Smith, *Equal Protection for Children of Same-Sex Parents*, 90 WASH. U.L. REV. 1589, 1608 (2013).

current state of children of same-sex parents.¹⁷⁸ Historically, non-marital children were considered to be “filius nullius” or the “child of nobody” at common law.¹⁷⁹ This idea resulted in children who were not only social outcasts, but also denied benefits of the state, such as inheritance or financial support from their parents.¹⁸⁰ In *Levy v. Louisiana*, this doctrine was challenged, and it was the first time that the U.S. Supreme Court heard an equal protection case involving children.¹⁸¹ In this case, five non-marital children were denied the “right to recover” from their mother’s death because “morals and general welfare . . . discourages bringing children into the world out of wedlock.”¹⁸² The United States Supreme Court overturned the Louisiana ruling saying that “it is invidious to discriminate against [the children] when no action, conduct, or demeanor of theirs is possibly relevant.”¹⁸³

In 1972, the U.S. Supreme Court heard another Louisiana case in which the rights of non-marital children were again at issue.¹⁸⁴ This case, *Weber v. Aetna Casualty & Surety Co.*, is perhaps one of the most well known cases involving the rights of non-marital children.¹⁸⁵ This case concerned the rights of a man’s non-marital children to recover workmen’s compensation benefits after he was killed at work.¹⁸⁶ The non-marital children were denied access to the benefits under Louisiana law, whereas his legitimate children were able to recover.¹⁸⁷ The Court concluded that *Levy* applied and that on equal protection grounds the children could not be denied access to the benefit.¹⁸⁸ It is now well settled that “the government may not treat children born outside of a marriage differently than those born within one.”¹⁸⁹

Children of same-sex marriages can be considered a subset of non-marital children and therefore are entitled to equal protection.¹⁹⁰ Both of these sets of children have no control over their status as non-marital or of being born into a same-sex family, and they also have no control over the decisions made by their parents.¹⁹¹ Additionally, these children suffer economic consequences by being denied state benefits, social security, and disability benefits.¹⁹²

Certain state economic benefits flow to children from their parents and are

178. *Id.*

179. *Id.*

180. *Id.*

181. *Levy v. Louisiana*, 391 U.S. 68, 70 (1968); *see also* Smith, *supra* note 177, at 1610.

182. *Levy*, 391 U.S. at 70.

183. *Id.* at 72.

184. Smith, *supra* note 177, at 1613.

185. *Id.* at 1614.

186. *Weber v. Aetna Cas. & Sur. Co.*, 406 U.S. 164, 166 (1972).

187. *Id.*

188. *Id.* at 173.

189. Smith, *supra* note 177, at 1614.

190. *Id.* at 1615.

191. *Id.* at 1616.

192. *Id.* at 1603-08.

regulated by the states.¹⁹³ In states where same-sex marriage is not recognized, such as Indiana, children are denied these rights because in same-sex families, the partner who is not biologically related to a child is considered a legal stranger; they are “precluded from forming a legal relationship” with the child.¹⁹⁴ This lack of relationship results in certain economic inequities.¹⁹⁵ For example, with inheritance, when a same-sex parent dies without a will, then the intestate scheme of a state that does not recognize same-sex marriage does not allow for the estate to go to the deceased’s child.¹⁹⁶ Another economic consequence is that children of same-sex couples are often denied child support when a relationship dissolves.¹⁹⁷ Child support statutes typically do not extend the obligation of support beyond legal parents.¹⁹⁸ This “remov[es] from the child the very source of funds that may have supported the child for a considerable period of time, especially if the ‘non-biological’ parent was the primary wage earner in the household.”¹⁹⁹ In *A.C. v. N.J.*, the non-biological partner was the primary earner in the family, so by denying the child access to that parent, the child was also denied the economic support of the partner.²⁰⁰ This deprivation ultimately resulted in the child receiving healthcare through Medicaid.²⁰¹ This goes against one of the rationales for establishing paternity, which is to solidify financial support for the child.²⁰² It is generally accepted that in order to protect the public fisc, a “biological father should shoulder some financial responsibility for his biological child.”²⁰³ If states are interested in protecting children and the public fisc, then it would follow that identifying parents, rather than excluding them, would allow for this to happen more readily.²⁰⁴

193. These benefits include worker’s compensation, inheritance, support, and wrongful death claims. See Smith, *supra* note 177, at 1605. The focus here is on state benefits because of the changing nature of federal benefits for same-sex couples since the decision in *United States v. Windsor*. See *United States v. Windsor*, 133 S. Ct. 2675, 2681 (2013). Currently, the federal government extends tax, bankruptcy, Medicare, and other benefits to same-sex couples validly married in a state that recognizes same-sex marriage. See Matt Apuzzo, *More Federal Privileges to Extend to Same-Sex Couples*, N.Y. TIMES, Feb. 8, 2014, <http://www.nytimes.com/2014/02/09/us/more-federal-privileges-to-extend-to-same-sex-couples.html>, archived at <http://perma.cc/C2BY-TER8>.

194. Smith, *supra* note 177, at 1603.

195. *Id.* at 1603-08.

196. *Id.* at 1605.

197. *Id.*

198. Lewis A. Silverman, *Suffer the Little Children: Justifying Same-Sex Marriage from the Perspective of A Child of the Union*, 102 W. VA. L. REV. 411, 447 (1999).

199. *Id.* at 447.

200. *A.C. v. N.J.*, 1 N.E.3d 685, 687 (Ind. Ct. App. 2013).

201. Brief for Appellant at 6, *A.C. v. N.J.*, 1 N.E.3d 685 (Ind. Ct. App. 2013) (No. 20A04-1301-DR-37).

202. Jacobs, *supra* note 30, at 845.

203. *Id.*

204. *Id.*

Indiana's courts are struggling to resolve these practical family issues.²⁰⁵ Legislation is desperately needed in Indiana that will address these concerns and provide a legal framework to protect all families. A framework for this solution already exists in the Uniform Parentage Act and in other jurisdictions.²⁰⁶

IV. THE UNIFORM PARENTAGE ACT AND APPLICATION TO INDIANA

In 1973, the Uniform Law Commission drafted the Uniform Parentage Act ("UPA"), which confirmed that "[t]he parent and child relationship extends equally to every child and every parent, regardless of the marital status of the parent."²⁰⁷ This original version of the UPA embraced a "broader understanding of family" and recognized less traditional ways of creating a family.²⁰⁸ Fourteen states have adopted the 1973 version of the UPA, although, not Indiana.²⁰⁹ In 2002, the Uniform Law Commission recognized that the UPA needed to be amended in order to reflect the legal and scientific changes that had developed since the 1973 version.²¹⁰ This updated version of the UPA combines two other acts that were promulgated by the American Law Institute in the decades between the 1973 Act and the current version.²¹¹ Those Acts were the Uniform Status of Children of Assisted Conception (1988) and the Uniform Putative and Unknown Fathers Act (1988).²¹² The 2002 UPA incorporates those acts and reflects the idea that families can be created through a variety of non-traditional means.²¹³ The 2002 UPA focuses more on establishing the parentage of the child and leaves issues such as custody, visitation, and support to state law.²¹⁴ This 2002 amended version of the UPA is currently law in nine states.²¹⁵ When a state adopts a

205. *See supra* Part II.B.

206. *See infra* Part IV.

207. *Parentage Act Summary*, UNIFORM LAW COMMISSION, www.uniformlaws.org/ActSummary.aspx?title=Parentage%20Act (last visited Oct. 12, 2014), *archived at* <http://perma.cc/285D-TQ8A>.

208. Jason C. Beekman, *Same-Sex Second-Parent Adoption and Intestacy Law: Applying the Sharon S. Model of "Simultaneous" Adoption to Parent-Child Provisions of the Uniform Probate Code*, 96 CORNELL L. REV. 139, 146 (2010) ("Adoption, for example, became a process to forge a parent-child relationship outside of the traditional model.").

209. Adopted by Alabama, California, Colorado, Illinois, Kansas, Minnesota, Montana, New Jersey, North Dakota, Ohio, Rhode Island, Texas, and Washington. *Legislative Enactment Status: Parentage 1973*, UNIFORM LAW COMMISSION, <http://uniformlaws.org/LegislativeMap.aspx?title=Parentage%20Act%20> (last updated Aug. 5, 2014), *archived at* <http://perma.cc/X83P-X5P2>.

210. *Why States Should Adopt UPA*, UNIFORM LAW COMMISSION, <http://uniformlaws.org/Narrative.aspx?title=Why%20States%20Should%20Adopt%20UPA> (last visited Oct. 12, 2014), *archived at* <http://perma.cc/3WES-AN2T>.

211. *Parentage Act Summary*, *supra* note 207.

212. *Id.*

213. Beekman, *supra* note 208, at 146.

214. *Why States Should Adopt UPA*, *supra* note 210.

215. Currently Alabama, Delaware, New Mexico, North Dakota, Oklahoma, Texas, Utah,

uniform law, such as the UPA, it is not required to adopt the entire law but can incorporate and modify the portions that are relevant to the state.²¹⁶ Indiana, then, can adopt and modify the portions of the UPA that would be useful to address the issues of parentage for same-sex families.

A. The Current Definitions in the UPA

Article 2 of the 2002 amended UPA contains definitions of the parent-child relationship and is very comprehensive as it relates to fathers.²¹⁷ Sections 201 and 204 of Article 2 contain the provisions for establishing a parent-child relationship.²¹⁸ Section 201 provides for the establishment of the mother-child relationship and the father-child relationship separately.²¹⁹ Section 201 indicates that, in addition to adoption and adjudication, a man can establish his parent-child relationship by an “unrebutted presumption of the man’s paternity.”²²⁰ Section 204 embodies this method of establishing paternity and provides five scenarios in which paternity is presumed.²²¹ These include: when the child is born of the

Washington, and Wyoming have adopted the UPA. *See Parentage Act Summary, supra* note 207.

216. *See* 2B SUTHERLAND STATUTORY CONSTRUCTION, CONSTRUCTION OF UNIFORM AND MODEL STATE LAWS § 52:5 (7th ed. 2013).

217. UNIF. PARENTAGE ACT §§ 201-204 (amended 2002).

218. *Id.*

219.

(a) The mother-child relationship is established between a woman and a child by: (1) the woman’s having given birth to the child [, except as otherwise provided in [Article] 8]; (2) an adjudication of the woman’s maternity; [or] (3) adoption of the child by the woman [; or] (4) an adjudication confirming the woman as a parent of a child born to a gestational mother if the agreement was validated under [Article] 8 or is enforceable under other law]. (b) The father-child relationship is established between a man and a child by: (1) an unrebutted presumption of the man’s paternity of the child under Section 204; (2) an effective acknowledgment of paternity by the man under [Article] 3, unless the acknowledgment has been rescinded or successfully challenged; (3) an adjudication of the man’s paternity; (4) adoption of the child by the man; [or] (5) the man’s having consented to assisted reproduction by a woman under [Article] 7 which resulted in the birth of the child [; or] (6) an adjudication confirming the man as a parent of a child born to a gestational mother if the agreement was validated under [Article] 8 or is enforceable under other law].

Id. § 201.

220. *Id.* § 201(b)(1).

221.

(a) A man is presumed to be the father of a child if: (1) he and the mother of the child are married to each other and the child is born during the marriage; (2) he and the mother of the child were married to each other and the child is born within 300 days after the marriage is terminated by death, annulment, declaration of invalidity, or divorce [, or after a decree of separation]; (3) before the birth of the child, he and the mother of the child married each other in apparent compliance with law, even if the

marriage, when the child is born within 300 days of the termination of the marriage, when a child is born after a marriage is, or could be declared invalid, when a valid or invalid marriage occurs after the birth of a child, or if the father lived with the child for the first two years of the child's life and held himself out as the child's father.²²²

The UPA is comprehensive when it comes to establishing paternity and is less so when it comes to defining the mother-child relationship.²²³ Ostensibly, this would seem to be because, traditionally, courts have had little difficulty defining a mother but have frequently faced controversy-defining fathers.²²⁴ The UPA indicates that "cases involving disputed maternity are rare" and that "the new UPA is otherwise written in terms applicable to the determination of paternity."²²⁵ The UPA does leave open the possibility that a "dispute may arise" about maternity, but that in that case "a judge . . . should have little difficulty deciding which portions of the Act should be applied."²²⁶ This opens the door for judges to utilize discretion in applying the paternity provisions of the UPA to mothers in same-sex couples.²²⁷ Section 201 allows for a woman to establish her relationship with a child by giving birth to the child, adopting the child, or through adjudication.²²⁸ The UPA prohibits discrimination against families with unmarried parents, as stated in section 202: "A child born to parents who are not married to each other has the same rights under the law as a child born to parents who are married to each other."²²⁹ The UPA, however, does not specifically prohibit discrimination against same-sex couples.²³⁰ Despite this shortcoming, Indiana should adopt sections 201 and 204 of the UPA in a modified form that

attempted marriage is or could be declared invalid, and the child is born during the invalid marriage or within 300 days after its termination by death, annulment, declaration of invalidity, or divorce [, or after a decree of separation]; (4) after the birth of the child, he and the mother of the child married each other in apparent compliance with law, whether or not the marriage is or could be declared invalid, and he voluntarily asserted his paternity of the child, and: (A) the assertion is in a record filed with [state agency maintaining birth records]; (B) he agreed to be and is named as the child's father on the child's birth certificate; or (C) he promised in a record to support the child as his own; or (5) for the first two years of the child's life, he resided in the same household with the child and openly held out the child as his own. (b) A presumption of paternity established under this section may be rebutted only by an adjudication under [Article] 6.

Id. § 204.

222. *Id.*

223. *Compare id.* § 204, with *id.* § 106.

224. *Id.* § 106 cmt. at 10.

225. *Id.*

226. *Id.*

227. *See, e.g.,* *Elisa B. v. Superior Court*, 117 P.3d 660 (Cal. 2005).

228. UNIF. PARENTAGE ACT § 201(a) (amended 2002).

229. *Id.* § 202.

230. *Id.*

would expand the mother-child relationship provisions to include the variety of ways the UPA identifies the father-child relationship. By doing so, Indiana courts could easily apply this Indiana Uniform Parentage Act, or INUPA, to same-sex families.

*B. Adopting the UPA in Indiana and Applying it to Indiana's
Same-Sex Families*

Indiana recently began to recognize same-sex marriages.²³¹ While this would alleviate parentage issues for those same-sex couples in Indiana who are married, not all same-sex couples in Indiana are currently married nor is it clear how the current Indiana code would apply to a same-sex family. Therefore, it is still important for Indiana to ensure that the current laws are meeting the needs of Indiana's diverse families. Indiana should adopt sections 201 and 204 of the UPA for mothers as well for fathers,²³² as the INUPA, in order to fill the gaps in Indiana law that the courts have identified.²³³ This would allow for section 201 to expand, establishing a mother-child relationship through "an un rebutted presumption of the [woman's maternity] of the child under [s]ection 204."²³⁴ Then, section 204, which provides for presumptions of paternity, would establish a presumption of maternity under INUPA.²³⁵ Allowing for the presumption of both mothers and fathers would permit partners of same-sex couples, of either gender, to establish their parentage of a child.²³⁶ Section 204(a)(5) of INUPA would be the most useful provision for unmarried same-sex partners who relocate to Indiana or where one partner did not adopt the child, such as in *A.C. v. N.J.*²³⁷ This new INUPA section would allow for a presumption of [maternity] if "for the first two years of the child's life, [she] resided in the same household with the child and openly held out the child as [her] own."²³⁸ In practice, Indiana courts could apply this new section of INUPA to a same-sex family who moves to Indiana and is not married. This provision would allow for a partner who may be excluded under Indiana law to establish parentage of a child without having to go through the adoption process.²³⁹ As long as the person could show that he or she held the child out as his or her own and lived with the child for longer than two

231. See *Baskin v. Bogan*, 766 F. 3d 648 (7th Cir. 2014), *cert denied*, 135 S. Ct. 316 (2014).

232. See Maggie Manternach, *Where Is My Other Mommy?: Applying the Presumed Father Provision of the Uniform Parentage Act to Recognize the Rights of Lesbian Mothers and Their Children*, 9 J. GENDER, RACE, & JUST. 385, 387 (2005).

233. See *In re Paternity of Infant T.*, 99 N.E.2d 843, 843 (Ind. 2013), *trans. denied* (Rush, J., dissenting); *A.C. v. N.J.*, 1 N.E.3d 685, 692 (Ind. Ct. App. 2013).

234. UNIF. PARENTAGE ACT § 201 (amended 2002).

235. See *id.* § 204.

236. See Manternach, *supra* note 232, at 417.

237. See *A.C.*, 1 N.E.3d at 685.

238. UNIF. PARENTAGE ACT § 204 (amended 2002).

239. See *id.*

years, then that parent would have established a parent-child relationship.²⁴⁰ This provision would have allowed the partner in *A.C. v. N.J.* to assert her parentage.²⁴¹ The biological mother and partner lived together as a family for two years, and the partner held her herself out as the child's mother.²⁴² The partner provided financially for the child and was even listed as the emergency contact on a school form.²⁴³ It appears that she would easily meet the two requirements of holding the child out as her own and living with the child for the first two years of the child's life, thus establishing parentage under the newly created INUPA.²⁴⁴

Section 204(a)(4) of INUPA would also permit a voluntary assertion of paternity or maternity after a child is born, whether there is an invalid or valid marriage.²⁴⁵ This voluntary assertion would be "in a record filed with [the Indiana Department of Health]," "on the child's birth certificate," or if "he [or she] promised in a record to support the child as his [or her] own."²⁴⁶ This would permit partners in a same-sex couple to assert their parentage without having to hold the child out as their own for two years.²⁴⁷ Under this provision of INUPA, the partner in *A.C. v. N.J.* could have established herself as a presumed parent because she could assert her parentage by "promis[ing] in a record to support the child as her own."²⁴⁸ The partner and biological mother had agreed to raise the child together and that the partner would be the child's "second parent."²⁴⁹ Although the agreement was not memorialized in a record, as the INUPA would require, if it was, the partner could have established her parentage because the biological mother did "not dispute that she agreed to raise [c]hild with [p]artner."²⁵⁰ Additionally, the partner took on financial responsibility for the child and provided support.²⁵¹ If the INUPA were available to the partner, she simply could have established in a record that they agreed that "she would always be [the child's] mom"²⁵² and thus confirming her parentage of the child.²⁵³ This would create another path for same-sex partners to establish parentage.

To ensure that Indiana's laws protect all children, Indiana should adopt

240. In Indiana, courts have held that a same-sex couples can adopt under Indiana's Adoption Act. IND. CODE §§ 31-19-2-2(a), 31-19-2-4 (2013); *see also In re Infant Girl W.*, 845 N.E.2d 229 (Ind. Ct. App. 2006).

241. *See A.C.*, 1 N.E.3d at 687.

242. *Id.*

243. *Id.*

244. *See* UNIF. PARENTAGE ACT § 204(a)(4) (amended 2002).

245. *See id.* § 204(a)(4).

246. *See id.* § 204(a)(4)(A)-(C).

247. *Id.*

248. *A.C.*, 1 N.E.3d at 685.

249. *Id.* at 689.

250. *Id.*

251. Brief for Appellant at 4, *A.C. v. N.J.*, 1 N.E.3d 685 (Ind. Ct. App. 2013) (No. 20A04-1301-DR-37).

252. *Id.*

253. UNIF. PARENTAGE ACT § 204(a)(4)(C) (amended 2002).

Sections 201 and 204 of the UPA, for both mothers and fathers, as the INUPA.²⁵⁴ This would allow for the same level of recognition of a mother that exists in the current UPA for a father and would provide a way for Indiana law to recognize same-sex parents, such as the partner in *A.C. v. N.J.*²⁵⁵

C. Application of the UPA to Same-Sex Custody Disputes

Despite the UPA's shortcomings, other jurisdictions that have adopted the UPA have applied it to same-sex parentage.²⁵⁶ California is one of those jurisdictions. California adopted the 1973 version of the UPA²⁵⁷ and codified it as Part 3 of Division 12 covering parent and child relationships.²⁵⁸ By adopting the UPA, California has been able to resolve same-sex custody issues. In *Elisa B. v. Superior Court*, the California Supreme Court heard a case involving a same-sex couple who exchanged rings, held each other out as each other's partner, and felt as if they were in a committed relationship.²⁵⁹ Four years later, they decided to have children together, and because both of them wanted to carry a child, they were both inseminated with the same sperm so that their children would be half siblings.²⁶⁰ One partner gave birth to a son, while the other gave birth to twins.²⁶¹ It was decided that the partner who birthed the son would return to work while the other partner would stay home with the three children.²⁶² Both partners shared parenting duties for all three of the children.²⁶³ After a few years, their relationship deteriorated, and they separated.²⁶⁴ The working partner agreed to provide support to the stay-at-home partner and the twins.²⁶⁵ The working partner then lost her job and sought to discontinue paying the support payments.²⁶⁶

The California Supreme Court found that the working mother had to continue paying the support payments because she could be considered the mother of the children and there is "no reason why both parents of a child cannot be women."²⁶⁷ In doing this, the California Supreme Court applied several sections of the UPA

254. *See id.* §§ 201, 204.

255. *See id.*

256. *See, e.g., Parentage Act (1973)*, UNIFORM LAW COMMISSION, <http://www.uniformlaws.org/Act.aspx?title=Parentage%20Act%20> (last visited Oct. 12, 2014), *archived at* <http://perma.cc/N8VV-6PLS>.

257. *Id.*

258. CAL. FAM. CODE § 7600 et seq. (West 2013).

259. *Elisa B. v. Superior Court*, 33 Cal. Rptr. 3d 46, 48 (Cal. 2005).

260. *Id.*

261. *Id.*

262. *Id.*

263. *Id.*

264. *Id.*

265. *Id.*

266. *Id.* at 48-50.

267. *Id.* at 52-53.

to same-sex couples.²⁶⁸ First, the court stated that section 2 of the UPA indicates that a parent-child relationship can exist regardless of the marital status of the parents.²⁶⁹ Even though the twins' mothers were not married, a parent child relationship could exist.²⁷⁰ The court then used section 4(a) of the California Family Code, which is similar to section 204, and outlines several scenarios when a man could be considered the natural father of a child.²⁷¹ These scenarios include receiving the child into the home and holding the child out as his own.²⁷² The court interpreted that these provisions establishing paternity could also be used to establish maternity "insofar as practicable."²⁷³ The court also said that even "[t]hrough most of the decisional law has focused on the definition of the presumed father, the legal principles concerning the presumed father apply equally to a woman seeking presumed mother status."²⁷⁴ Using these portions of the UPA which California had adopted into their Family Code, the court finally concluded that the working mother could be considered the mother of the twins who were not biologically related to her because she brought them into her home and held them out as her own.²⁷⁵ Additionally, the court considered the effect that its holding would have if it concluded that the working mother was not the legal mother of the twins.²⁷⁶ It concluded that this outcome would leave the children with only one parent.²⁷⁷ The court interpreted the intent of the California Legislature as "implicitly recogniz[ing] the value of having two parents, rather than one, as a source of both emotional and financial support, especially when the obligation to support the child would otherwise fall to the public."²⁷⁸

If Indiana prefers a two-parent household, as it claims in the Parenting Time Guidelines "[a] young child thrives when both parents take an active role in parenting,"²⁷⁹ then Indiana must be prepared to recognize different types of parents. Adopting an Indiana version of the UPA, or INUPA, will go a long way toward Indiana having a Family Code that is "clear, concise and easy to interpret

268. *Id.* at 50-53.

269. *Id.* at 51-52; *see* CAL. FAM. CODE § 7602 (West 2013).

270. At the time of this decision, California was not recognizing same-sex marriages. *See* *Hollingsworth v. Perry* 133 S. Ct. 2652, 2668 (2013) (holding that after California officials declined to defend a ballot initiative defining marriage as between one man and one woman in the California Constitution, petitioners did not have standing to challenge a district court ruling that the ballot initiative was unconstitutional).

271. *Elisa B.*, 33 Cal. Rptr.3d at 50-52; *see* FAM. § 7611.

272. *Elisa B.*, 33 Cal. Rptr.3d at 50-51; *see* FAM. § 7611

273. *Elisa B.*, 117 P.3d at 50-55 (citing *In re Salvador M.*, 4 Cal. Rptr.3d 705 (Cal. Ct. App. 2003)).

274. *Id.* at 53-55.

275. *Id.* at 54-57.

276. *Id.* at 56-57.

277. *Id.*

278. *Id.*

279. IND. CT. R. APPENDIX tit. 34 § II (2013) (Ind. Parenting Time Guidelines).

and apply.”²⁸⁰ This would allow the Indiana legislature to fulfill Judge Friedlander and Justice Rush’s requests for guidance in this murky area of the law,²⁸¹ and would ultimately benefit all the children of Indiana equally.²⁸²

CONCLUSION

Indiana courts are struggling to resolve matters relating to same-sex families in Indiana.²⁸³ The recent Indiana Court of Appeals decision in *A.C. v. N.J.* indicates that Indiana family law is not providing protection for all of Indiana’s families.²⁸⁴ This is also an area where the Indiana courts, specifically Justice Rush and Judge Friedlander, have asked the Indiana legislature for guidance.²⁸⁵ The Indiana General Assembly has not yet heeded this call. Traditionally, identifying the parentage of a child was a straightforward matter under the “marital presumption.”²⁸⁶ This doctrine identified the parents of a child as a mother and her husband.²⁸⁷ This efficient definition was useful because children were largely thought of as property and were needed for labor.²⁸⁸ While this might have been a useful way of identifying parents, families look different than they did when family laws were first being enacted.²⁸⁹ This change in family roles from a largely economic one to a relationship-based role is reflected in the U.S. Supreme Court’s decision in the “biology plus” cases.²⁹⁰ These cases illustrate that biology is often not enough to establish a father-child relationship, but a father must also demonstrate a “full commitment to the responsibilities of parenthood.”²⁹¹ Despite this definition, the Court has not yet decided a case that expressly defines the rights of a same-sex parent, so the states are free to define that relationship.

Indiana’s current laws do not provide a workable definition of parentage for unmarried same-sex families and Indiana’s case law further confirms this point. In cases such as *A.C. v. N.J.* and *In re A.B.*, Indiana courts have struggled to define the rights of same-sex parents.²⁹² After these cases, it appears same-sex

280. IND. CODE § 31-10-1-1 (2013).

281. See *In re Paternity of Infant T.*, 99 N.E.2d 843,843 (Ind. 2013), *trans. denied* (Rush, J., dissenting); *A.C. v. N.J.*, 1 N.E.3d 685, 692 (Ind. Ct. App. 2013).

282. See *A.C.*, 1 N.E.3d at 685.

283. See Part II.B.

284. See *In re Paternity of Infant T.*, 99 N.E.2d at 843; *A.C.*, 1 N.E.3d at 692.

285. See *In re Paternity of Infant T.*, 99 N.E.2d at 843; *A.C.*, 1 N.E.3d at 692.

286. Murphy, *supra* note 14, at 326.

287. *Id.*

288. *Id.*

289. *Assisted Reproductive Technology: Most Recent ART Data*, CENTERS FOR DISEASE CONTROL AND PREVENTION, <http://www.cdc.gov/ART> (last visited July10, 2014), *archived at* <http://perma.cc/M766-RKEE>.

290. Jacobs, *supra* note 30, at 827.

291. *Lehr v. Robertson*, 463 U.S. 248, 261 (1983).

292. See *A.C. v. N.J.*, 1 N.E.3d 685 (Ind. Ct. App. 2013); *In re A.B.*, 818 N.E.2d 126 (Ind. Ct.

parents at least have standing to assert their parental right, but any rights beyond that remain unclear.²⁹³ Research shows that the presence of same-sex families is not something that will decrease; in fact, it will most likely increase as more and more states, and now the federal government, recognize same-sex marriage.²⁹⁴ As same-sex partners increasingly create families, there are no laws in Indiana that apply to them, and, ultimately, protect them.²⁹⁵ Without a clear directive from the legislature, Indiana courts are left to make these decisions on their own.²⁹⁶ Children have rights under the Constitution and have a legitimate substantive due process and equal protection argument to preserving their relationship with a same-sex parent. In order to protect children's substantive due process right to "family integrity" and to provide equal protection under the law, Indiana should adopt a modified version of the Uniform Parentage Act ("UPA").

Indiana should specifically adopt sections 201 and 204 of the UPA, as the Indiana Uniform Parentage Act ("INUPA").²⁹⁷ The INUPA would include a modified version of section 201 and 204 that would expand the presumptions of paternity to mothers and establish presumptions of maternity. Incorporating these portions of the UPA as the INUPA would allow for Indiana courts to more readily identify parents in a same-sex family. Same-sex parents could then be presumed to be a parent by holding themselves out as a parent for two years or by voluntarily acknowledging their parentage of a child. This would fill the gap in Indiana law as identified by courts and protect all of Indiana's children and families.

App. 2004), *vacated* by King v. S.B., 837 N.E.2d 965 (Ind. 2005).

293. *See A.C.*, 1 N.E.3d at 685.

294. Richard Socarides, *The Growing Impact of the Supreme Court's Gay-Marriage Ruling*, NEW YORKER (Jan. 27, 2014), <http://www.newyorker.com/online/blogs/newsdesk/2014/01/the-widening-impact-of-the-supreme-courts-gay-marriage-ruling.html>, *archived at* <http://perma.cc/3JDN-7HG3>.

295. *A.C.*, 1 N.E.3d at 692.

296. *Id.* at 693.

297. *See* UNIF. PARENTAGE ACT §§ 201, 204 (amended 2002).

A LESSON LEARNED FROM *MYRIAD*: THE AFFORDABLE CARE ACT AS BOTH AN INCENTIVE AND AN ALTERNATIVE FOR INVALIDATING STEM CELL PATENTS

MARYN WILCOXSON*

INTRODUCTION

The patentability of human genes and stem cells has been heavily debated in the last decade by members of both the scientific and legal communities. While “[t]he fundamental policy of the patent system is to encourage the creation and disclosure of new, useful, and nonobvious advances in technology and design by granting the inventor the reward of exclusive right to practice the invention for a period of years,” this reward of innovation is not without risk.¹ The patent system must be cautious of the legal monopoly patents provide, which has the potential to bring competition and further innovation to a halt. This balancing act is especially important in biological patenting, where patents have the potential to hinder the research, accessibility, and affordability of diagnostic tests and medical treatments.

On June 13, 2013, the United States Supreme Court, in *Association for Molecular Pathology v. Myriad Genetics, Inc.*, issued a unanimous landmark decision that held that patents on human genes are invalid because “a naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated.”² This holding invalidated Myriad Genetics’ patents on the BRCA1 and BRCA2 genes, which are linked to an increased risk of breast and ovarian cancers.³ In the weeks following the decision, other biotech companies began offering genetic testing for these genes, and the costs to patients for the preventive tests were significantly lowered.⁴ The lower costs of these tests is particularly important considering recent American healthcare reform under the Patient Protection and Affordable Care Act (“ACA”), which places an emphasis on affordable and accessible preventative care.⁵

While the *Myriad* decision made human genes ineligible for patents because they are a product of nature, the United States Supreme Court did not extend the holding of *Myriad* to the patenting of other isolated human biological materials, such as stem cells.⁶ Because the *Myriad* decision did not close the door on the

* J.D. Candidate, 2015, Indiana University Robert H. McKinney School of Law; Bachelor of Arts in Biology and Criminal Justice, 2011, Indiana University, Bloomington, Indiana.

1. 60 AM. JUR. 2D *Patents* § 2 (2013); *In re CFLC, Inc.*, 89 F.3d 673 (9th Cir. 1996).

2. *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2111 (2013).

3. *Id.* at 2119.

4. Jaimy Lee, *Quest Diagnostics to Offer Genetic Tests for Breast Cancer Risk*, MODERN HEALTHCARE (Oct. 16, 2013), <http://www.modernhealthcare.com/article/20131016/NEWS/310169965>, archived at <http://perma.cc/M5L9-CGAQ>.

5. Patient Protection and Affordable Care Act, Pub. L. No. 111-148, Title IV, 124 Stat. 119, 124-28 (2010).

6. *See Ass’n for Molecular Pathology*, 133 S. Ct. 2107.

possibility of stem cell patents being invalidated, the nonprofit group, Consumer Watchdog (“Watchdog”), has brought an appeal in the Federal Circuit challenging the patents on human embryonic stem cells (“hES cells”) held by the Wisconsin Alumni Research Foundation (“WARF”).⁷ Watchdog argues that under *Myriad*, these stem cells are products of nature and therefore are not patentable solely because they have been isolated.⁸

As the United States undergoes substantial health care reform and places an emphasis on affordable and preventive care, stem cell treatment therapies have the potential to provide a cost effective alternative to expensive lifelong treatments for chronic conditions. The purpose of this Note is to advocate that in light of *Myriad*, the invalidation of embryonic stem cell patents is necessary in order to further stem cell research and develop cost-saving treatments for chronic conditions. Part I of this Note provides a case study on *Myriad* by reviewing the science and reasoning behind the decision and explains how the invalidation of gene patents has altered the genetic testing landscape and helped to meet key provisions of the ACA. Part II provides a background on the science and current patenting landscape of stem cells. Part II also explains how stem cells are similar to genes and why they should be invalidated in light of *Myriad*. Part III analyzes what the United States stands to gain under the ACA from the invalidation of stem cell patents, including lowered costs for treatment of chronic conditions. Finally, Part IV proposes that Congress extend the Qualifying Therapeutic Discovery Project of the ACA as an alternative to stem cell patenting.

I. THE *MYRIAD* DECISION, GENETIC TESTING, AND THE AFFORDABLE CARE ACT: A CASE STUDY

The 1990s were a decade of rapid discovery and development in the genetics research and biotechnology fields.⁹ In the midst of the Human Genome Project, large amounts of public and private funds were being invested in gene discovery and sequencing.¹⁰ All of this research was being conducted in the wake of the United States Supreme Court case, *Diamond v. Chakrabarty*,¹¹ which allowed for the widespread patenting of biological organisms and genes.¹² At the American Society of Human Genetics Meeting in 1990, Doctor Mary-Claire King

7. Brief for Appellant at 14, *Consumer Watchdog v. Wis. Alumni Research Found.*, 753 F.3d 1258 (Fed. Cir. 2014) (No. 2013-1377).

8. *Id.*

9. Bryn Williams-Jones, *History of a Gene Patent: Tracing the Development and Application of Commercial BRCA Testing*, 10 HEALTH L.J. 123, 124 (2002).

10. *Id.* (noting that United States public expenditures on the Human Genome Project totaled more than \$3 billion).

11. *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (holding that plaintiff’s genetically engineered bacterium was patentable because it was not naturally occurring and was “a product of human ingenuity”).

12. Williams-Jones, *supra* note 9, at 125.

announced that a gene associated with an increased risk in breast cancer, BRCA1, had been isolated.¹³

In 1994, researchers at Utah-based biopharmaceutical and genomics company, Myriad Genetics, sequenced BRCA1 and “filed for U.S. ‘composition of matter’ and ‘methods-of-use’ patents on the whole gene, as well as for a variety of deleterious mutations.”¹⁴ A year later, Myriad filed for a United States patent on the BRCA2 gene.¹⁵ During the race to patent the various BRCA genes, the United States Patent and Trademark Office granted conflicting patents to various biotech companies in addition to the patents held by Myriad.¹⁶ Myriad settled with the other companies and purchased all outstanding patents on the BRCA genes.¹⁷

A. A Background on the Science: BRCA1 and BRCA2 Genetic Testing

After the completion of the Human Genome Project and the isolation of the BRCA1 and BRCA2 genes, Myriad’s patents on the genes afforded the company with the sole right to develop and market a test to detect the presence of a BRCA mutation in women.¹⁸ It took Myriad nearly two years’ worth of research to develop a method of testing for the mutation and another three years of clinical trials before the test could be marketed to patients.¹⁹

1. The Science Behind the BRCA Genes.—The BRCA1 and BRCA2 genes are human genes that produce tumor suppressor proteins and repair damaged DNA.²⁰ When these genes become mutated, they cannot carry out their designated repair functions.²¹ Without repair, damaged cells become more likely to develop additional genetic alterations that can lead to cancer.²² In the case of the BRCA genes, these inherited mutations lead to an increased risk of breast and

13. *Id.* at 131.

14. *Id.*

15. *Id.* at 132.

16. *Id.*

17. *Id.* at 132-33; *see also Two Foes Settle War Over Owning Breast Cancer Gene*, THE ROYAL SOCIETY OF NEW ZEALAND (May 19, 1998), <http://www.royalsociety.org.nz/1998/05/19/two-foes-settle-war-over-owning-breast-cancer-gene/>, *archived at* <http://perma.cc/QD5E-EATV> (discussing that the Myriad settlement with Oncormed was for an undisclosed amount but under the terms of the agreement Oncormed agreed to stop offering BRCA testing services and would refer all potential clients to Myriad).

18. J.J. Colao, *How A Breast Cancer Pioneer Finally Turned a Profit*, FORBES (Oct. 17, 2012), <http://www.forbes.com/sites/jjcolao/2012/10/17/how-a-breast-cancer-pioneer-finally-turned-a-profit/>, *archived at* <http://perma.cc/CB6C-5QGZ>.

19. *Id.*

20. *BRCA1 and BRCA2: Cancer Risk and Genetic Testing*, NAT’L CANCER INST. (Aug. 5, 2013), <http://www.cancer.gov/cancertopics/factsheet/Risk/BRCA>, *archived at* <http://perma.cc/2SHP-5Z35>.

21. *Id.*

22. *Id.*

ovarian cancers in women.²³ The harmful mutation can be inherited from either the mother or the father, which means that a child who has a parent that is a carrier of the BRCA mutation has a fifty percent chance of inheriting the mutated gene.²⁴

The risk of breast and ovarian cancer in women who have a mutation in either one of the BRCA genes is significant.²⁵ BRCA mutations account for approximately twenty to twenty-five percent of hereditary breast cancer, five to ten percent of breast cancers overall, and approximately fifteen percent of all ovarian cancers.²⁶

2. *Myriad's BRCA Test.*—Fortunately, for women who do suffer from an inherited BRCA gene, the research done over the last two decades has resulted in genetic testing that indicates the presence of a BRCA mutation.²⁷ This test allows women to make preventive treatment decisions in light of their potential increased risks for these cancers.²⁸ Because Myriad patented all forms and mutations of the BRCA genes, Myriad reigned as the “exclusive provider for genetic testing for hereditary breast [and ovarian] cancer.”²⁹ Myriad developed and marketed its unique BRCA screening test known as BRACAnalysis.³⁰ This test has the ability to detect the presence of a deleterious, potential cancer-causing mutation in the BRCA1 and BRCA2 genes by analyzing a patient’s blood or saliva.³¹

B. The Genetic Testing Landscape Prior to the Myriad Decision

1. *Myriad's Monopoly and Insurance Coverage.*—Prior to the *Myriad* decision, Myriad Genetics held a monopoly on genetic testing for the BRCA1 and BRCA2 genes.³² Myriad’s patent on both the gene and the gene mutations meant that other companies were not able to develop and market alternative BRCA testing methods to patients.³³ This monopoly led to high cost tests for patients

23. *Id.*

24. *Id.*

25. *Id.*

26. *Id.*

27. *BRACAnalysis: Hereditary Cancer Testing for Hereditary Breast and Ovarian Cancer*, MYRIAD, <http://www.myriad.com/products/braanalysis/> (last visited Oct. 8, 2013), *archived at* <http://perma.cc/6KCH-Y7TR>.

28. *Id.*

29. Williams-Jones, *supra* note 9, at 133 (inferring that BRACAnalysis was first marketed in 1996 and was the primary test on the market until the *Myriad* decision was issued in the summer of 2013).

30. *BRACAnalysis*, *supra* note 27.

31. *Id.*

32. John Laueman, *DNA Tests Fail to Win Insurer Consent with Lives at Stake*, BLOOMBERG (June 29, 2012, 5:37 PM), <http://www.bloomberg.com/news/2012-06-29/dna-tests-fail-to-win-insurer-consent-with-lives-at-stake.html>, *archived at* <http://perma.cc/PGH8-S76G>.

33. *Id.*

whose insurance companies would not pay for the screening; the monopoly also caused problems for patients who feared that the test may be inaccurate and desired a second opinion.³⁴

BRACAnalysis was considered a preventive screening and was therefore covered by many health insurance carriers.³⁵ If, however, Myriad Genetics did not have a contract with a particular health insurance company, patients were required to pay out of pocket.³⁶ With other medical procedures and preventive treatments, if an insurance company is not under contract with a particular pharmaceutical or biotech company, the insurance carrier typically has a contract with another provider that can provide the patient with a similar service.³⁷ In the case of BRCA gene mutation testing, Myriad was the only provider of the test.³⁸ Patients were left with no other options for the potentially lifesaving screening.³⁹

One of the main reasons that insurance companies were hesitant to enter into contracts with Myriad for the BRCA screening was the lack of scientific evidence demonstrating the effectiveness of the genetic tests.⁴⁰ Insurance companies were fearful the test would fail to detect a mutation or would give false positives.⁴¹ The concern was that genetic testing would lead patients and their providers down “blind alleys,” which would result in increased healthcare costs across the board.⁴² High costs could come both from unnecessary treatments in cases where the test gave a false positive and from treatment for advanced conditions that failed to be detected by the screening.⁴³

Fear of increased health care costs was also the leading reason that government-funded insurance programs were hesitant to cover Myriad’s BRACAnalysis.⁴⁴ As a way to discourage this preventive screening in Medicaid patients, many state Medicaid programs offered Myriad low reimbursement rates for BRACAnalysis.⁴⁵ The low reimbursement rates discouraged Myriad from entering into a contract with the state, leaving Medicaid patients without insurance coverage for the expensive test.⁴⁶ The ramifications of low coverage rates in the Medicaid population was significant because it left low income

34. *Id.*; see also Colao, *supra* note 18 (noting that BRACAnalysis has a three percent error rate in some cases).

35. *Id.*

36. *Id.*

37. *Methodology for Health Costs for Consumers*, NH HEALTH COST, <http://nhhealthcost.nh.gov/methodology-health-costs-consumers> (last visited Dec. 19, 2014), *archived at* <http://perma.cc/596R-CRCJ>.

38. Laueman, *supra* note 32.

39. *Id.*

40. *Id.*

41. *Id.*

42. *Id.*

43. *Id.*

44. *Id.*

45. *Id.*

46. *Id.*

populations, unable to pay out of pocket, with no alternative.⁴⁷

However, despite some of Myriad's shortcomings, since developing the BRACAnalysis test "Myriad has worked to have its tests covered by most private and public payers, and estimates that [ninety-five] percent of U.S. patients have access to its breast cancer test."⁴⁸ If a patient's insurance does not cover the preventive screening, Myriad offers subsidization for the cost of testing in patients who have no health coverage.⁴⁹ Nevertheless, those individuals who are covered by health plans that do not cover the test are forced to pay out of pocket in a market where the Myriad test is the only option.⁵⁰

2. *Individuals Effected by Myriad's Monopoly.*—Much of the recent media portrayal of BRACAnalysis as a lifesaving genetic test has been centered on actress Angelina Jolie.⁵¹ On February 2, 2013, Jolie began the process of having a double mastectomy and reconstructive surgery after learning from BRACAnalysis that she was a carrier of the BRCA mutation.⁵² Jolie decided to have the BRACAnalysis test because her mother died of breast cancer at the age of 56.⁵³ Jolie was told that she had an eighty-seven percent risk of developing breast cancer and a fifty percent risk of developing ovarian cancer.⁵⁴ As a result of Jolie's mastectomy, her risk of developing breast cancer decreased to just under five percent.⁵⁵

However, as Jolie acknowledged, the cost of the BRACAnalysis screen is expensive and "at more than \$3,000 in the United States, remains an obstacle for many women."⁵⁶ While Jolie was one of the fortunate women who were able to afford the screening and take preventive treatment measures to lower her risk, not

47. *Id.*

48. *Id.*

49. *Myriad Promise*, MYRIAD, <https://www.myriad.com/patients/myriadpromise/> (last visited Jan. 27, 2014), archived at <http://perma.cc/9HU8-XMKD>.

50. Laueman, *supra* note 32.

51. See Holly Yan, *What's the Gene that Led to Angelina Jolie's Double Mastectomy*, CNN (May 16, 2013, 10:05 AM), <http://www.cnn.com/2013/05/14/health/jolie-what-is-brca/>, archived at <http://perma.cc/B6PZ-WHDK> (noting that Jolie's preventive mastectomy raised questions about the BRCA gene); see also Sydney Lupkin, *Why the Angelina Effect is at Odds With New Guidelines*, ABC NEWS (Dec. 23, 2012), <http://abcnews.go.com/Health/brca-testing-guidelines-counter-angelina-jolie-effect/story?id=21315733>, archived at <http://perma.cc/Z73R-ZU58> (noting that the "the Angelina Effect" led many women to seek genetic testing, even though the United States Preventive Services Task Force recommends the test only for women with a family history of breast cancer).

52. Ed Payne, *Angelina Jolie Undergoes Double Mastectomy*, CNN (May 16, 2013, 8:09 AM), <http://www.cnn.com/2013/05/14/showbiz/angelina-jolie-double-mastectomy/>, archived at <http://perma.cc/LZ73-AV5D>.

53. Angelina Jolie, *My Medical Choice*, N.Y. TIMES (May 14, 2013), http://www.nytimes.com/2013/05/14/opinion/my-medical-choice.html?_r=0, archived at <http://perma.cc/YDK7-JH7W>.

54. *Id.*

55. *Id.*

56. *Id.*

all women are this lucky.⁵⁷ One such woman was Genae Girard, who received a diagnosis of breast cancer in 2006.⁵⁸ Following her diagnosis, Girard decided to undergo the BRACAnalysis screening to determine if her cancer was genetic, thereby putting her at an increased risk for ovarian cancer.⁵⁹ The BRACAnalysis came back positive for a BRCA mutation, and Girard sought a second opinion to confirm the results of the test before undergoing a dramatic hysterectomy that would make her unable to have children.⁶⁰ However, because Myriad held the patent to the BRCA genes, no second opinion was available.⁶¹

Similarly, Lisbeth Cerianai, a single mother who was diagnosed with bilateral breast cancer at the age of forty-two, also wanted to undergo the BRACAnalysis screening to determine her increased risk of ovarian cancer.⁶² Cerianai was a Massachusetts Medicaid recipient and Medicaid would only cover the cost of the BRACAnalysis test if provided by a contracted provider.⁶³ Myriad was the only lab able to provide the test and refused to contract with Massachusetts Medicaid because the reimbursement rates were too low.⁶⁴ The cost of Myriad's BRACAnalysis was \$3225.⁶⁵ Medicaid offered to pay Myriad only \$1599, and Myriad refused a contract with the state.⁶⁶ If Ceriani wanted the test, she would have to pay the \$3225 out of pocket.⁶⁷

C. The United States Supreme Court: Association of Molecular Pathology v. Myriad Genetics

Backed by women such as Lisbeth Ceriani and Genae Girard, as well as physicians and various medical researchers, the American Civil Liberties Union and the Public Patent Foundation filed suit alleging Myriad's patents on the BRCA genes should be invalidated as products of nature.⁶⁸ The suit made its way to the United States Supreme Court, ending Myriad's ongoing battle to defend its

57. See, e.g., John Schwartz, *Cancer Patients Challenge the Patenting of a Gene*, N.Y. TIMES (May 12, 2009), <http://www.nytimes.com/2009/05/13/health/13patent.html>, archived at <http://perma.cc/69HM-PXXV>; Lisbeth Ceriani, *BRCA-Plaintiff Statements*, AM. CIVIL LIBERTIES UNION (May 12, 2009), https://www.aclu.org/free-speech_womens-rights/brca-plaintiff-statements#ceriani, archived at <http://perma.cc/UG9W-X8F5>.

58. Schwartz, *supra* note 57.

59. *Id.*

60. *Id.*

61. *Id.*

62. Ceriani, *supra* note 57.

63. *Id.*

64. *Id.*

65. *Id.*

66. *Id.*

67. *Id.*

68. *Supreme Court Invalidates Patents on Breast and Ovarian Cancer Genes*, AM. CIVIL LIBERTIES UNION (June 13, 2013), <https://www.aclu.org/womens-rights/supreme-court-invalidates-patents-breast-and-ovarian-cancer-genes>, archived at <http://perma.cc/SVW3-RUHJ>.

intellectual property rights on the BRCA genes.

1. *The Path to the United States Supreme Court.*—For women like Ceriani and Gerard, the *Myriad* decision provided hope that the preventive genetic testing market would expand to offer more testing options at a lower cost. After Myriad discovered the precise locations of the BRCA genes, it was not the only company initially to offer BRCA testing.⁶⁹ “The University of Pennsylvania’s Genetic Diagnostic Laboratory [(“GDL”)] and others provided genetic testing services to women.”⁷⁰ However, after Myriad learned that other companies were conducting genetic tests on the BRCA genes, it notified the companies that they were infringing on the Myriad patents.⁷¹ As a result, GDL halted genetic tests on the BRCA genes.⁷² Myriad also settled several patent infringement suits against other entities performing similar testing.⁷³ After Myriad became the sole company to provide BRCA testing, “medical patients, advocacy groups, and . . . doctors” filed suit to invalidate Myriad’s patents under the Patent Act.⁷⁴

2. *Association of Molecular Pathology v. Myriad Genetics.*—Under section 101 of the Patent Act, “whoever invents or discovers any new and useful . . . composition of matter, or any new and useful improvement thereof, may obtain a patent.”⁷⁵ However, “phenomena of nature, although just discovered, mental processes, and abstract intellectual concepts are not patentable as they are basic tools of scientific and technological work.”⁷⁶ This exception is necessary in scientific and biotechnological patenting because without it, future innovation based on these processes is inhibited.⁷⁷ It was on this foundation that the United States Supreme Court unanimously held that Myriad’s patents were invalid as products of nature and thus not eligible for patent protection.⁷⁸ The Court found that isolating the BRCA1 and BRCA2 genes from the rest of the human genome through a separation technique did not make the genes patentable.⁷⁹ The Court held that “[t]he location and order of the nucleotides existed in nature before Myriad found them. Myriad [did not] create or alter the genetic structure of DNA. Instead, Myriad’s principal contribution was uncovering the precise location and genetic sequence of the BRCA1 and BRCA2 genes within the chromosomes.”⁸⁰ While this isolation led to the discovery of a gene that revealed

69. *Ass’n for Molecular Pathology v. Myriad Genetics*, 133 S. Ct. 2107, 2114 (2013).

70. *Id.*

71. *Id.*

72. *Id.*

73. *Id.*

74. *Id.*

75. The Patent Act, 35 U.S.C. § 101 (2013).

76. *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972).

77. *Ass’n for Molecular Pathology*, 133 S. Ct. at 2116; *see also* *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (explaining that patents exist to promote creation and products of nature are not created).

78. *Id.*

79. *Id.* at 2120.

80. *Id.* at 2114.

a woman's predisposition to breast cancer, innovative discovery is not sufficient for patent rights.⁸¹

It is important to note that the Court made clear that the holding of *Myriad* is limited to the patentability of human genes and does not apply to "method claims, patents on new applications of the knowledge about BRCA1 and BRCA2 genes, or the patentability of DNA in which the order of the naturally occurring nucleotides has been altered."⁸² This limitation on the application of the decision leaves open the question of "whether the concepts in the decision [will be] extrapolated to other drug discovery techniques such as stem cells."⁸³

D. The Implications of Myriad on Affordability of Preventive and Personalized Care Under the ACA

The United States Supreme Court's invalidation of Myriad's patents on the BRCA genes opened up the genetic testing landscape for other providers to begin offering screenings for the BRCA mutations.⁸⁴ While the full results of the decision have yet to be seen, early indications of other companies beginning to offer the screening are promising and suggest that the price of genetic testing for predisposition to breast cancer could begin to decrease dramatically.

I. Political Landscape During the Myriad Decision.—On March 23, 2010, three years prior to the *Myriad* decision, President Barack Obama signed into law the Patient Protection and Affordable Care Act with the three main objectives of improving the quality of healthcare, lowering healthcare costs, and increasing access to healthcare.⁸⁵ With several provisions dedicated to these objectives,

[t]he Act will promote prevention, wellness, and the public health and provides unprecedented funding commitment to these areas. It directs the creation of a national prevention and health promotion strategy that incorporates the most effective and achievable methods to improve the health status of Americans and reduce the incidence of preventable illness and disability in the United States.⁸⁶

The decision of the United States Supreme Court to invalidate the patenting of human genes had repercussions far beyond the scientific and legal

81. *Id.*

82. *Id.*

83. Carolyn Y. Johnson, *No Patenting of Genes, Justices Rule*, BOS. GLOBE (June 13, 2013), <http://www.bostonglobe.com/2013/06/13/supreme-court-rules-human-genes-cannot-patented/TB4XFUuICEiiQC6bdQqSkL/story.html>, archived at <http://perma.cc/MLZ5-SVY9>.

84. Lee, *supra* note 4.

85. *Key Features of the Affordable Care Act*, DEP'T OF HEALTH & HUMAN SERV., <http://www.hhs.gov/healthcare/facts/timeline/> (last visited Nov. 23, 2013), archived at <http://perma.cc/DX38-2WSL>.

86. *Read the Law: The Affordable Care Act, Section by Section*, DEP'T OF HEALTH & SERV., <http://www.hhs.gov/healthcare/rights/law/index.html> (last visited Oct. 8, 2013), archived at <http://perma.cc/45RS-XBH7>.

communities. In June 2013, when *Myriad* was decided, the political landscape of America was very much centered on healthcare reform, the ACA, and the goal of increasing accessibility and affordability of medical treatments for all Americans.⁸⁷ With the *Myriad* decision, the United States Supreme Court, albeit inadvertently, opened up one small avenue that allowed patients more affordable means of accessing preventive testing for breast and ovarian cancers.⁸⁸

2. *Key Provisions of the ACA Enhanced by Myriad.*—One of the key defining features of the ACA is the establishment of the Health Insurance Marketplace (“The Marketplace”).⁸⁹ The Marketplace is comprised of a series of state and federally run insurance exchanges that offer individual coverage for people who are unable to receive insurance through their employer.⁹⁰ Under the ACA, insurance plans purchased on the exchange must cover essential health benefits.⁹¹ Outlined in Title I of the Act, “Quality and Affordable Health Care for All Americans,” essential health benefits include the coverage of preventive and wellness services and place cost-sharing limits on these benefits for the patient.⁹² The ACA includes preventive BRCA screenings for women in its definition of “preventive health services” by requiring that a health insurer offering a plan on The Marketplace provide coverage, without cost sharing requirements, on all services that the United States Preventive Service Task Force (“USPSTF”) has given an “A” or “B” rating.⁹³

The USPSTF breaks down its recommendations into alphabetical classifications based on the importance of the recommendation in promoting health.⁹⁴ According to the Task Force, Grade A recommendations mean that there is a high certainty of substantial benefit and the USPSTF recommends the service.⁹⁵ Similarly, Grade B recommendations mean that there is moderate certainty that the benefit is moderate to substantial.⁹⁶ According to USPSTF, BRCA screening and counseling about the results of the screening are a Grade B recommendation and are therefore covered under the ACA with no patient cost

87. *Ass’n for Molecular Pathology v. Myriad Genetics*, 133 S. Ct. 2107 (2013).

88. *See Lee, supra* note 4.

89. U.S. Ctrs. for Medicare & Medicaid Servs., *A One-Page Guide to the Health Insurance Marketplace*, HEALTHCARE.GOV, <https://www.healthcare.gov/what-is-the-health-insurance-marketplace> (last visited Mar. 8, 2014), *archived at* <http://perma.cc/W7JR-JZXW>.

90. Aetna, Inc., *Health Care Reform: What is a Health Insurance Exchange?*, AETNA, <http://www.aetna.com/health-reform-connection/reform-explained/video-exchanges.html> (last visited March 8, 2014), *archived at* <http://perma.cc/RX4D-JR7W>.

91. 42 U.S.C. § 18022 (2010).

92. *Id.*

93. 42 U.S.C. § 300gg-13 (2010).

94. *Grade Definitions*, U.S. PREVENTIVE SERVS. TASK FORCE, <http://www.uspreventiveservicestaskforce.org/uspstf/grades.htm> (last visited Nov. 23, 2013), *archived at* <http://perma.cc/NST4-NACK>.

95. *Id.*

96. *Id.*

sharing.⁹⁷ “The USPSTF recommends that women whose family history is associated with an increased risk for deleterious mutations in BRCA1 or BRCA2 genes be referred for genetic counseling and evaluation for BRCA testing.”⁹⁸

Because insurers are now required to cover BRCA screening under the ACA, insurers will look to enter into the lowest contract price possible to provide the test.⁹⁹ This is important in light of another key feature of the ACA, the individual mandate. Under the individual mandate, all Americans are required to maintain minimum essential health coverage.¹⁰⁰ This requirement greatly “broaden[s] the health insurance risk pool to include healthy individuals.”¹⁰¹ Because everyone will be required to pay insurance premiums, the cost of covering the required minimum essential benefits will be passed on to the entire risk pool.¹⁰² Therefore, it is beneficial not only to the insurance company, but also to the insured, for alternative BRCA screenings to be available on the market to drive down the cost. The *Myriad* decision has the potential to directly affect the cost of BRCA screenings because the invalidation of gene patents will allow companies other than Myriad to develop a test and potentially offer it at a reduced price. This cost savings has the potential to lower premiums for the insured.

In addition to cost savings on premiums, uninsured patients will benefit from the reassurance that they will not have to pay upwards of \$3000 for the test.¹⁰³ Furthermore, patients facing the life altering decision of having a hysterectomy or mastectomy will have the option of seeking a second opinion. A second opinion could potentially save insurers from the costs of unnecessary surgery.

As well as private insurance companies being required to cover BRCA screenings for insurance policies purchased on the exchange, government-funded programs such as Medicare and Medicaid will also be required to cover the tests.¹⁰⁴ Because Medicare and Medicaid are government programs funded in part

97. *USPSTF A and B Recommendations*, U.S. PREVENTIVE SERVS. TASK FORCE, <http://www.uspreventiveservicestaskforce.org/uspstf/uspabrecs.htm> (last updated Feb. 2013), archived at <http://perma.cc/D6YA-JCKK>.

98. *Genetic Risk Assessment and BRCA Mutation Testing for Breast and Ovarian Cancer Susceptibility*, U.S. PREVENTIVE SERVS. TASK FORCE, <http://www.uspreventiveservicestaskforce.org/uspstf05/brcagen/brcagenrs.htm> (last updated September 2005), archived at <http://perma.cc/ZV6E-G9PG>.

99. See generally Matthew Herper, *Inside the Secret World of Drug Company Rebates*, FORBES (May 10, 2012, 9:54 AM), <http://www.forbes.com/sites/matthewherper/2012/05/10/why-astrazeneca-gives-insurers-60-discounts-on-nexiums-list-price/>, archived at <http://perma.cc/3KPF-SVT6> (“drug companies are constantly negotiating, not with individuals but with payers—Medicare, Medicaid, insurers such as United Health Care and Aetna . . .”).

100. 42 U.S.C. § 18091 (2013).

101. *Id.*

102. Nat’l Fed’n of Indep. Bus. v. Sebelius, 132 S. Ct. 2566, 2585 (2012).

103. See Patricia Rensende, *Quest Rolls out a Cheaper Test for Cancer Genes*, BOS. BUS. J. (Oct. 16, 2013, 2:07 PM), <http://www.bizjournals.com/boston/blog/bioflash/2013/10/quest-gene-patent.html?page=all>, archived at <http://perma.cc/ESP3-GPKX>.

104. U.S. Ctrs. for Medicare & Medicaid Servs., *Prevention*, MEDICAID.GOV, <http://www>.

by citizen tax dollars, any decrease in cost of BRCA testing on the market could mean less expense for taxpayers.¹⁰⁵ While Myriad has refused to accept many government-funded programs' reimbursement rates,¹⁰⁶ the *Myriad* decision could foster the growth of competitors who would be more willing to offer testing to government insured patients at a reduced cost.

3. *The Effect on Genetic Screening for Other Conditions.*—While BRCA screening coverage is required under the ACA, there are many other life threatening conditions for which genetic screening is not considered a minimum essential benefit. The invalidation of gene patents will have the potential to open up the market for other genetic tests by potentially invalidating patents held on disease-causing genetic mutations. The invalidation of these patents could lead to other biotech firms developing tests for the condition, offering patients more options in the marketplace and driving costs down.

For many genetic conditions, insurance companies have refused to cover the cost of genetic tests but have been willing to pay for more expensive alternatives. For example, the major insurer Blue Cross Blue Shield will not cover the cost of a genetic test to screen for the inherited heart condition hypertrophic cardiomyopathy.¹⁰⁷ The genetic test is a one-time cost of \$500.¹⁰⁸ However, as an alternative, Blue Cross Blue Shield will pay \$2000 a year for the patient to receive an annual heart scan to look for the condition.¹⁰⁹

Despite insurance companies' refusal to cover them, genetic tests are increasing in popularity and are likely to continue to do so under a health reform that is focused on cost savings stemming from preventive care.¹¹⁰ In the next ten years, spending on genetic tests is expected to increase over five times, from \$5 billion to over \$25 billion per year.¹¹¹ Just paying the upfront cost of a single genetic test can eliminate the costs associated with a lifetime of annual tests and treatments, costs that again will be passed on to all individuals in the risk pool; for those patients who are found not to have a genetic mutation, a one-time genetic screening can eliminate the cost of all future testing related to the genetic condition.

4. *The BRCA Screening Industry Post-Myriad.*—In the five months since the *Myriad* decision was issued, additional companies have begun to offer BRCA screening for a lower cost. Currently, Myriad's test BRCAAnalysis costs

medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Benefits/Prevention.html (last visited Nov. 23, 2013), archived at <http://perma.cc/EMJ9-9L2D>.

105. U.S. Ctrs. for Medicare & Medicaid Servs., *How is Medicare Funded?*, MEDICARE.GOV, <http://www.medicare.gov/about-us/how-medicare-is-funded/medicare-funding.html> (last visited Nov. 23, 2013), archived at <http://perma.cc/R2J7-FNJD>.

106. See generally *Ass'n for Molecular Pathology v. Myriad Genetics*, 133 S. Ct. 2107 (2013).

107. Laueman, *supra* note 32.

108. *Id.*

109. *Id.*

110. *Id.*

111. *Id.*

between \$3000 and \$4000 on average for a woman who is uninsured.¹¹² In October 2013, five months after *Myriad*, Quest Diagnostics, Inc., announced that they would begin offering a BRCA screen called BRCAAdvantage.¹¹³ Quest Diagnostics is the largest provider of medical laboratory testing in the United States and services over fifty percent of the nation's doctors.¹¹⁴ Quest is also the largest competitor to go head-to-head with Myriad on BRCA screening since the United States Supreme Court decision in June.¹¹⁵

Quest's BRCAAdvantage will be offered at a cost of \$2500 and, while still expensive, it offers a significant savings compared to the "almost \$3,400 that Medicare pays for the most comprehensive version of a test from Myriad."¹¹⁶ Analysts have suggested that this increased competition in the market will lead to "[p]rivate insurer re-evaluation [that] may drive down the price for Myriad's BRCA test by as much as [fifty] percent over the next two years."¹¹⁷ Additionally, in an anticipatory move, Quest filed a complaint in federal court in California that "it believes Myriad will bring a patent-infringement lawsuit if it starts selling its BRCA test products."¹¹⁸ Quest is seeking a court order that BRCAAdvantage does not infringe on any valid Myriad patents.¹¹⁹

While other companies have begun to offer BRCA screening, Myriad has not gone down without a fight. Within hours of the United States Supreme Court ruling, Ambry Genetics and its closely held company, Gene by Gene, Ltd., also began offering BRCA testing at a much lower cost than the Myriad test.¹²⁰ Ambry's test now costs \$2200 and Ambry is including the BRCA screen free on its other genetic tests.¹²¹ Gene by Gene is offering the BRCA testing for as low as \$995.¹²² Shortly after Ambry and Gene by Gene began offering the tests, Myriad filed a patent infringement lawsuit against the companies alleging that the tests infringe on ten patents claimed by Myriad based on the cDNA used in the testing.¹²³ Ambry counterclaimed against Myriad that its infringement lawsuit is

112. Rensende, *supra* note 103.

113. *Id.*

114. Ryan Jaslow, *Quest Diagnostics Adds BRCA Gene Testing: Should More Women get the Test?*, CBS NEWS (Oct. 15, 2013, 12:33 PM), <http://www.cbsnews.com/news/quest-diagnostics-adds-brca-gene-testing-should-more-women-get-test/>, archived at <http://perma.cc/U65Z-EDQN>.

115. Robert Langreth, *Quest Introduces Breast-Cancer Gene Test Rivaling Myriad*, BLOOMBERG (Oct. 15, 2013, 4:14 PM), <http://www.bloomberg.com/news/2013-10-15/quest-introduces-breast-cancer-gene-test-rivaling-myriad.html>, archived at <http://perma.cc/PL9L-EKDQ>.

116. *Id.*

117. *Id.* (internal quotations omitted).

118. *Id.*

119. *Id.*

120. Langreth, *supra* note 115.

121. *Id.*

122. *Id.*

123. *Ambry Genetics Countersues Myriad Genetics Alleging Antitrust Violations*, GENOMEWEB (Aug. 6, 2013), <http://www.genomeweb.com/clinical-genomics/ambry-genetics-countersues-myriad-genetics-alleging-antitrust-violations>, archived at <http://perma.cc/J2V3-NV63>;

“in violation of the Sherman Antitrust Act because the asserted claims against Ambry are invalid under two [United States] Supreme Court decisions and Federal Circuit authority.”¹²⁴

On February 7, 2014, the lawsuit against Gene by Gene was dropped and the parties entered into a settlement agreement.¹²⁵ Under the agreement, Gene by Gene will stop selling and marketing all BRCA tests in North America.¹²⁶ However, the company is allowed to sell the tests in all other countries worldwide.¹²⁷ The agreement lasts until February 6, 2016, when Myriad’s BRCA patents expire.¹²⁸

While Myriad’s case against Gene by Gene did not make it through the court system to determine whether or not Myriad’s reign over BRCA testing stands, it is positive to see that other biotechnological companies are beginning to offer genetic screening for the BRCA mutation at reduced prices. This competition gives hope that the cost of the test and other similar genetic tests can be lowered. Reduced costs to insurance companies, patients, and taxpayers will help to achieve key provisions of the ACA regarding preventive care.

II. STEM CELLS: THE PATENTING LANDSCAPE

The opinion issued by the Court in *Myriad* was a narrow one and the Court did not extend its holding to patented method claims, applications of scientific knowledge, or cases of altered DNA.¹²⁹ Additionally, the opinion applied only to patents on isolated DNA and not other patented biological materials.¹³⁰ However, because of the scientific composition of the BRCA genes, the historical background behind the patenting of genes, and Myriad’s monopoly of the genetic testing landscape, legal scholars have begun to question how the United States Supreme Court’s view of Myriad’s patents could be applied to other biotech patents in the near future, particularly stem cells.¹³¹

see generally Esha Dey, *Court Denies Myriad Motion to Block Rival Genetic Tests*, REUTERS (Mar. 11, 2014, 9:01 AM), <http://www.reuters.com/article/2014/03/11/us-myriadgenetics-lawsuit-idUSBREA2A0NM20140311>, *archived at* <http://perma.cc/5MXN-VBNL> (noting that Myriad was denied an injunction to stop Ambry from offering a BRCA screening test on the grounds that the company was unlikely to succeed on the merits of the case).

124. *Id.*

125. *BRCA Patent Owners and Gene by Gene, Ltd. Resolve Patent Suit*, MYRIAD (Feb. 7, 2014), <http://investor.myriad.com/releasedetail.cfm?ReleaseID=824154>, *archived at* <http://perma.cc/F6BA-MKFS>.

126. *Id.*

127. *Id.*

128. *Id.*

129. *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2119-20 (2013).

130. Johnson, *supra* note 83.

131. *See generally* Hank Greely, *Myriad Decision Invoked in Appeal of Suit to Invalidate Embryonic Stem Cell Patent Claims*, STANFORD LAW SCHOOL: THE CTR. FOR LAW AND THE BIOSCIENCES (July 4, 2013), <http://blogs.law.stanford.edu/lawandbiosciences/2013/07/04/myriad->

A. A Scientific Background on Stem Cells

“Stem cells are the body’s raw materials—cells from which all other cells with specialized functions are generated.”¹³² Stem cells, unlike other cells in the human body, have the ability to develop into many different cell types and can renew themselves through cell division.¹³³ Additionally, stem cells have the ability to be induced to become new tissue, such as organs.¹³⁴

There are three main types of stem cells: embryonic stem cells, adult stem cells, and induced pluripotent stem cells.¹³⁵ Stem cells are unique for three reasons: they are capable of long-term division and renewal; they are unspecialized, meaning they are not one distinct cellular type; and they can become many specialized cell types.¹³⁶

Human embryonic stem cells (“hES cells”) are the cells that are found in three to five day embryos.¹³⁷ These cells give rise to the entire human body, from organs, to tissues, to sex cells.¹³⁸ For research purposes, embryonic stem cells are derived from eggs produced from in vitro fertilization and then donated for research.¹³⁹ Adult stem cells, found in many different organs and tissues in the body, have the primary role of repairing damaged tissue.¹⁴⁰ In contrast to hES cells, adult stem cells do not possess the same ability to give rise to a wide range of cells in the body; these stem cells are usually limited to producing cells of the same type.¹⁴¹ Finally, induced pluripotent stem cells are cells created through a process of genetic reprogramming.¹⁴² “By altering the genes in the adult cells, researchers can reprogram the cells to act similarly to embryonic stem cells.”¹⁴³

Although stem cell research is still a relatively new field, there have been

decision-invoked-in-appeal-of-suit-to-invalidate-embryonic-stem-cell-patent-claims/, *archived at* <http://perma.cc/DP6F-92FD>; Ryan Davis, *Stem Cell Patent Case Will Be Early Test of Myriad’s Reach*, LAW360 (July 10, 2013, 8:55 PM), <http://www.law360.com/articles/456259/stem-cell-patent-case-will-be-early-test-of-myriad-s-reach>, *archived at* <http://perma.cc/2XHS-RT4Z>.

132. Mayo Foundation for Medical Education and Research, *Stem Cells: What They Are and What They Do*, MAYOCLINIC, <http://www.mayoclinic.com/health/stem-cells/CA00081> (last visited Nov. 23, 2013), *archived at* <http://perma.cc/Y7BT-WHFZ>.

133. U.S. Dep’t of Health and Human Services, *Stem Cell Information: Stem Cell Basics*, NAT’L INST. OF HEALTH, <http://stemcells.nih.gov/info/basics/pages/basics1.aspx> (last visited Oct. 9, 2013), *archived at* <http://perma.cc/CAR6-5HE6>.

134. *Id.*

135. *Id.*

136. *Id.*

137. *Id.*

138. *Id.*

139. *Id.*

140. *Id.*

141. *Id.*

142. *Id.*

143. *Id.*

promising results that suggest that these cells can possibly be used to treat chronic diseases such as cancer, neurodegenerative disorders, and diabetes.¹⁴⁴ Additionally, scientists are hopeful that human embryonic stem cells can someday be used to replace entire organs.¹⁴⁵

B. The Current Stem Cell Patenting Landscape

1. The History of Stem Cells Research.—While stem cells have the potential to treat and cure many of the most common chronic conditions, further research and development on stem cells has been hindered by the current stem cell patent landscape.¹⁴⁶ Much like the discovery of the BRCA genes, there was also a race among scientists to develop methods to isolate animal, primate, and human stem cells.¹⁴⁷ The research that sparked an interest in stem cells began in 1998.¹⁴⁸ At that time, California-based Geron Corporation (“Geron”), a biopharmaceutical company, funded studies to grow hES cells in the laboratory.¹⁴⁹ Two research groups received Geron funding, including groups led by Dr. James Thomson at the University of Wisconsin and Dr. John Gearhardt at Johns Hopkins University.¹⁵⁰ Both Dr. Thomson and Dr. Gearhardt “independently announced the isolation of human stem cells” in November of 1998.¹⁵¹ Dr. Thomson’s lab used “spare human embryos provided by the University of Wisconsin’s infertility clinic” while Dr. Gearhardt used tissue from aborted fetuses.¹⁵²

Dr. Thomson was awarded several patents related to both hES cells and their isolation methods.¹⁵³ Dr. Thomson assigned the patents to the Wisconsin Alumni Research Foundation (“WARF”), effectively giving WARF ownership rights to all hES cells and their products.¹⁵⁴ Some of the stem cell patents assigned to WARF include United States Patent Number 5,843,780, United States Patent

144. Jana E. Harris, *Reprogramming the Future of Stem Cell Patents*, 18 ANNALS HEALTH L. ADVANCE DIRECTIVE 10, 10 (2008).

145. *Id.*

146. John Miller, Note, *A Call to Legal Arms: Bringing Embryonic Stem Cell Therapies to Market*, 13 ALB. L.J. SCI. & TECH. 555, 556 (2003).

147. Brief for the Appellant at 4, *Consumer Watchdog v. Wis. Alumni Research Found.*, (Fed. Cir. July 2, 2013) No. 2013-1377.

148. Ronald M. Green, *The Stem-Cell Debate*, NOVA ONLINE (Nov. 2001), <http://www.pbs.org/wgbh/nova/miracle/stemcells.html>, archived at <http://perma.cc/QW87-PTYH>.

149. *Id.*

150. *Id.*

151. EBSCO Publ’g, *History of Stem Cell Research*, EBSCO HOST CONNECTION, <http://connection.ebscohost.com/health/stem-cell-research/history-stem-cell-research> (last visited Jan. 27, 2014), archived at <http://perma.cc/3ZLY-GRX2>.

152. Green, *supra* note 148.

153. Brief for the Appellant at 7, *Consumer Watchdog v. Wis. Alumni Research Found.*, (Fed. Cir. July 2, 2013) No. 2013-1377.

154. *Id.*

Number 6,200,806, and United States Patent Number 7,029,913.¹⁵⁵ These patents “claim[] a purified preparation of primate ES cells and a method for isolating them . . . [and] a purified preparation of pluripotent human ES cells and their method of derivation,”¹⁵⁶ meaning that WARF has ownership rights over all embryonic stem cells and the products created from them.¹⁵⁷

In exchange for funding, Geron required the “exclusive licensing of the technologies” developed by Dr. Thomson.¹⁵⁸ As a result, WARF entered into an agreement with Geron, giving Geron the exclusive right to turn the cells into a commercial treatment.¹⁵⁹ WARF later sued Geron to regain the commercial rights.¹⁶⁰ All rights were returned to WARF with the exception of the right to create treatments from nerve cells, heart tissue, and the pancreas.¹⁶¹ Although Geron developed a stem cell spinal cord treatment, the company faced financial problems and halted all further stem cell research in 2011.¹⁶² Geron still has the exclusive right to the nerve, heart, and pancreas treatments that could result in many lifesaving treatments for chronic conditions.¹⁶³ Geron’s monopoly over these cells will decrease the competition among biotech firms who are unwilling to go through the difficult process to enter into licensing agreements with Geron.¹⁶⁴

2. *Stem Cell Patents: Licensing and the Patent Thicket.*—“Given the broad scope of the patent claims over the development of hES[] cells and over hES[] [cells] themselves, WARF is able to prohibit any derivation, use, importation, or research into hES[] [cell] lines in the United States”¹⁶⁵ However, WARF has been willing to license its patents to other players in the biotech industry.¹⁶⁶ While this has slightly opened up the market for additional biotech companies

155. *Burning Bridges*, NATURE BIOTECHNOLOGY (2007), <http://www.nature.com/nbt/journal/v25/n1/full/nbt0107-2.html>, archived at <http://perma.cc/6LLY-L374>.

156. *Id.*

157. Miller, *supra* note 146.

158. Green, *supra* note 148.

159. Antonio Regalado & David Hamilton, *How a University’s Patents May Limit Stem-Cell Research*, CTR. FOR GENETICS AND SOC’Y (July 18, 2006), <http://www.geneticsandsociety.org/article.php?id=1896>, archived at <http://perma.cc/6LFQ-NGV4>.

160. *Id.*

161. *Id.*

162. Linda A. Johnson, *Geron Halting Stem Cell Research, Laying off Staff*, USA TODAY (Nov. 15, 2011, 1:18 PM), <http://usatoday30.usatoday.com/news/health/story/health/story/2011-11-15/Geron-halting-stem-cell-research-laying-off-staff/51215752/1>, archived at <http://perma.cc/U2UC-KT8N>.

163. Regalado & Hamilton, *supra* note 159.

164. Miller, *supra* note 146, at 557.

165. Jenny Shum, *Moral Disharmony: Human Embryonic Stem Cell Patent Laws, WARF, and Public Policy*, 33 B.C. INT’L & COMP. L. REV. 153, 173 (2010).

166. Karl Bergman & Gregory D. Graff, *The Global Stem Cell Patent Landscape: Implications for Efficient Technology Transfer and Commercial Development*, 25 NATURE BIOTECHNOLOGY 419, 419 (2007).

and academic institutions to begin research and development of possible stem cell therapies, the cost of licensing is high and has significantly driven up the cost of stem cell research.¹⁶⁷

As of 2007, WARF charged anywhere from \$75,000 to \$400,000 for a licensing agreement.¹⁶⁸ Additionally, companies entering into an agreement with WARF must also pay annual fees and royalties on any sales from potentially commercial products.¹⁶⁹ Unlike many other patent holders, WARF also charges a fee “per cell line, per investigator.”¹⁷⁰ For small research programs and biotech firms, this rapidly increases the costs of conducting stem cell research.¹⁷¹ As a result of its high licensing costs, WARF only has licensing agreements in place with approximately twenty-nine commercial companies,¹⁷² including pharmaceutical giant Pfizer.¹⁷³

While WARF does not charge academic institutions to research stem cell lines, this does little to help to the furtherance of commercial medical products. Beginning in 2007, WARF implemented a new policy that allowed biopharmaceutical companies to sponsor embryonic stem cell research in academic institutions without a license.¹⁷⁴ While this allows these companies to conduct research without the high licensing fees they would pay in their own lab, the companies must still pay the fees as soon as they choose to remove the research from the university or as soon as they develop a commercial product.¹⁷⁵

In addition to hurdles created by WARF’s high licensing fees, there are additional problems in the current stem cell patent landscape that make further research and development in the industry difficult. One such problem is the existence of a patent thicket or anti-commons.¹⁷⁶ “In a patent thicket, the existence of many overlapping patent claims can cause uncertainty about freedom to operate, impose multiple layers of transaction costs and stack royalty payments

167. Susan Decker, *Gene Patent Case Fuels U.S. Court Test of Stem Cell Right*, BLOOMBERG (Jan. 6, 2014, 12:01 AM), <http://www.bloomberg.com/news/2014-01-06/gene-patent-case-fuels-u-s-court-test-of-stem-cell-right.html>, archived at <http://perma.cc/4FVE-4YC8>; see also Miller, *supra* note 146, at 563 (discussing how academic and government researchers can use the stem cells for a small fee, and while they can publish their research or obtain patents on their discoveries, they must negotiate a licensing agreement with WARF in order to market a commercial product).

168. *Burning Bridges*, *supra* note 155.

169. *Id.*

170. *Id.*

171. *Id.*

172. Brief for the Appellee, *Consumer Watchdog v. Wis. Alumni Research Found.* (Fed. Cir. Aug. 14, 2013) No. 2013-1377.

173. Ben Butkus, *Pfizer Licensing Deal with WARF Allows Firm to Develop hESC-based Therapies, Discovery Tools*, GENOMEWEB (May 13, 2009), <http://www.genomeweb.com/biotechtransferweek/pfizer-licensing-deal-warf-allows-firm-develop-hesc-based-therapies-discovery-to>, archived at <http://perma.cc/5YGQ-TXNT>.

174. *Burning Bridges*, *supra* note 155.

175. *Id.*

176. Bergman & Graff, *supra* note 166, at 419.

beyond levels that can be supported by the value of single innovations.”¹⁷⁷ The problem with this thicket is that it creates too many hoops to jump through and slows the development of new technologies.¹⁷⁸ This thicket especially affects the small industry players who cannot afford the licensing costs to the various patents needed to effectively conduct research.¹⁷⁹

While WARF holds the two main patents to the stem cell lines and the methods of differentiation, different institutions have filed patents for other elements necessary for research.¹⁸⁰ These include factors such as the specific culture conditions, growth factors, proteins, and hormones that are required in order to differentiate the stem cells.¹⁸¹ The patents on these items mean that there are few alternatives on the market.¹⁸² Therefore, licenses must be obtained not only for the stem cells themselves but also for all of the various biological elements needed for research.¹⁸³ The various licenses greatly increase the cost of stem cell research and are likely to leave the field to large corporations willing to pay the high price. While some may argue that leaving the research and development of stem cell therapies to large pharmaceutical companies is best, it could lead to a situation similar to Myriad’s BRACAnalysis where there are few treatment options on the market and consumers are faced with high out-of-pocket costs and little insurance coverage.

C. The Future of Stem Cell Patenting After the Myriad Decision

Since *Myriad*, legal scholars and members of the biotech industry have questioned how far *Myriad*’s holding extends and whether or not it should cover the patenting of stem cells.¹⁸⁴ On July 2, 2013, the group Consumer Watchdog filed an appeal in the Federal Circuit asking for all patents on human embryonic stem cells to be invalidated as products of nature in light of *Myriad*.¹⁸⁵ Watchdog asserts that “the claimed stem cells are analogous to the isolated DNA segments in *Myriad* because their enumerated properties are inherent in all embryonic stem cells”¹⁸⁶ and “WARF did not create or alter the properties inherent in stem cells any more than Myriad created or altered the genetic information encoded in the

177. *Id.*

178. *Id.*

179. *Id.*

180. *Id.*

181. *Id.*

182. *Id.*

183. *Id.*

184. See generally Greely, *supra* note 131; Davis, *supra* note 131.

185. Maria Luisa Palmese & Deborah A. Somerville, *Consumer Watchdog v. WARF Stem Cell Case Could Test Myriad’s Reach*, KENYON & KENYON (Jul. 29, 2013), <http://www.kenyon.com/NewsEvents/Publications/2013/7-29-Consumer-Watchdog-v-WARF-Stem-Cell-Case-Could-Test-Myriads-Reach.aspx>, archived at <http://perma.cc/Q5LX-DKCS>.

186. *Id.*

DNA it claimed.”¹⁸⁷

According to Watchdog, WARF’s United States Patent Number 7,029,913 claims the replication of the human embryonic stem cell in vitro.¹⁸⁸ This in vitro human embryonic stem cell would have the same characteristics and chemical composition as natural embryonic stem cells.¹⁸⁹ Therefore, WARF’s patent is not related to a method or preparation or an application of the discovery, but rather “[identifies] properties that are inherent in all [embryonic stem] cells, including those that exist naturally.”¹⁹⁰

Similarly, in *Myriad*, the patent was not for a method or a preparation of the BRCA DNA, but rather the BRCA DNA itself.¹⁹¹ WARF’s patent on the culture of cells being “in vitro” is akin to Myriad “isolating” the BRCA DNA.¹⁹² “WARF did not create or alter the properties inherent in stem cells any more than Myriad created or altered the genetic information encoded in the DNA it claimed.”¹⁹³

WARF, on the other hand, claims that because the human embryonic stem cells are grown in vitro and must be grown in a culture medium to survive, they are not the same as naturally occurring human embryonic stem cells and therefore are not a “product of nature.”¹⁹⁴ WARF also bases its argument on the fact that the in vitro stem cells are superior to natural cells because they are able to “[proliferate] well past the stage where cells would normally die or differentiate” and have unique properties to them that are not present in natural cells.¹⁹⁵

On March 4, 2014, the United States Patent and Trademark Office issued guidance to patent examiners in light of *Myriad*.¹⁹⁶ This guidance outlines factors that patent examiners must take into consideration when determining patent eligibility for “claims reciting or involving laws of nature/natural principles, natural phenomena, [and] natural products.”¹⁹⁷ The guidance could potentially play a key role in determining the validity of WARF’s stem cell patents and seems to weigh against the patentability of stem cells.

The guidance makes clear that the holding of *Myriad* does extend beyond nucleic acids and DNA and that an item is only patentable if it is “significantly

187. Brief for the Appellant, at 2-3, *Consumer Watchdog v. Wis. Alumni Research Found.*, (Fed. Cir. July 2, 2013) No. 2013-1377.

188. *Id.* at 9.

189. *Id.* at 15.

190. *Id.*

191. *Id.*

192. *Id.*

193. *Id.*

194. Brief for the Appellee, at 36, *Consumer Watchdog v. Wis. Alumni Research Found.*, (Fed. Cir. Aug. 14, 2013) No. 2013-1377.

195. *Id.* at 37.

196. Memorandum from Andrew H. Hirshfeld, Deputy Commissioner for Patent Examination Policy, to Patent Examining Corps. (Mar. 4, 2014), available at http://www.uspto.gov/patents/law/exam/myriad-mayo_guidance.pdf, archived at <http://perma.cc/J78K-DUR7>.

197. *Id.*

different” from the product in its natural state.¹⁹⁸ Some of the factors weighing toward patentability include: the claim is something that appears to be natural, however it is different in structure and is not naturally occurring; the claim has elements that impose limits on the claim’s scope so that others are not prevented from using the natural product; and the claim has elements that add to what is already well understood in the field of study.¹⁹⁹ Some of the factors weighing against patentability include: the claim is something that is a natural product not significantly different in structure from what is found in nature; the claims are general and cover all practical application of the natural product; and the claim states elements that must be taken by others in order to use the natural product.²⁰⁰

In light of these factors issued by the USPTO, the Federal Circuit should seriously consider invalidating WARF’s stem cell patents. The WARF patents are on stem cells that occur naturally in the human body, and while they may be modified to increase longevity, the fact that they can be used in the human body is an indication that they are not markedly different in structure than naturally occurring stem cells. Additionally, the WARF patents are so broad as to include all hESCs and their downstream products, essentially prohibiting anyone else in the field from using the cells in their natural state.

While it remains to be seen how the courts will come down on the patenting of stem cells as a product of nature, an invalidation of WARF’s stem cell patents could have far reaching implications for the health care industry. As scientists inch closer to commercialized treatments using hES cells, a potential monopoly on the stem cell treatment industry is a real possibility. If the courts choose to invalidate the stem cell patents in light of *Myriad*, it could open up stem cell research and help to achieve key provisions of the ACA by developing treatment options that could lower the long term cost of chronic disease.

III. HEALTH REFORM: WHAT THE AFFORDABLE CARE ACT STANDS TO GAIN FROM THE INVALIDATION OF STEM CELL PATENTS

At nearly eighteen percent, the United States spends a higher percentage of its Gross Domestic Product on health care than any other civilized nation.²⁰¹ Health care costs in the United States are nearly twice as much as other developed countries.²⁰² Much of this cost goes to the treatment of ongoing chronic diseases

198. Greg DeLassus, *May, Myriad, and Multi-factor Balancing Tests*, JDSUPRA (Mar. 7, 2014), http://www.jdsupra.com/legalnews/mayo-myriad-and-multi-factor-balancing-02963/?utm_source=jds&utm_medium=twitter&utm_campaign=health, archived at <http://perma.cc/5E4H-3E7H>.

199. *Id.*

200. *Id.*

201. Jason Kane, *Health Costs: How the U.S. Compares with Other Countries*, PBS NEWSHOUR (Oct. 22, 2012, 10:30 AM), <http://www.pbs.org/newshour/rundown/2012/10/health-costs-how-the-us-compares-with-other-countries.html>, archived at <http://perma.cc/XXB5-DUUT>.

202. *Id.*

such as diabetes and heart disease.²⁰³

A major initiative of the ACA is the mandated coverage for those with pre-existing conditions.²⁰⁴ For many Americans with chronic conditions, their pre-existing condition status prevented them from receiving health insurance prior to the ACA. As insurers will have to face the increased cost of insuring these individuals with ongoing chronic disease, stem cells offer the potential for a one-time treatment with an upfront cost as opposed to a lifetime of ongoing treatment. However, with licenses to the most promising stem cells being licensed to Geron Corporation, the invalidation of stem cell patents is an important step in opening up the research market to develop new therapies.²⁰⁵

A. *The Cost of Ongoing Treatment of Chronic Disease*

In the United States, nearly \$0.75 of every health care dollar goes to treat patients with a chronic disease.²⁰⁶ The amount of money spent on treating chronic illness in 2007 was “equivalent to paying 34 million salaries of \$50,000 each.”²⁰⁷ “Chronic illness is a leading cause of premature death and disability in the United States with more than 133 million (45%) of Americans being afflicted with at least one chronic condition.”²⁰⁸ Seven out of every ten Americans will ultimately die of a chronic condition.²⁰⁹

If the rate of chronic disorders in the United States continues to grow at the current rate, the cost will rise enormously by the year 2020.²¹⁰ For example, from 2010 to 2020 the cost of cancer is expected to increase 66%, from \$125 billion to \$207 billion; Alzheimer’s 40%, from \$172 billion to \$241 billion; diabetes 58%, from \$194 billion to \$500 billion; and cardiovascular disease 73%, from \$272 billion to \$470 billion.²¹¹ In 2010, the United States spent \$2.6 trillion on health care costs alone.²¹² That is nearly \$8233 per person.²¹³ As the prevalence of chronic conditions continues to rise over the next decade, Americans will continue to spend progressively more on health care treatment costs; this cost will

203. Aftab Hussain & Patrick A. Rivers, *The Economic Value of Investing in Regenerative Medicine*, 36 NO. 2 J. HEALTH CARE FIN. 45, 45 (2009).

204. David Nather, *The Big Change: Covering Pre-Existing Conditions*, POLITICO (Oct. 1, 2013), http://www.politico.com/story/2013/10/obamacare-guide-covering-pre-existing-conditions-97457_Page2.html, archived at <http://perma.cc/TE2J-UPTA>.

205. Regalado & Hamilton, *supra* note 159.

206. Hussain & Rivers, *supra* note 203.

207. *Id.*

208. *Id.*

209. *Id.*

210. *Id.*

211. *Chronic Disease in the United States*, BIOTECHNOLOGY INDUS. ORG., <http://www.bio.org/articles/chronic-disease-united-states> (last visited Oct. 9, 2013), archived at <http://perma.cc/65KQ-K4FT>.

212. *Id.*

213. Kane, *supra* note 201.

be reflected in the increased insurance premiums resulting from the ACA mandate that no individual can be denied on the basis of a pre-existing condition. Some analysts suggest that without a way to better manage the treatment of chronic conditions, health care costs could rise to nearly \$4.3 trillion by 2020.²¹⁴

B. Insuring Citizens with Pre-Existing Conditions

One of the main pillars of the ACA is to provide insurance coverage for individuals who were previously denied on the basis of a pre-existing condition.²¹⁵ Pre-existing conditions are those medical conditions that an individual had before he enrolled in a health insurance plan.²¹⁶ Many pre-existing conditions are chronic conditions such as asthma and heart disease.²¹⁷ The ACA states:

A group health plan and a health insurance issuer offering group or individual health insurance coverage may not establish rules for eligibility (including continued eligibility) of any individual to enroll under the terms of the plan. . . based on any of the following health status-related factors: health status, medical condition (including both physical and mental illness), claims experience, receipt of health care, medical history, genetic information, evidence of insurability (including conditions arising out of acts of domestic violence), disability, any other health status-related factor determined appropriate by the Secretary.²¹⁸

Where health insurers could previously deny coverage to adults with a pre-existing chronic condition, the ACA mandates that these individuals be covered. The ACA pre-existing condition clause went into effect on January 1, 2014.²¹⁹ At this point, the rest of the ACA was already in place, including the individual mandate.²²⁰ Because all Americans are required to have health insurance under the individual mandate, the cost of the chronic illness for those with a pre-existing condition is now being paid for by spreading the “cost of their illnesses . . . among a larger population of sick and healthy people.”²²¹ This cost must be spread among the entire population because under the “community rating” provision of the ACA, “the health insurance company [cannot] charge [individuals] higher premiums if [they] have health problems.”²²² The result is

214. Hussain & Rivers, *supra* note 203.

215. *Health Insurance Market Reforms: Pre-Existing Condition Exclusions*, THE HENRY J. KAISER FAMILY FOUND., <http://kaiserfamilyfoundation.files.wordpress.com/2013/01/8356.pdf> (last visited Jan. 23, 2014), *archived at* <http://perma.cc/Q9VM-ZMTD>.

216. *Id.*

217. *Id.*

218. 42 U.S.C. § 300gg-4(a)(1-9) (2011).

219. Nather, *supra* note 204.

220. *Id.*

221. *Id.*

222. *Id.* at 2.

that while insurance coverage for those with chronic conditions may be lower, the overall premium cost for healthy Americans will increase to make up the difference.²²³ Therefore, finding a cure or potential detection method for chronic conditions is essential in order to reduce the cost of healthcare coverage across the board.

C. Cost Effectiveness of Stem Cell Therapies

Stem cell therapies offer this cost-effective treatment alternative. One example is the drug Apligraf, developed by the regenerative medicine company Organogenesis.²²⁴ Organogenesis is one of the first companies to receive insurance reimbursement for stem cell treatment.²²⁵ The drug Apligraf, made with adult stem cells, is used to treat leg and foot ulcers related to diabetes.²²⁶ These wounds would cost up to \$1000 per week for a standard treatment.²²⁷ However, Apligraf costs \$3200 and essentially provides a cure for the condition, eliminating the need for weekly and reoccurring treatment.²²⁸ While drugs such as Apligraf have great treatment potential, the better treatment alternative would be to cure the diabetes itself.²²⁹ This is a cure that could potentially be achieved using human embryonic stem cells, however, this research is limited due to the WARF patents and Geron's licensing rights to pancreatic stem cell products.²³⁰

Some states have conducted research to analyze the potential economic benefits of stem cell therapies. One such study is the Michigan Prospect, published in 2008.²³¹ The study looked at the top seven chronic diseases in the state of Michigan: Type 1 diabetes, Parkinson's disease, spinal cord injury, acute myocardial infarction, stroke, Alzheimer's disease, and Amyotrophic Lateral Sclerosis (ALS; Lou Gehrig's Disease).²³² The study found that nearly 770,000 Michigan residents could benefit from stem cell therapy.²³³ The annual treatment costs for these conditions was \$7.9 billion.²³⁴ "It [was] projected that if stem cell therapy was utilized and only 1 percent of the benefits were realized, the state would save almost \$80 million in annual treatment costs and up to \$2.3 billion

223. *Id.*

224. Jill Sederstrom, *Stem Cells: The Not Too Distant Future*, MANAGED HEALTHCARE EXECUTIVE (Dec. 1, 2012), <http://managedhealthcareexecutive.modernmedicine.com/managed-healthcare-executive/news/stem-cells-not-too-distant-future?id=&sk=&date=&pageID=4>, archived at <http://perma.cc/QYH9-54FS>.

225. *Id.*

226. *Id.*

227. *Id.*

228. *Id.*

229. Hussain & Rivers, *supra* note 203, at 48.

230. Regalado & Hamilton, *supra* note 159.

231. Hussain & Rivers, *supra* note 203, at 48.

232. *Id.*

233. *Id.*

234. *Id.*

over a 30-year period.”²³⁵

The Michigan Prospect also looked at the effect of stem cell therapy on the state’s Medicaid program.²³⁶ Michigan Medicaid had nearly 1.8 million members in 2004.²³⁷ If 0.5% savings (an extremely modest estimate) were to result from stem cell treatment therapy, the state would save almost \$38.5 million in a single year.²³⁸ This would mean nearly \$255 million in savings over a thirty-year period.²³⁹

Finally, the study analyzed the result in increased worker productivity as a result of stem cell treatment for chronic disease.²⁴⁰ The treatment of chronic disease would greatly improve the absentee rates for workers with a chronic condition.²⁴¹ This would result in an annual savings of nearly \$19.2 million.²⁴² Additionally, an increase in employment in the biotech industry from those researching and manufacturing these conditions would add about 800 new jobs to the state of Michigan.²⁴³

Michigan is not the only state to have looked at the effects of stem cell research on the state health programs.²⁴⁴ Proposition 71, the California Stem Cell Research Initiative, determined that stem cell treatment therapies had the potential to reduce health care spending for California residents by a reduction in insurance premiums and out-of-pocket costs.²⁴⁵ “If stem cell therapy reduce[d] insulin dependent diabetes by [fifty] percent, this alone would produce a savings of \$122 billion to California residents. . . .”²⁴⁶

“[A]lthough an increase in savings would undoubtedly occur if stem cell therapy delivered on its promise to cure disease, savings would also occur if stem cell therapy reduced or even prolonged the symptoms of the disease,” or delayed the onset of the condition or reduced the complications.²⁴⁷ While all of this evidence on the potential economic benefits of stem cell research is promising, invalidating the WARF patents is the first step. With the WARF patents in place, even if Geron were to develop a stem cell treatment for heart disease or diabetes, the result could be similar to the monopoly held by Myriad genetics over the BRCA gene. Geron would have a monopoly on the treatment and would limit the options in the marketplace, driving up costs.

235. *Id.*

236. *Id.*

237. *Id.*

238. *Id.*

239. *Id.*

240. *Id.*

241. *Id.*

242. *Id.*

243. *Id.*

244. *Id.* at 49.

245. *Id.*

246. *Id.*

247. *Id.*

IV. THE AFFORDABLE CARE ACT AND OTHER GOVERNMENTAL MEASURES AS AN ALTERNATIVE TO STEM CELL PATENTS

The invalidation of stem cell patents and their licenses could increase stem cell research and lead to a more rapid development of stem cell treatments in the United States. These treatments have the potential to cure many of America's most prevalent long-term diseases. In light of the ACA provisions requiring coverage for all Americans regardless of pre-existing conditions, Americans have much to gain from any reduction in treatment cost that would limit risk sharing among insureds. While patents are the primary incentive for researchers to continue with new research and development, there are other reward alternatives that still allow for competition in the marketplace.²⁴⁸ By invalidating stem cell patents and applying these alternatives, Americans can benefit from the reduced health insurance costs that will come with the required coverage for those with pre-existing conditions.

There are currently three primary ways of rewarding scientific innovation in the United States.²⁴⁹ These methods include governmental grants, tax credits, and patents.²⁵⁰ "The patent system imposes [research and development] costs primarily upon the consumers who purchase patented products."²⁵¹ Grants and tax credits, on the other hand, "generally require all taxpayers to subsidize [research and development] regardless of whether they use the resulting products."²⁵²

When it comes to research and development in the healthcare industry, it makes sense for all taxpayers to subsidize the cost.²⁵³ In other areas of innovation, such as technology, the items that are developed and subsequently patented are often luxury items.²⁵⁴ The cost of these items is high and they are often purchased by the upper class.²⁵⁵ It makes sense that the individual consumer is paying for the research and development associated with the patent in these instances because few are using the product.²⁵⁶

However, with regard to healthcare, all individuals have the potential to develop a chronic disease over the course of their lifetime. Additionally, under the ACA, all individuals are helping to subsidize the cost of treating those with current and pre-existing chronic conditions. Therefore, by giving stem cell researchers a tax credit or grant as opposed to a patent, every individual in the

248. Daniel J. Hemel & Lisa Larrimore Ouellete, *Beyond the Patents—Prizes Debate*, 92 TEX. L. REV. 303, 303 (2013).

249. *Id.*

250. *Id.*

251. *Id.*

252. *Id.*

253. *Id.*

254. *Id.*

255. *Id.*

256. *Id.*

health care market subsidizes the cost.²⁵⁷ Everyone also reaps the benefit. The cost of all insurance premiums will decrease as a result and any given individual will have the benefit of a lower cost treatment should they ever be diagnosed with a chronic condition.

The government awards tens of billions of dollars in tax credits each year to encourage research and development.²⁵⁸ Tax credits also give researchers the advantage of having funding before making any novel discovery.²⁵⁹ In contrast, patents provide a reward only after a researcher discovers a new product.²⁶⁰ With the current stem cell patenting landscape and Geron holding the patent rights to some of the most important stem cell lines, biotech firms are unlikely to begin costly stem cell research with no guarantee they would be able to obtain a licensing agreement once they developed a marketable product.²⁶¹ If a biotech company were to enter into a negotiation with Geron or WARF after the development of a commercial product, the biotech firm would be at a significant disadvantage.²⁶² The firm would want to market the product in order to reap the benefits of the expensive research and development process, and therefore WARF and Geron would have the bargaining power to ask for “any royalty [they] desired, and the license seeker would have to relent.”²⁶³ In contrast, the ex ante reward of tax credits means that small biotechnological firms have the ability to conduct research and compete with larger firms who have other sources of funding.²⁶⁴

When the Obama Administration wrote the ACA, they saw the potential in awarding small biotech firms a tax credit for research and development that could lead to breakthrough discoveries in health care treatment options.²⁶⁵ The original version of the ACA contains a research tax credit provision known as the “Qualifying Therapeutic Discovery Project.”²⁶⁶ In this part of the Note, this author proposes that Congress extend the Qualifying Therapeutic Discovery Project to fund additional stem cell research and development in place of the current patent system.

A. Proposal to Extend the Qualifying Therapeutic Discovery Project

The Qualifying Therapeutic Discovery Project (“TPD”) is a provision of the

257. *Id.* at 308.

258. *Id.* at 303.

259. *Id.* at 308.

260. *Id.*

261. Miller, *supra* note 146, at 571.

262. *Id.*

263. *Id.*

264. Hemel and Ouellete, *supra* note 248, at 338.

265. See Philip H. Spector, *The 50% Tax Credit/Cash Grant for Life Sciences Companies*, NAT'L REV. (Aug. 5, 2014), <http://www.natlawreview.com/article/50-tax-credit-cash-grant-life-sciences-companies>, archived at <http://perma.cc/P3CU-KY79>.

266. 26 U.S.C. § 48D (2010).

ACA that awards tax credits or grants²⁶⁷ to

projects that show reasonable potential to result in new therapies, to treat areas of unmet medical need or to prevent, detect, or treat chronic or acute diseases and conditions, to reduce long-term health care costs in the United States, or to significantly advance the goal of curing cancer within a 30 year period.²⁶⁸

Enacted in 2010, Congress directed the program at small biotechnology firms (less than 250 employees) who had difficulties receiving funding from other sources.²⁶⁹ The credit covered up to fifty percent of a biotech firm's qualified investment, up to \$5 million. In 2010, the TPD resulted in almost 3000 biotech companies receiving a total \$1 billion dollars.²⁷⁰ In the state of Indiana alone, the federal government awarded thirty-five small biotech companies a tax credit or grant under the Qualifying Therapeutic Discovery Project.²⁷¹ Indiana companies received a total of \$10,293,530.56 through the life of the program.²⁷² At least three of the Indiana projects awarded grant money were directly involved in stem cell research.²⁷³

Congress did not renew the TPD after 2010. However, since 2010 a group of legislators has been trying to garner support for the renewal of the project.²⁷⁴ If the holding in *Myriad* is any indication, the patents on stem cells and their methods of derivation could be invalidated in the near future. This could eliminate the incentive of WARF and those with WARF licensing agreements to continue further research and development for fear that their findings will not be patent eligible. However, the TPD could provide some relief from this and allow small biotech firms to fill the stem cell research gap, leading to potentially groundbreaking discoveries to cure chronic disease.

The TPD, as part of the ACA, has the potential to take the place of some of the rewards provided by the patent system in an effort to help increase research

267. Companies could choose to receive the funding in the form of either a grant, or a tax credit. See *Qualifying Therapeutic Discovery Projects Basic Information: Questions and Answers* (July 7, 2010), <http://www.irs.gov/uac/Qualifying-Therapeutic-Discovery-Projects-Basic-Information:-Questions-and-Answers>, archived at <http://perma.cc/WDV7-NQQM> (discussing common questions about applying for a TPD grant).

268. *Id.*

269. *Therapeutic Discovery Project Credit*, BIOTECHNOLOGY INDUS. ORG., <http://www.bio.org/category/therapeutic-discovery-project-credit> (last visited Oct. 9, 2013), archived at <http://perma.cc/B9EU-785W>.

270. *Id.*

271. *Qualifying Therapeutic Discovery Project Grants for the State of Indiana*, INTERNAL REVENUE SERV., <http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Qualifying-Therapeutic-Discovery-Project-Grants-for-the-State-of-Indiana> (last visited March 8, 2014), archived at <http://perma.cc/XJ7R-TETW>.

272. *Id.*

273. *Id.* (listing all Indiana stem cell projects receiving grants).

274. H.R. 3473, 113th Cong. (2013).

and development of treatments that could help to achieve other key provisions of the ACA. The TPD came on the heels of an executive order issued by President Obama in March, 2009.²⁷⁵ This order overturned a previous policy enacted under the Bush administration that limited federally funded stem cell research to only those stem cell lines created prior to August 9, 2011.²⁷⁶ President Obama authorized the National Institutes of Health to develop a policy for the federal funding of stem cell research and as a result this policy led to 195 available human embryonic stem cell lines for researchers, up from twenty under the Bush administration.²⁷⁷

When President Obama issued his executive order regarding stem cell research, he sent a clear message that his administration was dedicated to investigating the potential of stem cells to cure chronic diseases.²⁷⁸ The TPD further enhanced this goal by providing an incentive for small firms to invest in stem cell research and development. However, despite Obama's executive order opening up several stem cell lines for research, WARF's licensing policies for many stem cell lines still confine biotech firms who wish to continue research outside of an academic institution.²⁷⁹ The invalidation of patents would open up all stem cells lines for research without the need for high licensing costs.²⁸⁰ This research could lead to the development of treatments to cure chronic diseases and help achieve another key goal of the Obama Administration: affordable care for chronic diseases under the ACA.

B. Why Patent Alternatives Will Not Mean the End of Stem Cell Research

While the TPD would not have the same monetary implications as patents, such as the exclusive right to all profits from licensing, there are other incentives aside from patenting that would still encourage stem cell treatment development.²⁸¹ For example, for researchers in academic institutions the primary goal of research is the incentive to publish, not the incentive to patent.²⁸² Most stem cell researchers and other researchers in the life sciences field are academics

275. See generally Exec. Order No. 13,505, 74 Fed. Reg. 10,667 (Mar. 9, 2009).

276. EBSCO Publ'g, *supra* note 151.

277. Meredith Wadman, *High Court Ensures Continued US Funding of Human Embryonic-Stem-Cell Research*, NATURE (Jan. 7, 2013), <http://www.nature.com/news/high-court-ensures-continued-us-funding-of-human-embryonic-stem-cell-research-1.12171>, archived at <http://perma.cc/B8T6-HGMN>.

278. *Id.*

279. Jenny Shum, *Moral Disharmony: Human Embryonic Stem Cell Patent Laws, Warf, and Public Policy*, 33 B.C. INT'L & COMP. L. REV. 153, 161 (2010).

280. See *id.* (commenting that WARF received intense criticism for the cost and restrictiveness of its licensing practices).

281. Leeron Morad, Note, *Stemming the Tide: On the Patentability of Stem Cells and Differentiation Processes*, 87 N.Y.U. L. REV. 551, 588-89 (2012).

282. *Id.*

concerned with discovery and publication as opposed to patenting.²⁸³ Even without patent protection, these researchers are likely to continue their stem cell research in order to have publication rights.²⁸⁴

Also, for biotech firms and institutions concerned with funding sources, government grants provide an alternative to private investment.²⁸⁵ Government grants make up a majority of biotechnology research funding and this funding will continue to be available, even with the invalidation of the WARF patents.²⁸⁶

Additionally, large biotech firms still have the incentives to conduct research without patent protection with the hopes that they will be able to patent the particular treatment technique that results.²⁸⁷ Allowing for a biotech corporation to patent the treatment technique as opposed to the stem cells themselves would allow for research progress while still incentivizing investment in the final product.²⁸⁸ This would not prevent smaller biotech companies from also patenting treatment techniques, because eliminating the patents on the stem cells themselves would preclude a situation like that which resulted from Myriad's domination over the BRCA testing market. Other biotech firms were able to develop techniques for testing different from those which *Myriad* used; however, because Myriad had the patent on the genes themselves the other tests were considered patent infringement.²⁸⁹ Similarly, both small and large biotech firms could obtain patents on their stem cell treatment techniques, but no one company could hold a monopoly over all stem cell products.

A final reason that patent alternatives such as the continuation of the TDP will not mean the end of stem cell research is the length of biological patents. Patents are valid for a period of twenty years.²⁹⁰ Because the majority of WARF's stem cell patents were filed in 1995, they are set to expire in 2015.²⁹¹ While embryonic stem cell treatment will likely not be widespread by this point, "[m]ore important . . . are patents filed since [the original WARF patents] that address [the broad] techniques such as differentiation, stabilizing cell fate, and scaling up [procedures]."²⁹² These patents have the potential to effect stem cell research and development for years to come and because of their breadth courts should invalidate them. When WARF's patent expires in 2015, the TDP can provide incentives for other smaller biotech firms to continue to invest in the research in hopes of finding a treatment for chronic disease.

283. *Id.*

284. *Id.*

285. *Id.*

286. *Id.*

287. *Id.*

288. *Id.*

289. *Id.* at 584.

290. Alla Katsnelson, *Stem Cell Patent Battle Continues*, NATURE.COM (May 3, 2010), http://blogs.nature.com/news/2010/05/stem_cell_patent_battle_contin_1.html, archived at <http://perma.cc/K2BX-MJPQ>.

291. *Id.*

292. *Id.*

CONCLUSION

If embryonic stem cell treatments follow in the footsteps of genetic testing for the BRCA1 and BRCA2 genes, patients diagnosed with serious chronic diseases could face high costs and limited options for stem cell treatments. With the United States currently undergoing major healthcare reform under the ACA, the need for accessibility to affordable treatment options for chronic diseases that cost patients and insurers billions of dollars each year is higher than ever.

Therefore, in light of *Myriad*, a court should invalidate the embryonic stem cell patents held by WARF because the hES cells, like genes, are products of nature. Because patents provide an incentive for researchers by ensuring funding and exclusivity, Congress should extend the Qualifying Therapeutic Discovery Project as an alternative to stem cell patents in order to provide funding to small biotech companies conducting stem cell research. These measures will ensure that the research for embryonic stem cell treatments continue, thereby offering affordable treatment options for patients with chronic conditions under the ACA.

