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Trademark Infringement: It Can Run Both Ways

When people think of trademarks (often simply called "marks"), they typically think of famous brand names like McDonald's or logos like the Nike Swoosh. Fraternities and sororities also possess strong trademark rights in not only their names and logos, but also in their Greek letter combinations, slogans, and even color combinations. As Greek organizations seek to protect and enforce their own marks, they also need to make sure that their members are not inadvertently infringing on the trademark rights of others.

A trademark can be any distinctive word, phrase, design, color, or miscellaneous "thing" (sounds, package shapes, etc.) that identifies the source of a particular product or service. In the context of fraternities and sororities, trademarks identify not only the source of the fraternal organization services, but also the reputation that often dates back decades and more. These marks can also identify collateral products that these organizations authorize to be licensed and sold to enhance their revenue stream.

Trademark rights develop simply by using a distinctive mark in commerce. In other words, as long as an organization is offering its products or services under a particular mark, the trademark rights exist and are potentially enforceable. The owner of a trademark can prevent other entities from using similar marks in connection with similar products and services as those offered by the mark owner. Owners of such marks can use the TM symbol to signify their rights and do not need a federal trademark registration. That said, a federal registration provides a variety of additional benefits that unregistered or "common law" marks do not receive. These additional rights include a presumption of validity, nationwide rights, and access to various additional remedies in the event of a lawsuit. Owners of registered marks can use the ® symbol next to their marks.

Protecting Trademark Rights

Once an organization identifies its marks, protecting and enforcing them becomes extremely important. If a mark is not adequately policed, the owner may lose its rights in that mark. In other words, the owner would no longer be able to stop third parties from using its marks. As marks have become more valuable over the years, protecting against such "infringement" has become extremely important.

For example, in 2003, several fraternities and sororities banded together to sue the major shoe manufacturer Converse for trademark infringement. Converse was accused of selling shoes under its "Greekpak" line of footwear that bore the color combinations and founding years of the various fraternities and sororities that were parties to the suit. After several years of litigation, the dispute ultimately settled with Converse paying the organizations royalties for the use of their colors, along with various other concessions.

Converse behavior was offensive to the Greek organizations because the use of the organizations' colors and years, in connection with articles of clothing (which most Greek organizations offer) under the brand "Greekpak" suggested the products were being licensed or authorized by the respective fraternities and sororities. Because the products were marketed towards young consumers (15 -25 year olds), there was a real risk that those consumers would mistakenly purchase Converse's products because of the false association created by the colors and years. Moreover, had the organizations failed to object to Converse's actions, they risked losing rights to their color combinations. Without maintaining their trademark rights, any other company or organization could have started offering similar products with the same color combinations. Accordingly, enforcement for any organization with valuable trademarks is key.

And Avoiding Conflicts with Others' Trademarks

But, as the saying goes, what's sauce for the goose, is sauce for the gander. It is imperative that fraternities and sororities work to ensure that their *own* members are not infringing on the trademarks of others as well. This can be achieved through education and simply awareness.

To say that the dissemination of user-generated content over the internet and social media has ballooned in recent years is an understatement. With this explosion of content, so too has the potential for liability expanded. The internet, and in particular social media, has become a blessing and a curse for all trademark owners. It is an arena or medium that can give an organization widespread marketing at hardly any expense. It allows many, many, MANY people to see an organization's brand, product offering, message, etc. For the same reason, many people have access to and have the ability to copy an organization's trademarks. Contrary to the common belief of most 20-year olds, however, not all content found on the internet is in the "public domain."

For example, using others' trademarks without permission to promote a fraternity or sorority event could con-

stitute infringement. The fact that fraternities and sororities are non-profits does not shelter them from liability. And, as is the case in other legal matters, if a member is promoting an organization or an event being held by an organization and commits infringement, that liability could extend to the organization itself. Thus, third-party marks should not be put on apparel (even if given away), cups, bags, flyers, websites, or anything else used to promote or advertise the organization or an organization-associated event. Similarly, third party marks should not be altered, as altering a mark can make infringement even worse.

While it may be unlikely for third party marks to be posted on an organization's official website, it is more likely that they will be found on a local chapter's website or individuals' own social media accounts. Members should be made aware that using another company's or organization's trademarks in these instances could be an infringement. Thus, third-party trademarks should not be posted on a fraternity's or sorority's official website or other online mediums, including members' own Facebook® accounts or other social media platforms.

While there are several exceptions that allow for the unauthorized use of third-party trademarks, the safest course of action is simply to prohibit use of third party trademarks unless adequate permission is obtained from the trademark owner. This will provide the greatest potential insulation from liability and will not expose the organization to claims of infringement caused by the mistaken belief that the use was allowed or "in the public domain." Further, setting clear guidelines against third-party trademark use and educating members on those guidelines will help reduce the likelihood of liability arising from a rogue member's action extending to that organization.

It is important to understand an organization's own trademarks to ensure that they are well protected and correctly used to portray the fraternity's or sorority's true services and message. Equally so, it is important to understand the protections given to others' trademarks and to educate members not to use such marks or alter them in any way. Setting clear guidelines and educating members on respecting trademarks can not only strengthen a Greek organization's own trademarks, but can eliminate an unnecessary risk.

- Sarah Otte Graber

Wood , Herron & Evans, LLP

- Sean K. Owens

Wood, Herron & Evans, LLP

Group Exemption Update

Since 1940, the IRS has provided procedures under which an organization recognized by the IRS as being exempt under Section 501(c) could submit a request for recognition of exemption for a group of organizations that are affiliated with it and under its general supervision or control. As a result of the group exemption procedures, subordinate organizations covered by group exemptions are relieved from filing their own individual applications for recognition of exemption with the IRS. These procedures have played an important role in streamlining the exemption process for local chapters, alumni and alumnae chapters and other organizations affiliated with our Fraternity clients.

Further, where a group exemption exists, the national organization may offer their chapters and other qualifying subordinate organizations the additional benefit of inclusion in a group Form 990, thus relieving those subordinate organizations from having to file separate Forms 990.

Under the currently applicable IRS rules, a group exemption will be granted with respect to subordinate organizations (e.g., chapters) that meet four requirements: (i) they are affiliated with the central organization (the Fraternity); (ii) they are subject to the central organization's "general supervision or control;" (iii) they are all exempt under the same paragraph of section 501(c), although not necessarily the same paragraph as the central organization; and (iv) they provide written authorization to be included in the application for group exemption.

As we have reported previously, the Advisory Committee on Tax Exempt and Government Entities (ACT) issued a report on group exemptions in June 2011 recommending the elimination of group returns entirely. Recent activity by the IRS provides further evidence that significant changes may be on the horizon for chapters and subordinate organizations exempt under the authority of a group exemption ruling.

Recently, in the Fiscal Year 2012 Work Plan issued by the Director of Exempt Organizations, the Exempt Organizations division stated that it would continue the analysis of the group exemption issue begun by the ACT. According to the Work Plan, the first step in this continued analysis would be fact-finding by way of developing a questionnaire to be sent to a cross-section of group ruling holders. The questionnaire would explore the practices used by the central or parent organization to meet the requirements for group exemption described above, with particular attention to how the parent exercises such supervision and control over its subordinates, and how the supervision and control is reported.

Those questionnaires have been sent out by the IRS to "more than 2,000 randomly selected central organizations" as part of a process called a "compliance check". Our Fraternity clients that are part of a group exemption are now starting to receive the questionnaires. In actuality, the questionnaires themselves are on the IRS website and are completed online. The recipients selected to participate in the compliance check will receive a notice with instructions, a user ID and a password to access the online questionnaire.

According to the IRS website, the information from these questionnaires will help Exempt Organizations better understand the relationship between central organizations and

their subordinates, and how they satisfy their exemption and filing requirements. The impact of the results of the compliance check will not be known for a while, but it is clear that the IRS is seriously considering substantial changes to the group exemption and group return structure.

Additional information may be found at the IRS Website at: http://www.irs.gov/Charities-&-Non-Profits/Group-Rulings-Questionnaire.

- John E. Christopher

The Chapter House Rules; How Corporate Structure Can Handcuff a House Corporation

When we think of the Greek chapter house, we think of more than simply bricks and mortar. The chapter house is often the dominant evidence of a Greek organization's presence on a particular campus. More than simply another slice of the collegiate housing market, the chapter house is widely perceived as a symbol of the shared values held by those who inhabit it.

While this principled view of the chapter house is accurate, we should never forget that the chapter house is, in fact, bricks and mortar as well. Industry wide, Greek organizations own and operate in excess of $3 billion in real estate, often located in prime locations. These buildings house some 250,000 students. In short, chapter housing is a big business which we all have an obligation to steward well.

There can be little doubt that housing, in the aggregate, is the largest asset of the Greek community. Oddly, and in some cases vexingly, this pool of assets is usually legally owned by local house corporations, not by the national organizations. There are many historical reasons for this anomaly, as well as current practicalities that make the local house corporation better able to manage and operate a chapter house than a national fraternity. Nevertheless, the issue remains that significant assets in the form of chapter houses remain outside the control of the national fraternities.

Clearly, there are many tasks that are better suited to a local house corporation than a national fraternity office. For instance, local volunteers are better able to determine competitive rents, identify the amenities necessary to compete on a particular campus, set appropriate budgets, and effectively handle alumni relations. In short, local volunteers are invaluable; the chapter house could not succeed without their efforts.

However, local volunteers are many times unable to properly manage a chapter house under duress. Chapter closures are of particular concern. Of course, chapters close for a variety of reasons from low membership to risk management violations. But the future of the chapter house in this situation is many times unclear, dependent upon an array of factual and legal circumstances unique to each individual chapter house. Due to the historical development of local house corporations, there is very little commonality among these organizations. In fact, even different house corporations operating under the banner of a single national organization often have wildly different organizational structures. This can lead to legal and practical obstacles that simply overwhelm the resources of local volunteers.

In addition, chapter closures can be emotionally traumatic events. When a chapter closes, the goals and desires of local volunteers often diverge from the mission of the national organization to steward the asset for the benefit of its members. This divergence of mission can cause significant risk to the chapter house asset.

For instance, some local house corporations attempt to continue to own the asset, renting the house to non-members akin to a boarding house operation. This causes significant liability exposure both for the house corporation and possibly the national fraternity. In addition, and as we have noted before, renting to non-members would very likely destroy the exempt nature of the house corporation rendering it liable for income tax. The sudden exposure of the chapter house asset to significant liability and tax risks may very well substantially de-value the chapter house asset.

The organizational documents of most house corporations anticipate these problems to a degree. Nearly all house corporation articles of incorporation or bylaws, or both, contain a provision similar to the following:

> In the event that the _____ Chapter of _____ Fraternity no longer exists or operates at the _____ University, then this corporation shall be dissolved. In the event of dissolution of the Corporation, all of the then remaining assets of the Corporation shall be distributed to the _____ Fraternity, or if _____ Fraternity is no longer in existence, then for one or more of the social purposes for which the Corporation is organized, or for one or more charitable or educational purposes, to or for the benefit of an organization or organizations described in Section 501(c) (7) or Section 501(c) (3) of the Internal Revenue Code of 1986, as amended.

So, the formative documents seem to provide that the chapter house reverts to the national if the chapter closes. However, the reality is that such a provision likely will not operate to accomplish the nuts and bolts process of transferring real estate. In the example cited above, the transfer provision is not triggered until the corporation is *dissolved*. In most states, dissolution is a statutory procedure that must be voted upon by the members of the house corporation.

For most house corporations, holding a valid member vote is an unwieldy proposition at best and impossible at worst. Typically, the members of a house corporation are 'all collegiate and alumni members of the chapter'. There are variations on this definition of membership, but generally the member class is defined in this or a similar way. This means that a majority (or in some states a supermajority) of *every initiated member of a chapter* must vote to dissolve the house corporation. As a practical matter, this is, indeed, a tall order.

Further complicating the matter of a member vote, typical house corporation documents both prohibit proxy voting while requiring a minimum number of members to achieve a quorum. The proxy prohibition generally means that a member must be physically present at the meeting to vote. The quorum requirement means that a certain minimum threshold of members, often a majority of members, must be present to take a valid membership vote. So, the interplay of these hypothetical but very typical provisions means that to accomplish a valid member vote, the house corporation must hold a member meeting where a majority of the members attend in person to validly dissolve the corporation and approve the transfer of the chapter house.

Holding a members' meeting which is physically attended by a majority of the members of a house corporation would be challenging in a perfect circumstance. Holding such a meeting when the chapter has closed, and interest in the chapter is low, is almost impossible. The practical effect of creating a broad class of members together with a proxy prohibition and quorum requirement is to handcuff the house corporation. That is, it is possible that a house corporation may find itself with no realistic possibility of taking *any* valid corporate action. This means, of course, that the chapter house will continue in limbo, owned by an inactive house corporation that is unable to act to preserve, sell or otherwise steward the chapter house asset.

Of course, the discussion to this point has assumed that the local house corporation officers actually desire to transfer the chapter house back to the national organization. As mentioned above, this desire is not always present. In fact, many times the local officers will desire to continue to own and control the house for a variety of reasons. In that case, it is even more difficult for the national organization to facilitate a meeting of the members to validly transfer the chapter house.

The first important point to take from this discussion is that a dissolution and distribution clause like the example above, on its own, is likely not effective to actually transfer the chapter house to the national fraternity. This is true irrespective of whether a vote is necessary either to trigger a dissolution and distribution clause or to voluntarily transfer the chapter house to the national organization prior to dissolution. In all likelihood, a member meeting will be required to dissolve the house corporation or to transfer the chapter house.

The second important point to take from this discussion is that there are steps that national fraternities can take, in concert with the house corporations, to ensure that the chapter house asset is preserved for the future benefit of the organization's members. For instance, national fraternities may consider urging house corporations to proactively evaluate their membership class, proxy voting restrictions, and quorum requirements. These provisions can be modified before a crisis develops to avoid the issues described above.

The precise solution in any particular situation can only be determined after a review of the relevant state law and corporate documents. However, a full review of housing inventory is a review that should pay for itself with the first seamless transfer of a troubled chapter house. Given that chapter houses represent such an enormous asset value, the cost of such a proactive review pales in comparison to the value of the assets potentially at risk.

- Sean P. Callan

CORRECTION

The September issue of Fraternal Law reported that Penn State was advising fraternity and sorority chapter advisors that they were responsible under the Clery Act for reporting certain crimes. The article observed that volunteer chapter advisors did not appear to qualify as campus security authorities responsible for Clery Act reporting unless they were also employees of the university.

Roy W. Baker, Ed.D., Director of the Office of Fraternity and Sorority Life at Penn State, has now clarified that Penn State "provided an opportunity for advisors to participate in Clery Act training that explained the law, the definition of "Campus Security Authorities" (CSA) that those advisors who are employees of Penn State University are considered to be "Campus Security Authorities" and that they are expected to report certain criminal activities. Those advisors who are not employees of the University are not considered to be a "Campus Security Authority" and are simply being encouraged to report their knowledge of certain criminal activity if they choose to do so."

While a number of fraternity volunteers who participated in the Penn State training came away with the impression that they had been told that they were obligated under the Act to file reports, it is now clear that that is not what Penn State intended.

This writer could have cleared up this misunderstanding by having contacted Penn State prior to publishing the initial article. *Fraternal Law* regrets the error.

Some other colleges have said that advisors are Campus Security Authorities. But that is only true if either they are designated college employees or are specifically named in the campus Clery Act Security Plan.

Court Dismisses Sexual Assault Case

According to her complaint, on Halloween night in 2008, a 21-year-old woman and former Oregon State University student was sexually assaulted by a member of the Oregon Beta Chapter of Phi Kappa Psi Fraternity in Corvallis, Oregon ("Local Chapter"), in a closed bedroom during a costume party at the chapter house. Her assailant, a male sophomore Oregon State University student with a beer bottle costume, was later prosecuted and convicted of first degree rape and sexual abuse.

After the conclusion of the criminal trial, the victim sought more than $1.2 million in emotional distress damages and medical expenses not just from the perpetrator but also from the Phi Kappa Psi Fraternity, Inc. ("National Fraternity") and the owner of the chapter house ("House Corporation"). [*See Scheffel v. Oregon Beta of Phi Kappa Psi Ass'n et al.*, Oregon Circuit Court for Benton County Case No. 10-10510, filed Sept. 14, 2010.] She alleged a panoply of claims, based on theories of premises liability, failure to control, liquor liability, negligence per se, and agency. Later, she broadened her complaint to include the Local Chapter as a defendant and added a direct negligence claim against the National Fraternity based on an "assumption of duty" theory.

> The court granted summary judgment to defendants on all claims. The decision is currently pending appeal.

After protracted discovery, including depositions of numerous attendees of the Halloween party, current and former members of the Local Chapter who planned and organized the event, the university's Greek Life coordinator, and the fraternity's Executive Director, as well as exhaustive document review, including event registration materials that were submitted by the Local Chapter in advance of the Halloween party, the fraternity-related entities asked the court to dismiss all claims against them on summary judgment.

In July 2012, Benton County Circuit Court Judge Locke A. Williams did just that.

At the hearing on defendants' motion for summary judgment, the fraternity's attorneys highlighted the fact that the plaintiff's evidence against the National Fraternity and Local Chapter was merely generalized and outdated data regarding the prevalence of underage drinking at colleges and in sororities and fraternities in general—despite the undisputed evidence that alcohol was not served at the Halloween party at issue and that the event was conducted in a reasonably safe manner, which included the presence of paid security guards, sober monitors, a guest list, an inspection by the campus Inter-Fraternity Council, and a system of checking in "bring your own" beer for those over the age of twenty-one who presented identification.

In addition, there was no evidence that the Local Chapter or National Fraternity knew or had reason to know of any unreasonable risk of sexual assault to party attendees; the sexual assault committed by the perpetrator during the party was the first and only known assault to have involved any member of the Local Chapter in its history.

Based on the facts of the case, the court declined to find that the National Fraternity gratuitously assumed a duty to control the Local Chapter's members by offering education and guidance to its local chapters on the responsible use of alcohol and sexual assault prevention.

The court granted summary judgment to defendants on all claims. The decision is currently pending appeal.

For more information, contact attorneys Brad Stanford (bstanford@fwwlaw.com) or Trish Walsh (twalsh@fwwlaw.com), at Farleigh Wada Witt, in Portland, Oregon, (503)228-6044, www.fwwlaw.com.

- Trish Walsh
- Brad Stanford

Alabama Suspends All Pledging

According to a statement from the University of Alabama, due to numerous calls to the University's hazing hotline, the University "has ended all IFC pledgeship activities as of 1 p.m. on Thursday, Oct. 18." At a press conference announcing the decision, Mark Nelson, the University's vice president for student affairs, stated, "Pledgeship is over for this year. Those that can initiate new members are asked to do so now."

According to reports, hazing allegations were made against at least 10 fraternity chapters on campus. Following investigations, many of the chapters were cleared of wrongdoing. However, several chapters were found to have engaged in hazing activities. Several organizations were disciplined by the University, including one chapter that had its Student Organization Seating for the rest of the football season revoked

> While the University has the right to regulate Greek organizations and a duty to ensure the safety of its students, it does not have the right to violate the freedom of association rights of its students.

and another chapter that had all pledge programs and social activities suspended indefinitely. At least two national organizations suspended their chapters, pending further internal in-

vestigations.

Most of the hazing allegations included reports of chapters requiring pledges to do strenuous exercises, such as "bows and toes." The Rush Chair for one chapter was quoted in the Tuscaloosa News on the report, "Everyone exercises. I exercise, football players do exercises. For that to be considered hazing is absurd…."

It is unclear where this headed. However, as a public institution, students at the University are protected by the First Amendment. While the University has the right to regulate Greek organizations and a duty to ensure the safety of its students, it does not have the right to violate the freedom of association rights of its students. Anything more than a short suspension of pledging activities could be seen as a violation of the freedom of association on campus.

In the meantime, quotes from students such as the one above must be avoided. This is another example of why chapters must be prepared to address media attention following newsworthy events.

Look for updates in *Fraternal Law* as this case develops.

- Daniel J. McCarthy

Tragedy at University of Northern Colorado: Complaint Filed Against Delta Tau Delta

An eighteen-year-old University of Northern Colorado freshman, Ross Higuchi, sustained fatal injuries from a fall during a fraternity party in 2011. After participating in rush activities for Delta Tau Delta ("DTD"), Higuchi received an invitation to join its Theta Omicron Chapter ("Chapter"). Days later, Higuchi and fellow pledges participated in a "pinning ceremony." The Plaintiffs claim that the ceremony provided pledges with alcohol and was followed by a party at the Chapter house. Further, the suit alleges that the pledges and DTD members participated in assortment of drinking activities, including "drinking races" and "family time" drinking.

Higuchi is alleged to have engaged in erratic behavior, which was noticed by others during the party. It is claimed that DTD members admitted that Higuchi was visibly intoxicated and "needed to be controlled." Members witnessed Higuchi making incoherent statements, such as "I am the kind of the pirates," and "I am going to inherit billions of dollars." Nevertheless, the party continued, and, as claimed in the complaint, "nobody took action to get Ross out of a position of peril by taking control of him." Specifically, it is contended that Tyler Ames—then chapter President, whose position holds "senior responsibility" in overseeing crisis management— did nothing to assist Higuchi. At 1:15 a.m., Ross Higuchi "plunged" from the second-floor balcony of the DTD house. The 18-year-old was taken to the hospital and ultimately succumbed to his injuries three days later.

A DTD member, Kyle Edward Riley, was criminally convicted for providing alcohol to a minor. Riley was ordered to serve two years on supervised probation. Scott Higuchi, Ross's father, recently filed a complaint in the Boulder County District Court on behalf of his son's estate against Delta Tau Delta National Fraternity ("DTD National"), the Chapter, and several individual members of the Chapter.

Among other claims, the Plaintiff asserted negligence and reckless homicide causes of action against DTD National. Specifically, the Plaintiff contends that DTD National retained and appointed untrained, unpaid college students to oversee crisis management responsibilities. Coupled with the fact that DTD National was aware, or should have been aware, of the presence and inherent risk of alcohol at pledge parties, the Plaintiff contends that the Defendants acted recklessly. This tragedy, it is argued, could have been prevented if DTD National enforced reasonable policy measures.

Further, the Plaintiff contends that the actions of DTD members constituted hazing, as proscribed by C.R.S. § 18-9-124. The Plaintiff contends that the hazing occurred when the pledges were compelled to consume alcohol under duress. The Plaintiff, in an additional claim for relief, contends that DTD National violated the hazing statute, as the individuals were "members and/or agents of [DTD National] and in furtherance of [DTD National's] business."

The Plaintiff also sets forth a negligence claim against all named Defendants, claiming that the Defendants had a duty to reasonably care for Higuchi. The complaint states that this duty was breached when DTD failed to procure appropriate medical care to Higuchi, delayed in calling 911, and subjected the victim to unqualified treatment. The Plaintiff asserts that Higuchi, out of necessity, relied upon the Defendants, but the action and inaction of the members ultimately placed Higuchi in a worse place than he would have been if proper care was taken.

Plaintiff seeks unspecified pain and suffering damages for Ross Higuchi, as a result of "experienc[ing] conscious pain and suffering for a period of days as he struggled to stay alive." Additionally, Ross's parents seek unspecified damages for emotional distress. This complaint was recently filed. Thus, no answers have been filed, and no trial date is set.

- Tim Burke
- Chris Hoskins

1 Riley and Ames were named as Defendants in the civil complaint.
2 *Higuchi v. Delta Tau Delta Fraternity* (complaint filed Oct. 12, 2012).