

# Technology & Intellectual Property Law Update

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## Copyright Case Law: Second Circuit Holds Commentary Not Required for Fair Use

In *Cariou v. Prince*, 11-1197-cv (2d Cir. April 25, 2013), the Second Circuit reversed in part and remanded in part a district court's determination that artist Richard Prince infringed photographer Patrick Cariou's copyrights when he used copies of Cariou's photographs in a series of collages. The Second Circuit held that "the district court imposed an incorrect legal standard when it concluded that, in order to qualify for a fair use defense, Prince's work must 'comment on Cariou, on Cariou's Photos, or on aspects of popular culture closely associated with Cariou or the Photos.'"

### Background

Richard Prince is known in the art community as an appropriation artist, which means he takes images from well-known contexts and puts these images into other contexts – think Andy Warhol and his famous *Campbell's Soup Can* series. For his *Canal Zone* series, Prince took 30 photographs from *Yes Rasta*,

Cariou's photographic book about Rastafarian culture, and added other elements, such as painting gas masks, guitars, oversized hands, and geometrical shapes over the original works. Prince did not seek Cariou's permission to use the photographs.

Cariou sued Prince for direct copyright infringement, and the art gallery that sold his works and the publisher of the *Canal Zone* book for vicarious and contributory infringement. The two sides cross-moved for summary judgment, and the district court ruled in favor of Cariou. The district court judge "imposed a requirement that, to qualify for a fair use defense, a secondary use must 'comment on, relate to the historical context of, or critically refer back to the original works.'" Relying to a large extent on Prince's refusal at his deposition to confirm any such relation to the original, the district court held that Prince's *Canal Zone* was not fair use as a matter of law. The district court granted summary judgment in favor of Cariou and

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## Save the Date

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Property Forum

October 24, 2013

at the

Omaha Regency Marriott

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ordered that any unsold *Canal Zone* works and exhibition books be impounded.

## Second Circuit Decision

The Second Circuit vacated the injunctions, finding that the district court erroneously concluded that in order to qualify as a fair use, a work using copyrighted content must comment on the original work: “The law imposes no requirement that a work comment on the original or its author in order to be considered transformative, and a secondary work may constitute a fair use even if it serves some purpose other than those identified in the preamble to the [statutory section on fair use] — i.e., (criticism, comment, news reporting, teaching, scholarship and research).”

*The Court held that all but five of Prince’s works were not just transformative, but sufficiently so to lessen the significance of factors that might otherwise have weighed against fair use.*

Based on its own examination as a “reasonable observer,” the Court held that all but five of Prince’s works were not just transformative, but sufficiently so to lessen the significance of factors that might otherwise have weighed against fair use. The Court noted that Prince’s works “manifest an entirely different aesthetic from Cariou’s

photographs.” The Court further noted that what matters is not whether the artist tries “to explain and defend his use as transformative” or even cares about the issue, but instead “how the artworks may ‘reasonably be perceived.’”

The Second Circuit then remanded the case back to the district court to reconsider the remaining five works under the fair use standard explained in the decision. For these five works, the Court observed that the images in question “do not sufficiently differ from the photographs of Cariou’s” for the Court to rule on them as a matter of law. The district court was asked to consider whether the “minimal alterations” in those works render the uses fair, including a determination of whether they are transformative.

## Takeaway

The Court’s analysis in *Cariou* emphasized the broadness of the fair use doctrine in rejecting the district court’s view that a secondary work must reflect or comment on the original. In doing so, the Court focused the analysis on how transformative the secondary work is in relation to the original work. *Cariou* also gives the Court considerable discretion in deciding what is transformative under the “reasonable observer” test. In the future, we are likely to see courts establish an increasing body of factors to define the boundaries of what exactly constitutes a “transformative” work. ■

Grayson J. Derrick

## Sales and Use Tax Update: Federal Legislation to Allow States to Tax Out of State Sellers with No Physical Presence

### State Sales and Use Taxation of Internet Sales.

Dating back to 1921, states have imposed sales and use taxes upon sales of tangible personal property taking place in a state. At first glance, the sales tax seems simple enough. If a customer buys an item of tangible personal property at a retail store, the retailer would collect the sales tax from the customer and remit the tax to the state.

Over time, however, the sales tax has become ever more complex. First, to protect in-state businesses, states have imposed a complementary “use tax” that forces the customer to pay tax on out-of-state purchases. Second, in many states, local governments such as cities and counties, are allowed to impose a sales tax of their own. The result being that about 9,000 separate taxing jurisdictions exist. Finally, these jurisdictions may have different exemptions, rates, and collection procedures, making it difficult for multi-state businesses to comply with their collection obligations.

### The Quill Case and “Substantial Nexus”

The United States Supreme Court acknowledged these complexities in its 1992 decision

*Quill Corp. v. North Dakota*. In this case, the Supreme Court held that in order to impose sales tax upon an out-of-state seller, the Commerce Clause required the out-of-state seller to have “substantial nexus” with the taxing state. The “substantial nexus” is established if the seller has a physical presence in the state, such as a retail office, employees, or other property. In this case, Quill Corp.’s only connection with North Dakota was the catalogs it shipped to potential customers. The Supreme Court found this connection to be insufficient for Commerce Clause purposes and held that Quill Corp. had insufficient physical presence in the state. As such, North Dakota could not force Quill Corp. to collect sales tax on its sales to North Dakota residents.

The “substantial nexus” standard established in *Quill* became of greater importance as the amount of sales transacted over the Internet increased. E-commerce sellers, with no in-state physical presence (referred to in this article as “remote sellers”), have continued to capture retail market share. However, without having a physical presence in the states in which they sell, many states cannot constitutionally force remote sellers to collect sales tax. Because of the impracticality of pursuing each individual purchaser in the state, collection of the sales and use tax originating from Internet sales has long been an item of great frustration for states, leading states to attempt to expand the boundaries of what constitutes “substantial nexus.”

The *Quill* court held that under the Commerce Clause, Congress could give the authority to the states to force remote sellers to collect tax. There is currently a bill pending in Congress that would allow states to impose sales tax obligations on remote sellers.

### **The Marketplace Fairness Act**

On May 6, 2013, the Senate passed the Marketplace Fairness Act (“Act”), but the Act is currently stalled in the House. If the Act passes the House, it will require Internet-based businesses to collect state sales tax based on the shipping address for qualifying states. The Act would authorize each member state under the Streamlined Sales and Use Tax Agreement (the multistate agreement for the administration and collection of sales and use taxes adopted on November 12, 2002) to require all sellers not qualifying for a small-seller exception (applicable to sellers with annual gross receipts in total U.S. remote sales not exceeding \$1 million) to collect and remit sales and use taxes with respect to remote sales under provisions of the SST Agreement, but only if such Agreement includes minimum simplification requirements relating to the administration of the tax, audits, and streamlined filing. The Act defines “remote sale” as a sale of goods or services into a state in which the seller would not legally be required to pay, collect or remit state or local sales and use taxes unless provided by this Act. As noted above, the Act is currently facing opposition in the House.

### **Conclusion**

While it is unclear if the Marketplace Fairness Act will pass, it is clear that Congress intends to act to bring remote sellers into the ambit of state sales taxes by using some form of federal legislation. This type of legislation will clearly benefit states, and, if not carefully drafted, could potentially submit many remote sellers to the complexities of collecting and remitting sales tax in approximately 9,000 jurisdictions. ■

Jesse D. Sitz

### **Legal Considerations Regarding Bring Your Own Device “BYOD”**

Many companies have, or will be faced with, employees or third parties wanting to use their own mobile devices to access the company’s private cloud or information network. Prior to allowing such access, companies need to understand the risks and take appropriate steps, which at a minimum should include:

1. Ensure that network to be accessed is secure. If your network is not secure then allowing mobile devices access will exacerbate the vulnerabilities.
2. Perform a thorough risk assessment taking into account the mobile device access.

3. Carefully evaluate the types of mobile devices which will be allowed access. Not all mobile devices are created equal when it comes to security and the ability to conform to standards.
4. Make sure that (if required) encryption is required for data at rest and in transit.
5. Require strong authentication on the mobile device.
6. Implement remote wipe capabilities on employee devices in case of loss, theft or when the employee leaves.
7. Establish a mandatory process for employees to report lost mobile devices.
8. Control the third party apps that are installed on the employee's mobile device. Also, continue to monitor anti-virus solutions for mobile devices.
9. Limit the access of the mobile devices within the network via firewalls.
10. Create policies incorporating the above and have employees acknowledge them in a written agreement.

And finally, make sure that you have all the necessary rights to allow the mobile access. Specifically, make sure that you have the proper licensing for your operating systems, anti-virus software and other applications.

In some cases you may have to include the mobile access in your license deployment counts and in other cases you may need permission to allow the mobile access by your own employees or third parties. ■

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