



# Texas Entertainment and Sports Law Journal

State Bar of Texas  
Entertainment & Sports Law Section

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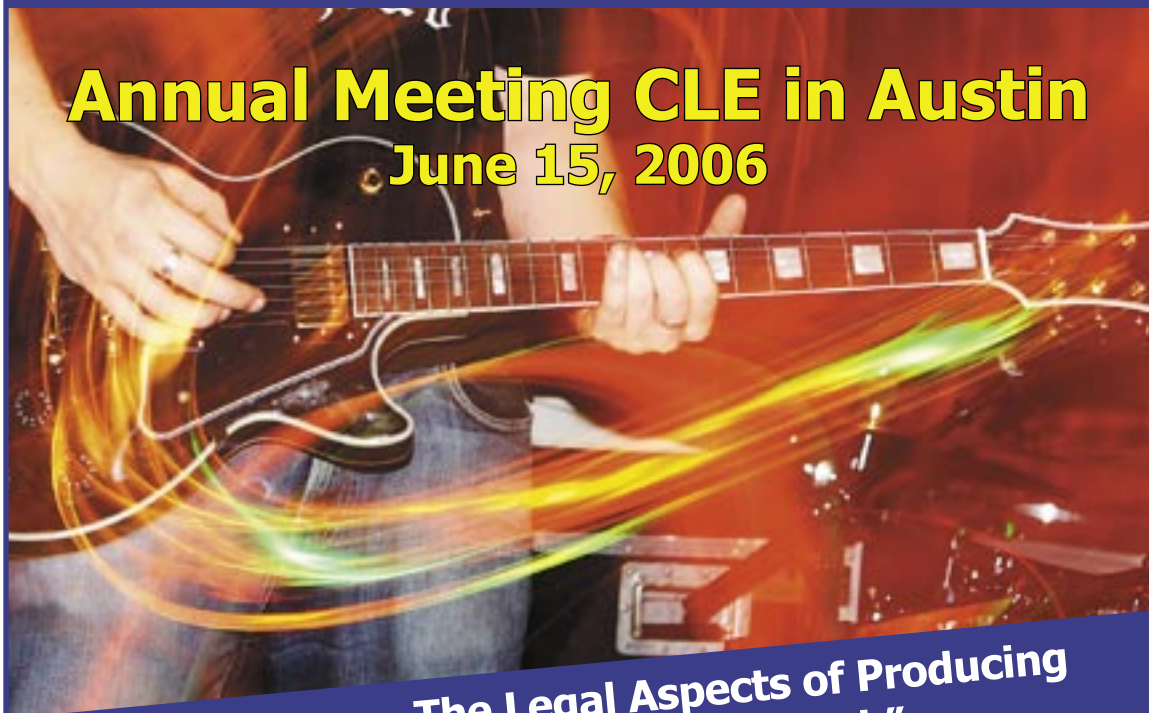
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## Annual Meeting CLE in Austin June 15, 2006

### "Legalpalooza - The Legal Aspects of Producing the Austin City Limits Festival."

Speakers: Lawrence Temple, General Counsel and Charlie Jones, Principal/Executive Producer

### "How To Become A Sports Agent" Speaker TBA



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## CHAIRMAN'S REPORT

2006 is marked as a year of tremendous growth for the section. The Council is committed to implementing methods for reaching the membership with key information for building practices in sports and/or entertainment law.

The first step is bringing you this issue of the Journal chocked full of the latest legal information members can use to build their practice and assist their clients.

The second step is the Annual Meeting CLE scheduled for 2:00 pm on June 15, 2006 in Austin. We are excited to welcome a team from Capital Sports & Entertainment. Lawrence Temple, General Counsel and Charlie Jones, Principal/Executive Producer, will be speaking on "Legalpalooza - The Legal Aspects of Producing the Austin City Limits Festival." The second half of the program will be devoted to "How To Become A Sports Agent" and the speaker will be confirmed shortly. Please watch the website for more information on the program.

Speaking of the website ... visit our new website at [www.teslaw.org](http://www.teslaw.org). Not only does the site contain past issues of the Journal, but it also contains a direct link to the Section's listserv and a membership directory.

Mark your calendars for the 16<sup>th</sup> Annual Entertainment Law Institute scheduled for October 20-21, 2006. Mike Tolleson, the ELI Director, is already planning an amazing program that will include cutting-edge music and film topics presented by top entertainment attorneys from Texas and across the U.S.

Be on the lookout for the new Section t-shirts. Our Rock Star Attorney shirts are available for \$15.00. We are stocking the shirts in Dallas, Austin, Houston and San Antonio. Please contact a council member located close to you so you can pick up a shirt. The shirts will also be available at the Annual Meeting and ELI.

As always, wishing you much success with all your endeavors!

Tamera H. Bennett  
tbennett@tbennettlaw.com

### ***Check out the Section's Website!***

Check it out at <http://stcl.edu/txeslj/index.htm>. Thanks to Section Immediate Past Chair Yocel Alonso and his helpers for finally getting the Section online. Should you have any comments or suggestions to improve the site please feel free to e-mail Yocel at [Yocelaw@aol.com](mailto:Yocelaw@aol.com) or the editor at [srjaimelaw@pdq.net](mailto:srjaimelaw@pdq.net) ...

## Student Writing Contest

The editors of the *Texas Entertainment and Sports Law Journal* ("Journal") are soliciting articles for the best article on a sports or entertainment law topic for the Fifth Annual Writing Contest for students currently enrolled in Texas law schools.

The winning student's article will be published in the *Journal*. In addition, the student may attend either the annual Texas entertainment law or sports law seminar without paying the registration fee.

This contest is designed to stimulate student interest in the rapidly developing field of sports and entertainment law and to enable law students to contribute to the published legal literature in these areas. All student articles will be considered for publication in the *Journal*. Although only one student article will be selected as the contest winner, we may choose to publish more than one student article to fulfill our mission of providing current practical and scholarly literature to Texas lawyers practicing sports or entertainment law.

All student articles should be submitted to the editor and conform to the following general guidelines. Student articles submitted for the writing contest must be received no later than October 1, 2006.

**Length:** no more than twenty-five typewritten, double-spaced pages, including any endnotes. Space limitations usually prevent us from publishing articles longer in length.

**Endnotes:** must be concise, placed at the end of the article, and in Harvard "Blue Book" or Texas Law Review "Green Book" form.

**Form:** typewritten, double-spaced on 8½" x 11" paper and submitted in triplicate with a diskette indicating its format.

We look forward to receiving articles from students. If you have any questions concerning the contest or any other matter concerning the *Journal*, please email Andrew T. Solomon, Professor of Law and Articles Editor, Texas Entertainment & Sports Law Journal, at [asolomon@stcl.edu](mailto:asolomon@stcl.edu).

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## FOR THE LEGAL RECORD ...

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### Doping may change the entire fabric of sports law ...

A German track coach was accused of supplying performance enhancing drugs and references to Repoxygen in Thomas Springstein's e-mails suggest that gene doping may become a hot topic in the 2008 Beijing Olympics. Gene doping involves transferring genes directly into human cells to blend into an athlete's own DNA. The process enhances muscle growth and increases strength and endurance. Gene doping was considered to be a low priority issue but Springstein's trial suggests that there already may be widespread use among international athletes in anticipation of the next Olympic games ...

Austin, Texas-based Lance Armstrong was accused of defamation by Italian cyclist Filippo Simeoni in a Paris criminal court. Ruling that the statute of limitations had run, the French judiciary threw out the case. Armstrong, was quoted in the French daily *Le Monde* as contending that Simeoni, in exchange for a lesser penalty, agreed to testify against a doctor on trial for sports fraud and malpractice, if he were charged with doping ...

Three University of Delaware football players allegedly broke into another player's apartment to steal, among other things, 18 vials of liquid steroids. Sophomore linebacker Demetrice Alexander, sophomore running back Danny Jones and junior defensive back Jeff Robinson were charged with armed robbery and burglary for using a gun to force their way into the other student's apartment. There was no word on why the university student was in possession of the vials of steroids ...

Professional and minor-league baseball players were suspended for positive steroid tests. Arizona Diamondbacks pitcher Angel Rocha got a 100-game suspension and Los Angeles Angels pitcher Karl Gelinas, New York Mets pitcher Jorge Reyes and St. Louis outfielder Yonathan Sivira received 50 game suspensions. Rocha's suspensions is his second, having been suspended in 2005 for 15 games. Four minor leaguers also received 50 game bans for testing positive to steroid use under the new rules imposed by minor-league contracts which raised the penalty from 15 game suspensions for an initial positive test ...

Tim Montgomery and Chrystie Gaines received 2-year bans for their involvement with the BALCO Laboratories scandal. The U. S. Anti-Doping Agency wanted 4 year bans for Montgomery, the former world record holder in the 100 meters, and Gaines, a two-time Olympic relay medalist. Montgomery also lost the 100-meter silver medal and the gold medal he won as part of the 400-meter relay in the 2001 World Championships. The Court of Arbitration for Sport imposed the lesser penalty but also voided all of Montgomery's results from March 21, 2001 and Gaines' since Nov. 30, 2003. "It is always a great day for clean athletes when individuals who cheat are held accountable and stripped of the rewards gained through doping," said Terry Madden, chief executive officer of the USADA. Significantly the sanctions were imposed despite the athletes not testing positive for performance enhancing drugs. The Court of Arbitration relied instead on its "strong, indeed uncontroverted, evidence of doping" by the sprinters. The court's ruling was based on the testimony of Kelli White, a former world sprint champion who received a 2-year suspension for her involvement in the BALCO case ...

### Other notable Judicial decisions in the world of sports:

Former tennis star Roscoe Tanner violated the terms of his probation by failing to make restitution and was sent to prison for two years. Tanner won nearly \$2M while a professional tennis player and was sentenced to jail in Pinellas County, Florida, when he failed to make restitution on his conviction for grand theft ...

Given the choice of donating four seats to the Green Bay Packers or 90 days in jail, a 59 year-old Packer season ticket holder gave the season tickets to the Make-A-Wish Foundation. The woman was given the choice after being convicted of taking \$3,000 from labor union accounts. The tickets accounted for 12 seats in a three game package ...

Mark Gravesend of Show Lo, AZ, was arrested and jailed for disorderly conduct for allegedly throwing a tube of toothpaste at Barry Bonds during a Giants v. Diamondbacks baseball game. Reportedly the tube contained a computer-generated, black and white lettered label that read: "To Barry Bonds. The cream. From: Victor Conte." ...

Penn State fined its women's basketball coach, Rene Portland, \$10,000 for mistreating a player. Portland did not lose her job, but was accused of harassing former player Jennifer Harris for her comments in incorrectly accusing Harris of being gay. Harris told Penn State investigators that Portland told her that she "needed to look more feminine." The investigators concluded that Portland created a "hostile, intimidating and offensive environment" based on Harris' perceived sexual orientation. Harris, a black woman, also filed a federal lawsuit against Portland, who is white, despite the University concluding that there was no evidence that Portland discriminated on the basis of race against Harris. Harris also stated that Portland had a policy of "keeping women she thought were lesbians off the team" ...

### Looking for additional education?

Belmont Abbey College in Charlotte, NC, is offering a bachelor's degree focusing on the business management of motor-sports racing. Charlotte is seen as the center of the racing industry, creating more than 24,000 jobs with an average pay of \$70,000 in North Carolina. School officials describe the 4-year degree as the first of its kind ...

Or how about sports promoting? Fight promoter Roy Englebrecht is promoting his new Fight Promoter University on his website. "Bad promoters hurt good promoters. I want to do away with bad promoters" ... Englebrecht is quoted as saying. He offered an inaugural 3-day session in Irving, CA to about thirty attendees that featured Mark Ratner, executive director of the Nevada Athletic Commission, as keynote speaker, and presentations by fifteen other speakers. Englebrecht is scheduling future classes with an eye to offering students the opportunity to own their own franchises as well as to earn a Masters of Boxing Administration degree ...

**And finally**, congratulations to Texas' Deloss Dodds (a previous speaker at the Section's Sports Law seminar) for being named Street & Smith's SportsBusiness Journal national athletic director of the year. Mr. Dodds has been AD at the University of Texas for 24 years, with UT garnering 79 conference championships and 9 national championships, with a crowning 2006 season which included national championships in baseball and football.

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Sylvester R. Jaime—Editor

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The Section's Website is at <http://stcl.edu/txeslj/index.htm>.

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**SAVE THE DATE**

**October 21 & 22, 2006**

**The 16<sup>th</sup> annual Entertainment Law  
Institute Conference in Austin, Texas**

## A PRIMER ON MUSIC LICENSING “THOU SHALT NOT STEAL”

### WHAT PRACTITIONERS SHOULD KNOW ABOUT MUSIC LICENSING

© James A. Johnson

*James A. Johnson concentrates on intellectual property licensing with an emphasis on entertainment related litigation. Mr. Johnson is a member of the Michigan and Massachusetts Bars.*

#### INTRODUCTION

To understand music licensing requires a knowledge of copyright law. A copyright vests as soon as an original work of authorship is fixed in any tangible medium of expression.<sup>1</sup> There are two very different and distinct sets of copyrights in music: the rights to the musical composition (the written lyrics and the accompanying music) and the rights to the sound recording of the musical composition. The sound recording is usually owned by a single record company and compositions often have complex ownership groups. Any reproduction of a musical composition or a sound recording requires the consent of the owner of that particular copyright.<sup>2</sup>

The purpose of this article is to provide guidance and an advanced starting point for general practitioners, intellectual property lawyers and entertainment attorneys on music licensing. There are five exclusive rights a copyright owner has in music under the Copyright Act.<sup>3</sup> They are reproduction, adaptation, distribution, public performance and public display.

1. Reproduction is the right to reproduce the copyrighted work in copies or phonorecords.
2. Adaptation is the right to prepare derivative works based on the copyrighted work.
3. Distribution is the right to distribute copies or phonorecords of the copyrighted work to the public by sale, rental or lease.
4. Public Performance is the right to publicly perform the copyrighted work including by means of a digital audio transmission.
5. Public Display is the right to publicly show a copy of sheet music or lyrics by means of a film, TV, motion picture or on the Internet.

#### USES OF A SONG

It is your client's intended use of a song that dictates what licenses are required in the sound recording (a master use license) and the rights in the underlying composition (a mechanical license). To avoid copyright infringement you must first determine the owner of the applicable copyrights and obtain permission. The rights granted to the licensee will almost always be in the form of a non-exclusive license. For example a Master Use License should include at a minimum the specific rights granted to the licensee and reserved to, the licensor, warranties, indemnification, term, termination, choice of law and jurisdiction.

**The following is one of my required provisions:**

#### **GRANT OF LICENSE (abbreviated sample provision)**

(a) Rights Granted to Licensee. Subject to the terms and conditions of this Agreement, including without limitation, the payment of all appropriate fees to Licensor and third parties and contingent upon Licensee obtaining the music publishing and union clearances referred to in this Agreement, Licensor grants Licensee a nonexclusive, worldwide license and right to:

- (1) incorporate the complete, unaltered Sound Recording within the Product.
- (2) manufacture, market, promote, sell, license, and distribute copies of the Product which incorporate the Sound Recording, both directly to end users and indirectly through distributors, dealers, resellers, agents, and other third parties; and
- (3) subject to the provisions of Article 2 herein, use the full and complete name of the Artist for the credits and packaging of the Product and the distribution, exhibition, advertising, and exploitation of the Product.

(b) Rights Reserved to Licensor. Licensee acknowledges that it has no rights in the Sound Recording except those expressly

*Continued on Page 5*

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granted by this Agreement. Nothing herein shall be construed as restricting Licensor's right to sell, lease, license, modify, publish, distribute, transmit, create derivatives of, publicly perform in any way the Sound Recording, in whole or in part.

(c) No License to Musical Composition. This license does not include any rights with respect to the musical composition performed in the Sound Recording. Prior to exercising any rights granted in this Agreement, Licensee shall obtain, from the owners of the copyrights in the musical work performed in the Sound Recording, all licenses that may be required for the use of that musical work in the Product. Licensee will pay all copyright fees to the music publisher of such musical.

Digital sampling is the recording of a sound or portion of a sound recording by means of a computer and then using that copy in a new sound recording.

*Grand Upright v. Warner Brothers*<sup>4</sup> was the first case to address directly the issue of digital sampling as copyright exploitation requiring a license. In *Newton v. Diamond*<sup>5</sup> the sample at issue consisted of a six-second segment of a flutist playing three notes. A license was obtained for the sound recording but not for the composition. The district court held that the use of the three note sample was de minimis, involved sheet music and was not protected by copyright. The compositional components that were taken were not separately copyrightable from the composition as a whole. *Newton* is limited to situations in which the sound recording and composition do not actually cover the same work. Thus, in other situations a digital sampler is compelled to obtain a license for the sound recording and the underlying musical composition. Unless you obtain both you invite a claim for copyright infringement seeking an injunction, damages for profits, attorney fees, cost and if willful, criminal prosecution.

If a recording is to be synchronized (in timed-relation) with a visual portion of an audiovisual work such as a music video, television program or motion picture a synchronization license is required. A "synch license" authorizes the synchronization of a musical composition with an audiovisual work, but not for distribution to the public.

Distribution to the public for home use (video cassettes) requires a videogram license. A videogram license allows the

licensee to make copies of the audiovisual work distributed for public use such as in-house corporate training or for use in schools, retail stores or similar public places. Neither a videogram nor a synch license grant performance rights of the music.

## PERFORMANCE RIGHTS

Performance licenses govern uses such as radio or television broadcast, concert performances and outside sounds in bars, restaurants and other business establishments open to the general public. In these situations the copyright owner's exclusive right to perform is implicated and a performance license is required.<sup>6</sup> Similarly the downloading of music on a computer are public performances of the underlying song for which performance royalties must be paid to the music publisher.

A performance license is also needed to publicly transmit a musical work over the Internet. In *Booneville International Corp. v. Peters*,<sup>7</sup> the third Circuit held that the Digital Millennium Copyright Act<sup>8</sup> provides the owner of a copyright sound recording the exclusive right to publicly perform the work by means of a digital audio transmission by an AM/FM radio station facility operating pursuant to a FCC license. AM/FM web-casting does not meet the definition of non-subscription broadcast transmission under the DMCA and is therefore not exempted from the digital audio transmission performance copyright.

Performance rights societies such as ASCAP, BMI and SEAC administer the majority of performances licenses in the United States. They grant licenses, collect the license fees and pay the royalties for a particular song to the copyright owner and to the songwriter, usually on a 50/50 basis. Recently, copublishing agreements between the songwriter and the music publisher are allocating a greater share of the net publishing income with 75 percent to songwriters. Public performance royalties are paid directly to the songwriter by the appropriate public performance society. If your client is a songwriter or music publisher you should advise him or her to join one of the performance rights societies.

For handling public performance rights in certain non-interactive digital and satellite transmissions of sound recordings of music over the Internet a new organization has emerged. SoundExchange collects and distributes public performance

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royalties for the sound recording copyright owners and for the featured and non-featured artists. It is also the principal administrator of the statutory licenses under Section 112 and 114 of the Copyright Act.

For purposes of clarity and distinction central to this article SoundExchange collects only public performance royalties for digital transmissions of music. ASCAP, BMI and SESAC collect the public performance license fees and royalties only for songs other than by digital transmission. The Harry Fox Agency represents music publishers and serves as a clearinghouse and a monitoring service for licensing musical compositions. It issues compulsory mechanical licenses that permit record companies and their artists to reproduce songs in various media, like a CD. Harry Fox does not license performances, except for digital downloads.

Keep in mind that the above examples are only some of the different types of licenses in a music agreement. Copyrights and other legal rights involved in a music license transaction are complex. Consider *Parks v. LaFace Records* opining that Section 43(a) of the Lanham Act<sup>9</sup> creates a civil cause of action for celebrities because they have an economic interest in their identities like a trademark holder. A trademark is a source or origin identifier. The primary function of trademark law is governed by the Lanham Act.<sup>10</sup>

Rosa Parks, icon of the civil rights movement of the 1950's, who refused to move to the back of the bus sued LaFace Records under the Lanham Act for misusing her name and identity. LaFace Records produced a song by rap duo Outcast titled "Rosa Parks" and containing a chorus with the words "everybody move to the back of the bus." There is evidence that the title and lyrics of the song could cause confusion. The Sixth Circuit's reversal of summary judgment and remand to the district court permits a jury to decide the question of the likelihood of consumer confusion or whether the song has some artistic relevance and provides a defense. Stay tuned.

To glean a visual and auditory example of digital sampling, watch television. When watching TV you will hear a small portion of old tunes digitally sampled in a bevy of commercial advertising. These synchronized digital samples in both the recorded performance such as the 1971 20th Century Fox Film, French Connection -car chase and in sound like: *Respect*

-Aretha Franklin; *Money, Money, Money*- O' Jays; *Be My Baby* -Ronettes; *On the Road Again* -Willie Nelson are intended to conjure up fond memories to get your attention. After you see and hear a sufficient number of digital samples on TV get up out of that recliner chair and reread this article.

## CONCLUSION

Music licensing requires meticulous preparation, intellectual property searches, clearances and drafting skill. The copyrights and other legal rights involved in music are unique. They must be understood in order to determine when a license is required, who has the right to grant the desired license and what type of license is appropriate.

The written agreement should accurately reflect the business deal of the parties in clear and unambiguous contract terms. Clarity, avoidance of superfluous technical jargon and memorializing the business understanding are the hallmarks of a deft intellectual property licensing attorney.

As the art of music making and performance evolves, so does the art of music licensing. Moreover, new technology and legislative developments require the practitioner to fine tune his or her knowledge and acumen. With the information in this article you will be able to assist your clients in avoiding the Seventh Commandment. This will keep the music soft and sweet to your ears.

1. 17 U.S.C. §102(a)

2. 17 U.S.C. §106

3. 17 U.S.C. §106, 106(4), 106(6).

4. 780 F. Supp 182 (S.D.N.Y. 1991).

5. 204 F. Supp 2d 1244 (C.D. Cal. 2002); aff'd 349 F. 3d 591 (9th Cir. 2003).

6. 17 U.S.C. §101.

7. 347 F.3d 485 (3d Cir. 2003).

8. 66 U.S.P.Q. 2d 1735 (6th Cir. 2003).

9. Lanham Act §43(a), U.S.C. §1125(a).

10. 15 U.S.C. §1051 -1127.

**SAVE THE DATE**  
**October 21 & 22, 2006**  
**The 16<sup>th</sup> annual Entertainment Law**  
**Institute Conference in Austin, Texas**



**The Section's Nominating Committee submits the following nominees to the Section membership for inclusion on the Council:**

1. General Council, expiring in 2008:

**Maureen Doherty** (Entertainment - Houston) (who would take Alan Tomkin's place, who moves to the nominee for Secretary)

**D'Lesli Davis** (Entertainment - Dallas) (who would take Shannon Jamison's place who moves to the nominee for Treasurer)

2. General Council, expiring in 2009:

**Brian Cooper** (Sports - Houston)

**Don Valdez** (Entertainment - Dallas)

**Laura Prather** (Entertainment - Austin)

3. Secretary

**Alan Tompkins** (Sports – Dallas)

4. Treasurer

**Shannon Jamison** (Dallas)

5. Chair-Elect

**Craig Barker** (Entertainment – Austin)

6. Chair

**Ken Pajak** (Entertainment – Austin)

***Congratulations to each of the nominees!***

Nominees, please note that the official vote will take place at the Section meeting which will be on June 16 at the State Bar's annual meeting in Austin. Thank you once again for your willingness to serve the Council and the Section.

Many thanks to the nominating committee—Ken, Hal, Shannon, and Mo—as well as Tamera, for their help in locating qualified nominees.

**MAUREEN DOHERTY – Houston, TX:** Entertainment attorney licensed in both CA and TX, with extensive experience in both the legal and business areas of music, arts and entertainment. She is a managing partner in Houston at Doherty & Bang LLP. She has served as the general counsel for high profile GRAMMY®- winning artists, represented film studios, production companies, record labels, TV stations and international artists, performers, producers, directors and screenwriters. She is also a board member of Texas Accountants for the Arts (TALA) and a frequent speaker at music and film industry events.

**D'LESLEI M. DAVIS - Dallas, TX:** Ms. Davis, of Fulbright & Jaworski in Dallas, has recently returned to Texas following a ten-year stint in Nashville, where she practiced entertainment law as a partner and head of the Entertainment Law Section at King & Ballow. D'Lesli has extensive experience in handling all types of music industry transactions and litigation. Of recent interest, D'Lesli represented Bridgeport in the seminal copyright infringement Bridgeport Music litigation. She hopes to join the Council to further assist in promoting Texas as home to premiere entertainment and sports attorneys.

**DON VALDEZ - Dallas, TX:** Mr. Valdez, recently retired Vice President, Anti-Piracy Legislation & Regional Counsel for the Recording Industry Association of America, has joined the growing Intellectual Property Practice Group of Decker, Jones, McMackin, McClain, Hall & Bates P.C. His broad, national experience in anti-piracy matters brings a unique skill set to the practice area. Valdez is a former recording artist, writer and producer; he is a member of the Country Music Association and the National Academy of Recording Arts and Sciences. His practice centers on entertainment and brand protection.

**LAURA PRATHER - Austin:** Ms. Prather is a media and entertainment lawyer and an adjunct professor at the University of Texas School of Law. "I'm thrilled to have the opportunity to work with all the talented lawyers on the Council and look forward to meeting and making new friends."

**ALAN W. TOMPKINS - Dallas, TX:** Mr. Tompkins is Vice President and General Counsel of Hunt Sports Group and Hunt Capital Group in Dallas. As such, Alan manages legal matters for Mr. Lamar Hunt, his family, and their affiliated entities. Hunt Sports Group operates three Major League Soccer teams, including FC Dallas, as well as the sports and entertainment complex known as Pizza hut Park in Frisco, Texas.

**SHANNON JAMISON - Dallas, TX:** Shannon practices entertainment law as a solo practitioner in the Dallas area, with an emphasis on film and television projects. Before starting her own firm, Ms. Jamison practiced with a regional law firm in the litigation section, where she participated in several intellectual property disputes involving copyright, trademark patent matters.

**CRAIG BARKER - Austin, TX:** "After many years as a manager, producer, bass player and road manager, I got a day job as an entertainment lawyer. I'm passionate about the Texas entertainment and sports communities. I hope to bring that with me in working to continue the council's efforts to reach out to and involve our great legal community in our burgeoning entertainment and sports industries."

**KEN PAJAK - Austin:** "I would like to express my appreciation and gratitude to all of the past and present TESLAW Officers, Council members, and Section members for their great efforts to enhance the Section and, especially, for their faith in me to Chair the Section in 2006-2007. I invite and challenge all Section members to actively participate on a TESLAW committee of interest in the following year. Thank you for your nomination. I promise to do my best to build upon the successes of the past Chairs."

## TATTOOS AND COPYRIGHT INFRINGEMENT: CELEBRITIES, MARKETERS, AND BUSINESSES BEWARE OF THE INK

Christopher A. Harkins  
Copyright 2006

*Counsel, Brinks Hofer Gilson & Lione, Chicago, Illinois. Christopher A. Harkins specializes in litigation involving patents, copyrights, and trade secrets, and in prosecuting patent applications in the US Patent and Trademark Office and worldwide under the Patent Cooperation Treaty. Mr. Harkins may be reached at charkins@usebrinks.com. The views expressed herein are those of the author alone and do not necessarily reflect the views of Brinks Hofer Gilson & Lione or its clients. Copyright ©2006, Christopher A. Harkins, All Rights Reserved.*

How long does getting a tattoo really hurt? Pose that question to Nike, Inc., its advertising agency, and professional basketball player Rasheed Wallace from the world champion Detroit Pistons, and you may be surprised to hear the answer. The tattoo Wallace got in 1998 still hurts, or more accurately stated hurts anew, seven years later in 2005. Indeed, long after the pain subsided from needles delivering tattoo ink, the same tattoo artist delivered other ink that brought back the pain: legal ink in a complaint for copyright infringement.

Tattoos are almost ubiquitous these days, with body piercing likely following closely behind. With advertising increasingly displaying skin—from hip huggers to cropped shirts to a basketball jersey showing Rasheed Wallace's tattooed arm—actors, actresses, and sports figures display both forms of body art on television, the silver screen, billboards, and the Internet for consumer product and service providers who hope to benefit from increased sales.

Businesses, advertising agencies, and celebrities often lose sight of any interest that tattoo artists may have in the tattoos and body piercing, perhaps thinking the tattoo artist has already been paid in full or mistakenly thinking that tattoo customers own the artwork and have a right to display their own bodies with impunity. Ownership of the copyright is distinct, however, from ownership in any material object (e.g., the permanent mark or design made on the skin with indelible ink) that embodies the work.<sup>1</sup> Even innocent parties may be liable, however, for copyright infringement.<sup>2</sup> The recent copyright case discussed below, perhaps the first of its kind and possibly signaling a floodgate for other lawsuits of its kind, teaches that advertising agencies, sellers and suppliers of products and services, and celebrities need to confront some copyright issues if they wish to avoid legal action, mitigate damages, or successfully defend against lawsuits relating to body piercing and tattoos.

### TATTOO ARTIST LAUNCHES A THREE-POINTER AT NBA STAR RASHEED WALLACE, NIKE, AND AN ADVERTISING AGENCY

Two years ago, Rasheed Wallace and the National Basketball Association ("NBA") Detroit Pistons defeated the Los Angeles Lakers four games to one to become the 2004 NBA Champions.<sup>3</sup> While Wallace was reaping the benefits of stardom off the basketball court with shoe deals and commercials shots, the tattoo artist was taking a shot of his own. Tattooist Matthew Reed was filing registrations for copyrights for artwork displayed on Wallace's right arm.

### IN THE TATTOO PARLOR

Turn back the clock to 1998. Rasheed Wallace had just been traded to play for the NBA franchise Portland Trailblazers and made his home in Portland, Oregon. Also working in the Portland area, Matthew Reed was a self-employed graphic artist, a licensed tattoo artist and owner of TigerLily Tattoo and Design Work, where he would sketch artwork and then transfer the artwork to the skin in the form of tattoos. Reed had applied his works on several athletes, with his reputation increasing, including Rasheed Wallace, who visited TigerLily that year for a tattoo.

As is routine in the tattoo business, Wallace and Reed met to discuss ideas for the artwork. Wallace presented his own ideas for incorporating an Egyptian-themed family design of a king and a queen and three children with a stylized sun in the background. Reed listened to the ideas, took notes, and made sketches. Wallace made some suggested changes, including a headdress for the king and a change to the orientation of the staff the king was holding, all of which Reed incorporated in the final drawing. Before inking the tattoo, however, Wallace had failed to ask Reed or TigerLily to execute any assignment, licensing agreement, or written contract transferring to Wallace ownership or other rights in the tattoo design that would become the tattoo on Wallace's upper right arm.

### FROM THE BASKETBALL COURT TO THE COURTROOM

Wallace paid \$450 for the tattoo. Reed considered the price low, but believed he and his business would receive exposure and recognition from the tattoo being on an NBA player. Indeed, Reed admitted to observing without concern the tattoo during televised NBA games in which Wallace participated as a player. Moreover, Reed expected that the tattoo would be publicly displayed on Wallace's arm and conceded that such exposure would be considered common in the tattoo industry.

That all changed in Spring 2004 during the Detroit Pistons' championship run, when Reed saw the tattoo highlighted in an advertising campaign promoting Nike's products in a commercial broadcast on television and over Nike's website on the Internet. Although the advertisement featured Wallace as an NBA basketball player, it also included a close up of the tattoo that filled the screen and then showed the tattoo being created by a computerized simulation with a voice over from Rasheed Wallace describing and explaining the meaning behind the tattoo.

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The advertisement resulted from an agreement that Wallace had with Nike to promote Nike's products. In order to create and produce the advertisement, Nike also engaged Weiden & Kennedy as the advertising agency. However, Nike, the advertising agency, and Wallace had overlooked one other player off the basketball court. Reed, after seeing the commercial advertisement, filed an application to register copyrights drawings relating to the tattoo and later was issued visual art Copyright Registration Numbers VA 1-265-074 and VA 1-236-392 for the Egyptian Family Pencil Drawings.<sup>4</sup>

On February 10, 2005, Reed filed a complaint in the United States District Court for the District of Oregon against Nike, Inc., Rasheed Wallace, and Weiden & Kennedy.<sup>5</sup> In Count I, Reed alleged copyright infringement against both Nike and Weiden & Kennedy based on copying, reproducing, distributing, or publicly displaying Reed's copyrighted work without Reed's consent.<sup>6</sup> The remaining two counts were against Wallace individually. Count II claimed contributory infringement based on Wallace allegedly holding himself out to Nike as the exclusive owner in the tattoo, which conduct induced Nike to reproduce, distribute, and publicly display Reed's copyrighted work.<sup>7</sup> In the alternative to Count II, if Wallace were found to be a co-owner of the artwork, then Count III sought an accounting for which Reed would share in any revenue that Wallace realized from the advertisement.

## AN ARM AND A LEG?

Did Reed recover an arm and a leg for the tattoo on Wallace's upper right arm? Reed had sought all of the defendants' profits, a share of the revenue that Wallace received from Nike, prejudgment interest, an injunction, and Reed's actual damages, costs, and disbursements in bringing the lawsuit.<sup>8</sup> The parties recently dismissed the case,<sup>9</sup> however, presumably pursuant to a confidential settlement agreement.

So, how much does getting a tattoo really hurt? Beyond Wallace's initial pain of getting "inked," these defendants learned the hard way that a tattoo can also hurt years later in the courtroom. We probably will not learn how much the defendants paid to settle the case, the effect the lawsuit had on stock, and the attorneys' fees the defendants paid to defend the case.

The question then becomes, what can be learned from this tattoo? Though not a shot heard around the world, it should sound a warning to companies and advertising agencies who feature celebrities (sporting tattoos and body art) in advertisements on television, billboards, and the Internet.

## AT LEAST INITIALLY, TATTOOS ARE COPYRIGHTABLE SUBJECT MATTER OWNED BY THE AUTHOR, WHO MAY OBTAIN AND ENFORCE THE COPYRIGHT

To be copyrighted, a work must be "fixed" and "original."<sup>10</sup> The fixing requirement means that the work has been embodied in a form that is sufficiently permanent or stable long enough that it may be perceived, reproduced, or communicated. The originality requirement is relatively low and usually satisfied so long as the work was not copied from another and the work was more than merely trivial.<sup>11</sup> Although copyright protection attaches to a work upon its creation,

an author needs to file an application for registration of the work with the Copyright Office in order to sue for copyright infringement.<sup>12</sup> Registration also entitles a plaintiff to seek statutory damages and attorneys' fees for an infringement commenced after the effective date of the copyright registration or when the effective date of the copyright registration occurs after infringement, but within three months of the first publication (presumably the author's first publication) of the work.<sup>13</sup>

The elements of a copyright infringement cause of action are: "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original."<sup>14</sup> Absent direct proof of copying, the copying may be inferred where the defendant had access to the copyrighted work and the accused work is substantially similar to the copyrighted work. In the case of a tattoo, body piercing, or other form of body art, the "access" and "substantially similar" standards ought to be relatively met—the actual artwork that was transferred to the human body or otherwise applied to the skin is at issue.<sup>15</sup> Assuming the plaintiff owns a valid copyright (and a defendant proves no other defense), then the defendant who reproduces, prepares a derivative work based on, or distributes copies of the tattoo, for instance, without consent, permission, or authority of the copyright owner thereby directly infringes the copyright.

In addition to the defendant who commits an act of direct infringement (e.g., Nike and Weiden & Kennedy's alleged use of the tattoo or a copy of the tattoo in an advertising campaign), the United States Supreme Court recently recognized secondary liability for copyright infringement, including the theory of contributory copyright infringement. According to the Court in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it. Although '[t]he Copyright Act does not expressly render anyone liable for infringement committed by another,' these doctrines of secondary liability emerged from common law."<sup>16</sup> Thus, Reed alleged that Wallace intentionally induced and encouraged Nike and Weiden & Kennedy to infringe Reed's copyright by failing to advise those defendants of Reed's ownership interest in the tattoo.

Co-owners in a copyrighted work may use that work to generate revenues. If their use generates revenues, however, then absent an agreement to the contrary they must share any profits with the other co-owner in the copyrighted work. Known as an "accounting" theory, co-owners sometimes assert an accounting cause of action in the alternative to a claim for contributory copyright infringement,<sup>17</sup> which Reed did here.

A plaintiff asserting copyright infringement must file the lawsuit in a federal district court.<sup>18</sup> In general, federal courts have jurisdiction to hear state law claims under principles of supplemental jurisdiction.<sup>19</sup> Thus, a party may bring, in addition to a copyright infringement claim, claims arising under state law so long as those claims have not been preempted by the Copyright Act.<sup>20</sup> To survive a preemption attack, state law claims must be based on rights that are qualitatively different from the rights protected under the Copyright Act and must contain an extra element to the cause of action making it different in nature from proving copyright infringement.<sup>21</sup>

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## Intellectual Property May Belong to a Hiring Party such as a Customer Under Certain Limited Circumstances

In addition to the registration requirement, only the exclusive owner of the copyright has standing to bring a suit for infringement of a registered copyright.<sup>22</sup> Generally, a copyright holder can prove ownership by a copyright registration.<sup>23</sup>

Although ownership vests in the author of the work,<sup>24</sup> one need not be the author of a copyrighted work to be its owner. “Works made for hire” and a “joint works” are two specific exceptions. Furthermore, the author may transfer the copyright to the tattoo customer.

## WORKS MADE FOR HIRE BELONG TO THE HIRING PARTY

In a work made for hire, the employer or other person for whom the work was prepared is considered to be the author and, unless the parties expressly agreed in writing to the contrary, owns all of the rights in the copyright.<sup>25</sup> Thus, the work made for hire treats the hiring party as both the owner and the author as a matter of law. There are two types of works made for hire under Section 101 of the Copyright Act, and the Supreme Court, in *Community for Creative Non-Violence v. Reid*, found each type to be “mutually exclusive” of the other.<sup>26</sup>

The first type of work made for hire is a work prepared by an “employee” within the scope of his or her employment. In the tattoo industry, it seems unlikely that the tattooist meets any of the approximately 13 factors that the *Reid* Court identified as comprising the employee-type of work made for hire: “[W]e consider the hiring party’s right to control the manner and means by which the product is accomplished. Among the other factors relevant to this inquiry are the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party’s discretion over when and how long to work; the method of payment; the hired party’s role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party.”<sup>27</sup>

The other type of work made for hire applies to works created by independent contractors. While that ostensibly appears on its face to cover the tattooist, the customer should not miss out on two critical requirements.

First, a work created by an independent contractor can constitute a work made for hire only if “the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.”<sup>28</sup> Second, does the written agreement need to use any magic language to satisfy the Copyright Act? Interpreting Section 101(2), the Ninth Circuit found that whether a written agreement used “the talismanic words ‘specially ordered or commissioned’ matters not, for there is no requirement, either in the Act or the case law, that work-for-hire contracts include any specific wording,” but the written agreement at issue had used the phrase “works made for hire.”<sup>29</sup> Courts generally require, however, that the written agreement exists before the work is created.<sup>30</sup> Furthermore, the tattooist may still attack a written agreement under traditional principles of contract law.<sup>31</sup>

Moreover, the work must fit within one of the nine categories of “specially ordered or commissioned” works enumerated in the Act: “a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas.”<sup>32</sup> Absent an extension, modification or reversal of existing law, or the establishment of new law, a traditional tattoo as transferred to the skin does not seem to fit the categories for a specially ordered or commissioned work.

Therefore, the tattoo would probably not make a work made for hire under either paragraph to Section 101. But do not forbear considering this theory: Under unusual circumstances on a case-by-case basis, the *Reid* factors might militate toward making the argument and asserting the work to be one made for hire.

## JOINT WORKS ARE CO-OWNED BY THE AUTHORS

As an alternative solution to a situation that does not support the work-for-hire doctrine, an accused infringer may allege joint authorship. For instance, there was some suggestion in Reed’s complaint that Wallace may have researched and come up with the idea for an Egyptian-themed family design with a stylized sun in the background and made additional changes to Reed’s sketch. This arguably could make Wallace a co-author in the work he brandishes on his upper right arm, one of the more distinctive tattoos in sports.

The authors of a joint work are co-owners of any copyright in the work.<sup>33</sup> Co-authors of a joint work “hold undivided interests in a work, despite any differences in each author’s contribution.”<sup>34</sup>

A joint work is “a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.”<sup>35</sup> Joint authorship requires, first, that “putative coauthors make objective manifestations of a shared intent to be coauthors.”<sup>36</sup> Second, “[a] collaborative contribution will not produce a joint work, and a contributor will not obtain a co-ownership interest, unless the contribution represents original expression that could stand on its own as the subject matter of copyright.”<sup>37</sup>

Perhaps thinking that half recovery is better than full recovery, a defendant might rush into pleading joint authorship via an accounting theory as an alternative to exclusive ownership as a work made for hire. While the Federal Rules of Civil Procedure ought to permit alternative pleading, a defendant needs to exercise some caution and judgment in pleading, discovery, oral argument, and the record. Indeed, a court might find as a matter of law that a work was not made for hire, and then in the face of a defendant’s repeated claims of exclusive authorship as a work made for hire, might grant summary judgment against a theory of joint authorship by finding that the defendant cannot possibly demonstrate the requisite shared intent to be a co-author.

If successful, however, proving joint authorship gets the defendant only halfway home. Absent a written agreement to the contrary, each co-owner has the right to use the copyright, but might be required to share the profits with other co-owners.<sup>38</sup> Nonetheless, proving a contribution to the copyrighted work, even a relatively minor contribution, entitles the contributor to joint authorship status and a potentially significant benefit by possibly reducing the damages.<sup>39</sup>

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## A COPYRIGHT MAY BE TRANSFERRED BEFORE OR AFTER THE FACT

The previous theories had a time element to them in that the copyright vested initially with the author (the hiring party in a work made for hire) or authors (e.g., a joint work) of the work. A transfer theory centers on the work at or after the time of its creation, and might provide the alchemy for transmuting the issue from one of authorship into one of ownership—a complete defense to copyright infringement.

Ownership in copyrights, like other property rights, may be transferred in whole or in part, and any of the exclusive rights specified in Section 106 may be transferred and owned separately.<sup>40</sup> Section 204(a) of the Copyright Act sets forth the requirements of a valid transfer: “A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of transfer, is in writing and signed by the owner of the rights conveyed or such owner’s duly authorized agent.” Parsing that section, transfer may be “by operation of law” or “in writing.”

Section 204(a) does not define the phrase “by operation of law,” and case law is quite sparse. The few courts to have considered the phrase interpret it to mean “transfers by bequest, bankruptcy, mortgage foreclosures, and the like.”<sup>41</sup> Presumably, that narrow interpretation only would benefit a party defending against a tattooist’s copyright action in the most unusual circumstances.

The “in writing” distinction for a transfer under Section 204(a) has two requirements. First, the writing in question does not have to be a magnum opus or an epistle: “a one-line *pro forma* statement will do.”<sup>42</sup> In fact, Section 204(a) is explicit that “a note or memorandum” may transfer the copyright. Therefore, the document need not even use the term copyright or contain any particular language so long as the writing or writings as a whole suggest that the parties intended to transfer a copyright interest.<sup>43</sup>

Second, the writing that transfers the interest in a copyright must be signed by the transferor of the copyright or his agent. Other than any superficial similarity to the Statute of Frauds, Section 204(a) is quite different. The Statute of Frauds serves an evidentiary function to render unenforceable an otherwise valid agreement, whereas, the agreement under Section 204(a) is invalid *ab initio*.<sup>44</sup> An oral assignment later confirmed in writing, however, may validate the transfer from the date of its inception (at least against an outsider to the assignment, e.g., the accused infringer).<sup>45</sup>

In contrast to an exclusive license or the exclusive rights associated with a transfer under Section 204(a), a copyright holder can grant an implied non-exclusive license via an oral agreement.<sup>46</sup> Thus, sometimes a defendant alleges to have a valid license to use the copyrighted works. A license may not always be, however, the magic bullet to defending against a copyright infringement suit. First, the owner of the original copyright possesses the exclusive right to prepare derivative works. Second, using copyrighted material that exceeds the scope of the license constitutes an infringement.<sup>47</sup>

## FOREWARNED IS FOREARMED

In basketball, as with other sports, a good offense sometimes makes the best defense. Likewise, Wallace’s experience forewarns others with lessons for avoiding similar lawsuits.

Before getting a tattoo, anyone with a reasonable expectation of fame should arm herself or himself with a work-made-for-hire contract, a joint work agreement specifying the customer’s contributions and expressing intent to make the customer a joint author, or some other written document transferring ownership from the tattooist and the tattoo business to the customer. As shown, many courts are fairly liberal on the specific wording. The would-be celebrity should seek legal advice or, if acting *pro se*, should ensure the written instrument uses the word “copyrights” and states that all “ownership” in the tattoo and any drawing, sketch, and other work that becomes or embodies the tattoo vests in, belongs to and is transferred in whole to the customer. Moreover, the written instrument should express that the parties negotiated the agreement, that the transfer was bargained for, and that the agreed upon price included services and a transfer of ownership in whole of all copyright interests. If you want further insurance, then the agreement could reference and attach a copy of Section 201 to the Copyright Act. Above all, the written instrument must be signed—before any work begins—by the tattooist and, preferably, also by the principal of the tattoo business.

What if that tattoo happened years ago and without any contract according to the previous paragraph? It is never too late to obtain a transfer of ownership.

Check the Copyright Office for any copyright registrations naming the tattooist or assigned to the tattoo business at [www.copyright.gov/records/cohd.html](http://www.copyright.gov/records/cohd.html). Admittedly, many people have long forgotten the name of the tattooist who inked them or have no idea of the tattoo business where they may have received the tattoo. But hopefully the celebrity, accustomed to would-be fortune seekers crawling out of the woodwork, can come forward with a name. If a copyright covers the tattoo, then seek a transfer of ownership under Section 204(a). The copyright holder might try digging for gold in return for ownership transfer, or may have hit rock bottom and a bargain price might follow. Either way, it is better to know this prior to committing a potentially infringing act.

If the tattooist has no copyright certificate of registration, then perhaps a transfer of ownership might still be an option. Alternatively, if there is a good faith belief and corroborative evidence supporting the belief that the work was one made for hire, was a joint work or was the subject of a document that arguably amounts to a transfer, then race to the Copyright Office could result in ownership for the tattoo recipient.

Nothing prevented Wallace from pursuing his own copyright in 1998 or any time thereafter. Nor did anything prevent Nike, via a transfer from Wallace, from filing an application at any time. Indeed, Reed did not file his applications for copyright registration until after viewing the commercials in 2004, with his first application filed months later and his second application filed a year later.<sup>48</sup> Indeed, Wallace and Nike could possibly have had copyright registrations before Reed even filed his first application. Even when there are competing applications, the Copyright Office generally accepts both applications and ownership becomes an issue for courts to decide.<sup>49</sup>

Registering a copyright is relatively simple and inexpensive. The application for a work of the visual arts contains, however, a few interesting questions from a strategy perspective: identifying

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authorship and claiming a transfer. If the work was made for hire, then applicants would name and identify themselves and as the “employer for hire of [the tattooist’s name].” If a Certificate of Registration issues, then the ownership vests originally with the applicants. Alternatively, applicants may identify themselves as co-authors who contributed to the work and, thereby, become co-owners but must share any profits with other owners in the copyrighted work. Finally, applicants must name the claimant who seeks the copyright. If the applicant decides to pursue a transfer theory and is not the author or joint author of the subject work, then provide a brief statement<sup>50</sup> of how the applicant obtained ownership of the copyright: “by written contract”; “transfer of all rights by author”; or “assignment” will do.

Generally speaking, a Certificate of Registration is issued after about four to six months of examination. The tattooist might try to invalidate the copyright registration by arguing there was no transfer, work made for hire, or joint work. If registration occurs less than five years from the first publication, then under Section 410(c) of the Copyright Act, an evidentiary rebuttable presumption of both the copyright validity “and of the facts stated in the certificate” is established and the burden shifts to the opposing party to prove why the copyright is invalid.<sup>51</sup>

Indeed, courts generally forgive mistakes in the registration and invalidate a copyright only if the copyright holder’s claim to sole ownership or authorship were made intentionally or purposefully amounting to fraud on the Copyright Office.

In *Billy-Bob Teeth, Inc. v. Novelty, Inc.*, for example, the accused infringer alleged that the copyright was invalid for claiming that the work was made for hire. The court found that the work did not fit into one of the “nine specified categories” to be a commissioned work because the parties failed to agree in advance that this is how it would be known or categorized. In upholding the copyright, however, the court held that “[i]nadvertent mistakes on registration certificates” do not invalidate absent a showing that the copyright claimant “intended to defraud the Copyright Office by making the misstatement.”<sup>52</sup>

In *Estate of Burne Hogarth v. Edgar Rice Burroughs, Inc.*, the commissioning party listed the commissioned party as the author of a derivative work on the copyright registration from the early 1970s. The court found that this admission on the earlier registration did not preclude the commissioning party from later claiming the book was work for hire; rather, it shifted the burden of going forward to the commissioning party. This was so even though the commissioning party had in fact made earlier corrections to the registration (spelling errors) but did not fully correct the registration until 1999.<sup>53</sup>

## CONCLUSION

So you want a tattoo, or want to display a tattoo in an advertisement? Beware: A veritable gauntlet of copyright issues may lurk beneath the best intentions.

Endorsements fuel many modern-day advertising campaigns, and celebrity sponsors sometimes adorn their bodies with one or more tattoos. Such an advertisement may feature or otherwise innocently use the tattoo without realizing that U. S. copyright laws protect the tattoo artist’s interest in the tattoo and the drawing, sketch, or design that became the tattoo. In years past, copyright

protection was a non-issue or ignored because tattooists were either too reticent to sue a customer or too complacent to challenge tattoo lore, favoring any and all available exposure for their work. Tomorrow’s tattooist, however, may unabashedly forego the glory in favor of dowsing for gold when a celebrity is at the end of the divining rod, such as when the tattooist sees a potential payoff from the celebrity’s accepting a lucrative sponsorship deal.

The *Reed* case—and its nascent theory of asserting copyrights in tattoos—has a potentially far-reaching impact on any would-be celebrity with a reasonable expectation of fame and on any present-day athlete, actor or actress, as well as advertising agencies and product and service providers. But the *Reed* case may also cause alarm for other media industries such as magazines, newspapers, Internet websites, motion pictures, television broadcasting and entertainment.

Unless the tattooist’s potential intellectual property is resolved, the celebrities and the companies they sponsor may have no alternative. To their dismay, they might need to digitally remove the tattoo from the commercial shot, or cover up the tattoo, thereby showing less skin.

<sup>1</sup> 17 U.S.C. § 202.

<sup>2</sup> *Lexmark Int’l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 537 (6th Cir. 2004) (“copyright infringement does not have a scienter requirement”); *Repp v. Webber*, 132 F.3d 882, 889 (2d Cir. 1997).

<sup>3</sup> Wallace’s fame and the Pistons’ success continued in 2005 when they made the NBA championship but fell four games to three to the San Antonio Spurs.

<sup>4</sup> Copyright Registration Number VA 1-265-074, entitled “Egyptian Family,” was registered on August 11, 2004. Copyright Registration Number VA 1-236-392, also entitled “Egyptian Family,” is a supplement to the earlier registration and has an effective registration date of March 7, 2005.

<sup>5</sup> *Matthew Reed v. Nike, Inc., Rasheed Wallace, and Weiden & Kennedy*, Civil No. 05-CV-198 JE (D. Oregon, Feb. 10, 2005). The complaint alleged infringement of Copyright Registration Number VA 1-265-074. After filing the complaint, however, Reed was issued Copyright Registration Number VA 1-236-392 and, therefore, filed an amended complaint to allege that the defendants had also infringed that copyright.

<sup>6</sup> Reed alleged that Nike and Weiden & Kennedy infringed his copyright and exclusive rights under the Copyright Act of 1976, as amended, 17 U.S.C. §§ 106, 501. As the copyright owner, Reed claimed that the defendants infringed at least three of his exclusive rights: (1) to reproduce the copyrighted work; (2) to prepare derivative works based on the copyrighted work; and (3) to distribute copies of the copyrighted work for sale to the public. 17 U.S.C. § 106(1-3).

<sup>7</sup> Reed alleged that Wallace induced or encouraged Nike and Weiden & Kennedy to commit direct infringement by advising the co-defendants that Wallace had exclusive ownership in the tattoo, knowing that the co-defendants would rely on that representation in creating the infringing advertising campaign. Wallace’s conduct, according to Reed, constituted contributory infringement of Reed’s copyright and exclusive rights in violation of 17 U.S.C. §§ 106, 501.

<sup>8</sup> Reed demanded actual damages and profits under 17 U.S.C. § 504(b) and sought to enjoin Nike and Weiden & Kennedy under 17 U.S.C. § 502.

<sup>9</sup> *Reed v. Nike, Inc., et al.*, Civil No. 05-CV-198 JE (D. Oregon) Docket No. 27, Stipulation of Dismissal with Prejudice (October 19, 2005).

<sup>10</sup> 17 U.S.C. §§ 101 & 102.

<sup>11</sup> In order to be copyrightable, a work need not be completely original. 17 U.S.C. § 103. Rather, validly copyrighted works may incorporate preexisting material that was copyrightable or actually copyrighted. So long as the derivative work entails “a minimal degree of creativity” they are “sufficiently original” under copyright laws. *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 371 (1991); see also *id.* at 345-46 (“at least some minimal degree of creativity”; “a modicum of creativity”); see also *id.* at 363 (copyrights protect works possessing “more than a de minimus quantum of creativity”); see also *Swirsky v. Carey*, 376 F.3d 841, 851 (9th Cir. 2004) (“In this circuit, the definition of originality is broad, and originality means ‘little more than a prohibition of actual copying.’ All that is needed to satisfy originality is for the author to contribute ‘something more than a ‘merely trivial’ variation.”).

<sup>12</sup> A valid copyright registration affords an author a number of benefits, including the right to sue for copyright infringement in federal court under 17 U.S.C. § 501. More precisely, an application to register the copyright must be filed, and either granted or refused, before bringing suit. 17 U.S.C. § 411(a); see also *La Resolana Architects v. Clay Realtors Angel Fire*, 416 F.3d 1195, 1200-01 (10th Cir. 2005); *Gaiman v. McFarlane*, 30 F.3d 644, 655 (7th Cir. 2004). The plaintiff may even file an application for registration in anticipation for litigation and request an expedited examination in a procedure called a “special handling.” See United States Copyright Office Circular 10.

<sup>13</sup> 17 U.S.C. § 412(1, 2). For purposes of Section 412, infringement commences at “the time when the first act of infringement in a series of ongoing discrete infringements occurs.” *Johnson v. Jones*, 149 F.3d 494, 505-06 (6th Cir. 1998). At least one court has held that the accused infringer’s publication shall not be considered a publication for purposes of the plaintiff’s copyright application. *Cipes v. Mikasa Inc.*, 346 F. Supp. 2d 371, 374-

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75 (D. Mass. 2004). The Cipes court found that the infringement plaintiff's photographs were properly registered as part of an "unpublished" collection, even though the defendant had previously used photographs on a website and in magazines, because the exclusive right to "publish" a work is reserved to author by 17 U.S.C. Section 106(3), and an unauthorized user thus cannot change the status of an author's work from unpublished to published, and the photographs had not been licensed to the defendant at the time of the defendant's use.

<sup>14</sup> Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991).

<sup>15</sup> A derivative work by its very definition is bound to be very similar to the original. 17 U.S.C. § 103(a) (Copyrightable subject matter includes derivative works.). Even if the accused infringer may obtain a copyright to a derivative work, reproducing and distributing copies of that work may still infringe the original copyright. 17 U.S.C. § 106(2) (The owner of the original copyright possesses the exclusive right to prepare derivative works based on the copyright.); see also Liu v. Price Waterhouse, 302 F.3d 749, 754 (7th Cir.), cert. denied 539 U.S. 958 (2003).

<sup>16</sup> 125 S. Ct. 2764, 2776 (2005); see also Bridgeport Music, Inc. v. Diamond Time, Ltd., 371 F.3d 883, 889 (6th Cir. 2004); A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1020 (9th Cir. 2001); Matthew Bender & Co. v. West Pub. Co., 158 F.3d 693, 706 (2d Cir. 1998); Cable/Home Comm. Corp. Network Prods., Inc., 902 F.2d 829, 845 & 846 n.29 (11th Cir. 1990); Gershwin Pub. Corp. v. Columbia Artists Mang., Inc., 443 F.2d 1159, 162 (2d Cir. 1971).

<sup>17</sup> The Federal Rules of Civil Procedure permit alternative, albeit ostensibly inconsistent, pleading. Fed. R. Civ. P. 8(a) ("Relief in the alternative or of several different types may be demanded."). A theory of contributory infringement may maintain that the plaintiff is sole owner in the copyrighted work, while an "accounting" theory may allege that the defendant is a "co-owner" who must share any profits for using the copyrighted work to generate a gain.

<sup>18</sup> Copyright suits must be filed in federal court, because district courts have original and exclusive jurisdiction to hear an action for copyright infringement arising under the Copyright Act. 28 U.S.C. §§ 1331 and 1338(a).

<sup>19</sup> 28 U.S.C. § 1367; see also Fleming James, Geoffrey C. Hazard & John Leubsdorf, Civil Procedure § 2.28 at 145 (2001) ("[S]upplemental jurisdiction promotes judicial economy by making it possible to try related claims in a single federal action instead of splitting them between federal and state actions.").

<sup>20</sup> 17 U.S.C. § 301(a) ("[A]ll legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 . . . are governed exclusively by this title. [N]o person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.").

<sup>21</sup> Davidson & Assocs. v. Jung, 422 F.3d 630, 638-39 (8th Cir. 2005) (breach of license agreement not preempted); La Resolana Architects v. Clay Realtors Angel Fire, 416 F.3d 1195, 1199 n.2 (10th Cir. 2005) (copyright infringement may also give rise to state law claims for unfair competition, tortious interference, or breach of contract); Toney v. L'Oreal USA, Inc., 406 F.3d 905, 908-10 (7th Cir. 2005) (Illinois Right of Publicity Act protecting individual's right to control use of identity (e.g., name, signature, photograph, image, likeness, or voice) for commercial purpose was not preempted); Ritchie v. Williams, 395 F.3d 283, 287-88 (6th Cir. 2005) (breach of contract claim preempted); Stromback v. New Line Cinema, 384 F.3d 283 (6th Cir. 2004) (commercial misappropriation claim preempted, id. at 302, misappropriation of trade secrets claim not preempted, id. at 305, dicta stating that conversion claim usually not preempted, id. at 305, and tortious interference with prospective economic advantage claim preempted, id. at 307); Grosso v. Miramax Film Corp., 383 F.3d 965, 968 (9th Cir. 2004) (breach of implied contract claim not preempted); Dunlap v. G&L Holding Group, Inc., 381 F.3d 1285, 1297-98 (11th Cir. 2004) (conversion claim not preempted when related to non-copyrightable subject matter, but holding the case must be remanded to state court when there is no other basis for federal subject matter jurisdiction); Briarpatch Ltd. v. Phoenix Pictures, Inc., 373 F.3d 296 (2d Cir. 2004) (unjust enrichment claim preempted, id. at 306-07, breach of fiduciary duty claim not preempted, id. at 307, and not deciding conversion and trover claims, id. at 307).

<sup>22</sup> 17 U.S.C. § 501(b).

<sup>23</sup> 17 U.S.C. § 401(c).

<sup>24</sup> 17 U.S.C. § 201(a).

<sup>25</sup> 17 U.S.C. § 201(b).

<sup>26</sup> 490 U.S. 730, 743 (1989) (interpreting 17 U.S.C. §§ 101, 201(b)) see also id. 490 U.S. at 742-43 (Section 101 paragraph 1 applies to works created by employees and Section 101 paragraph 2 to works created by independent contractors.).

<sup>27</sup> Community for Creative Non-Violence v. Reid, 490 U.S. 730, 751-52 (1989) (A work made for hire is "a work prepared by an employee within the scope of his or her employment," see 17 U.S.C. § 101(1)).

<sup>28</sup> 490 U.S. at 738 (A work made for hire is "a work specially ordered or commissioned," see 17 U.S.C. § 101(2)).

<sup>29</sup> Warren v. Fox Family Worldwide, Inc., 328 F.3d 1136, 1141 (9th Cir. 2003) (The court found the written agreement to comply with Section 101(2) where, although the writing had not used the term "copyright" or the phrase "specially ordered or commissioned," it had used the phrase "work made for hire.").

<sup>30</sup> Billy-Bob Teeth, Inc. v. Novelty, Inc., 329 F.3d 586, 591 (7th Cir. 2003) ("For an item to be a commissioned work, then, the parties must agree in advance that that is what it will be.").

<sup>31</sup> For instance, an agreement may be rescinded in the event of breach that is so material and substantial in nature that it affects the very essence of the contract and defeats the object of the parties. Warren v. Fox Family Worldwide, Inc., 328 F.3d 1136, 1143 (9th Cir. 2003). Also, a hired party may try to argue that he is a beneficial owner under Section 501(b), but at least one circuit has held that Congress did not intend to extend the concept of beneficial ownership to include an employee in a work-made-for-hire arrangement. Moran v. London Records, 827 F.2d 180 (7th Cir. 1987) ("Absent an express grant of rights, a creator of a work for hire cannot be a beneficial owner.").

<sup>32</sup> 490 U.S. at 738; see also 17 U.S.C. § 101(2).

<sup>33</sup> 17 U.S.C. § 201(a).

<sup>34</sup> Erickson v. Trinity Theatre, Inc., 13 F.3d 1061, 1068 (7th Cir. 1994).

<sup>35</sup> 17 U.S.C. § 101; Community for Creative Non-Violence v. Reid, 490 U.S. 730, 753 & n.32 (1989) (if the district court on remand should determine that the parties prepared the work "with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole," then the parties "would be co-owners of the copyright in the work.").

<sup>36</sup> Aalmuhammed v. Lee, 202 F.3d 1227, 1234 (9th Cir. 2000).

<sup>37</sup> Erickson, 13 F.3d at 1070. Thus, to establish co-ownership of a copyright, a litigant must show that "the parties intended to be joint authors at the time the work was created [and] . . . that [their] contributions to the works were independently copyrightable. Id. at 1071.

<sup>38</sup> Childress v. Taylor, 945 F.2d 500, 505 (2d Cir. 1991).

<sup>39</sup> See Community for Creative Non-Violence v. Reid, 846 F.2d 1485, 1498 (D.C. Cir. 1988), aff'd, 490 U.S. 730, 753 & n.32 (1989).

<sup>40</sup> 17 U.S.C. § 201(d)(1, 2).

<sup>41</sup> Taylor Corp. v. Four Seasons Greetings, LLC, 403 F.3d 958, 963 (8th Cir. 2005).

<sup>42</sup> Lyrick Studios, Inc. v. Big Prods., Inc., 420 F.3d 388, 392 (5th Cir. 2005).

<sup>43</sup> ITOFCA, Inc. v. Megatrans Logistics, Inc., 322 F.3d 928, 931 (7th Cir. 2003); see also Radio Television Espanola S.A. v. New World Entertainment, Ltd., 183 F.3d 922, 927 (9th Cir. 1999). The writing requirement serves to prevent inadvertent transfer of a copyright, forces the acquiring party to negotiate with the creator the rights being transferred and at what price, and gives some guidance in resolving disputes between the parties. Effects Assocs., Inc. v. Cohen, 908 F.2d 555, 557 (9th Cir. 1990).

<sup>44</sup> Lyrick Studios, Inc. v. Big Prods., Inc., 420 F.3d 388, 391-92 (5th Cir. 2005).

<sup>45</sup> See Billy-Bob Teeth, Inc. v. Novelty, Inc., 329 F.3d 586, 592 (7th Cir. 2003) (An oral agreement, by itself, cannot support one's ability to sue for copyright infringement, but a nunc pro tunc document that memorializes a previous oral agreement is recognized, even if that document is executed during trial, against third party challenges to the agreement.).

<sup>46</sup> An exclusive license qualifies as a transfer requiring a written agreement under Section 204(a). See 17 U.S.C. 101 ("A 'transfer of copyright ownership' is an assignment, . . . exclusive license . . . or any of the exclusive rights [under Section 106] comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.").

<sup>47</sup> See, e.g., Liu v. Price Waterhouse, 302 F.3d 749, 754 (7th Cir. 2003); see also Liu v. Price Waterhouse, 182 F. Supp. 2d 666, 672 (N.D. Ill. 2001); Palladium Music, Inc. v. EatSleepMusic, Inc., 398 F.3d 1193, 1197 (10th Cir. 2005) ("A work can generally be copyrighted as a derivative work only if the new work was produced with the permission of the copyright owner of the preexisting work or its duly authorized licensee.") (citing 17 U.S.C. § 103(a)).

<sup>48</sup> Reed's 2004 Copyright Registration Number VA 1-265-074 for an Egyptian family has an effective registration date of August 11, 2004. This registration preexisting material was included in his 2005 Copyright Registration Number VA 1-236-392 having an effective registration date of March 7, 2005, which added, as new matter, a stylized line drawing with updated and stylized objects and modified the sun graphic.

<sup>49</sup> See Lambert v. Pem-America, Inc., No. 03 C 3330, 2004 WL 422636, at \*6 (N.D. Ill. Feb. 12, 2004); Cherie Amie, Inc. v. Windstar Apparel Corp., 191 F. Supp. 2d 343, 351 (S.D.N.Y. 2001); see also cf. Community for Creative Non-Violence v. Reid, 490 U.S. 730, 735 (1989).

<sup>50</sup> 17 U.S.C. § 409(5); see also 17 U.S.C. § 408(a) (A copyright may be registered by "the owner of copyright or of any exclusive right in the work.").

<sup>51</sup> La Resolana Architects v. Clay Realtors Angel Fire, 416 F.3d 1195, 1200-01 (10th Cir. 2005); Palladium Music, Inc. v. EatSleepMusic, Inc., 398 F.3d 1193, 1196 (10th Cir. 2005); Lexmark Int'l v. Static Control Components, Inc., 387 F.3d 522, 534 (6th Cir. 2004); Swirsky v. Carey, 376 F.3d 841, 851 (9th Cir. 2004); MyWebGrocer, LLC v. Hometown Info, Inc., 375 F.3d 190, 192 (2d Cir. 2004); Mid Am. Title Co. v. Kirk, 59 F.3d 719, 721 (7th Cir. 1995); Wildlife Express Corp. v. Carol Wright Sales, Inc., 18 F.3d 502, 507 (7th Cir. 1994).

<sup>52</sup> Billy-Bob Teeth, Inc. v. Novelty, Inc., 329 F.3d 586, 591 (7th Cir. 2003); see also Gaiman v. McFarlane, 360 F.3d 644, 655 (7th Cir. 2004); Lambert v. Pem-America, Inc., No. 03 C 3330, 2004 WL 422636, at \*6 (N.D. Ill. Feb. 12, 2004) ("Many courts also have required a party alleging fraud to demonstrate that it was prejudiced by the alleged fraud."); LZT/Filliung Partnership, LLP v. Cody/Braun & Assocs., Inc., 117 F. Supp. 2d 745 (N.D. Ill. 2000) ("It is well established that immaterial, inadvertent errors in an application for copyright registration will be excused and do not destroy the validity of the registration. . . . Generally, an error is immaterial if its discovery is not likely to have resulted in the Copyright Office's refusal of the application.").

<sup>53</sup> Estate of Burne Hogarth v. Edgar Rice Burroughs, Inc., 342 F.3d 149, 165-67 (2nd Cir. 2003).

## SPAM VS. MS. PIGGY: AN ENTERTAINMENT LAW CAUTIONARY TALE

by Candi Henry<sup>1</sup>

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In terms of blockbusters, 1996 was a good year for film. Action-packed movies like *Twister*, *Independence Day*, and *Mission Impossible* competed for ticket sales with popular comedies *Jerry Maguire*, *The First Wives Club*, and *The Birdcage*. The critical favorite *The English Patient* also made a strong showing. Together, those films grossed almost \$1.2 billion in domestic ticket sales alone,<sup>2</sup> yet it was the modestly-performing family flick, *Muppet Treasure Island*<sup>3</sup> that arguably made the biggest impact in entertainment law that year. That impact was not, however, the result of a landmark ruling. Rather, *Hormel Foods Corporation v. Jim Henson Productions*<sup>4</sup> serves as a case study extolling the benefits of alternative dispute resolution procedures in entertainment law.

This paper provides an overview of *Hormel* and examines its impact on the litigants and in the area of trademark law. Concluding that the case's outcome resulted in less than favorable results for both parties and that the legal determinations made by the court served only to cloud the existing law, this paper then explores alternative dispute resolution procedures that might have resulted in more favorable outcomes for the parties.

### **HORMEL: BACKGROUND, PROCEDURE, AND OUTCOME**

*Hormel* pitted two well-known trademarks against each other for reasons that were not immediately apparent. Hormel Foods manufactures "SPAM," a luncheon meat product that has been trademarked since 1937.<sup>5</sup> Jim Henson Productions is best known for its use of puppetry; the "Muppets" have served as the cast of multiple television and film productions in addition to spawning a licensed product line.

In 1996, Henson released the movie *Muppet Treasure Island* and introduced a new Muppet character, "Spa'am,"<sup>6</sup> the high priest of a tribe of wild boars that worship Miss Piggy. Prior to the film's release, Hormel filed suit, objecting to the appearance of the character in the movie and the use of the character's name on merchandise. After a full bench trial, Hormel's request for a permanent injunction was denied. On appeal, Hormel limited its argument to objection over Henson's merchandising use of Spa'am, claiming violation of federal trademark infringement laws and New York's anti-dilution statute.<sup>7</sup>

Affirming the trial court, the Second Circuit Court of Appeals found that, although "the similarity between the name 'Spa'am' and Hormel's mark is not accidental,"<sup>8</sup> the use did not constitute trademark infringement or dilution.

Analyzing the trademark infringement issue under the eight factor Polaroid test,<sup>9</sup> which examined the strength of the senior mark, the degree of similarity between the marks, the proximity of the

products, actual confusion between the products, any existence of bad faith, quality of the products, consumer sophistication, likelihood of confusion, and "bridging the gap" (allowing for the "senior user's interest in preserving avenues of expansion and entering into related fields"<sup>10</sup>), the court found for Henson on all factors.

During its analysis of the infringement claim,<sup>11</sup> the court referenced no fewer than twelve times the fact that Henson's use of Spa'am was a parody.<sup>12</sup> Indeed, the court gives wide latitude to Henson's intention to "poke a little fun at Hormel's famous luncheon meat by associating its processed, gelatinous block with a humorously wild beast,"<sup>13</sup> going so far as to say that Hormel should be "inured to any such ridicule"<sup>14</sup> since it is frequently a source of jest.<sup>15</sup> Asserting parodic use does seem like a natural and intuitive response under the circumstances and it is, therefore, no surprise that the court found for Henson<sup>16</sup>—except for the fact that trademark law, unlike copyright law, recognizes no such "fair use" defense. Without mentioning the First Amendment or explicitly creating any exception or defense, the *Hormel* court used an eight factor test to make a decision based on law that does not necessarily exist.

### **TRADEMARK LAW AND PARODY: MURKY TERRITORY**

*Hormel* was just one in a series of cases that leaves the state of parody and trademark law in murky territory. Although an exhaustive review of the place of parody in trademark law is beyond the scope of this paper, it is useful to understand why cases such as *Hormel* are likely to result in unpredictable rulings. Such an understanding can help attorneys and their clients choose the dispute resolution procedure that is most likely to lead to favorable results.

The primary source of federal law regarding trademark use is found in the Lanham Act, which prohibits the use of another's registered trademark.<sup>17</sup> The goal of the legislation is ostensibly to protect consumers from confusion—not to protect the business enterprise from weakening.<sup>18</sup> Despite this, the zealous protection of the business interest in trademark law has resulted in what one court called "convert[ing] trademark law into copyright law."<sup>19</sup> This "conversion" seems more blatant when a court attempts to carve a fair use exception for parodies in trademark cases.

Lauren P. Smith writes that

[d]espite the many differences between trademark and copyright law, many courts have attempted to apply the fair use doctrine to trademark law which makes sense, since fair use, until the most recent of times, has always been, even in copyright, a judicial, not a statutory doctrine. Fair use allows a secondary user to use trademarked materials within certain contexts.

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This evolution has occurred because trademarks, which once identified the source of an item, have come to identify the item itself. Now, trademarks not only identify the source, but they are part of our everyday lives as well. It is this necessity which has fueled the application of the fair use doctrine to trademark law. Absent a uniform standard, however, courts have reached very different results making it nearly impossible to predict the results of trademark infringement case rulings. Critics of the courts' practices in applying fair use standards to trademark infringement cases have found the results troubling.<sup>20</sup>

Such uncertainty in the law is troubling on several levels. First, it serves to undermine the best function of the legal system: a consistent application of the law. Second, it limits the ability of lawyers to advise their clients regarding potential use of parodies. Third, and most important for individual parties like *Hormel* and *Henson*, uncertainty and inconsistency mean that litigation in the field is much more a gamble than it usually is. How can potential parties to litigation resolve their difficulties without having to navigate the minefield of litigation surrounding parody and trademark law?

## THE PROBLEMS WITH LITIGATION

In the case of *Hormel*, it is difficult to see how either party benefited from the ruling. *Hormel* lost, but *Henson* was still faced with the costs of a full bench trial and an appeal—in addition to any costs incurred by rushing merchandise designs for presentation to the court. . . all this for a movie that ultimately was a modest success at best.

Even in circumstances that involve principles of law more settled than the area of trademarks, many entertainment law cases are poorly suited for the litigation process. Practitioners point to several reasons for this. First, the entertainment industry, facing tight deadlines for film, music, and other releases, rarely has the luxury to litigate a case to its conclusion. Second, relationships in the industry are tight-knit due to the relative scarcity of major players. Faced with the prospect of having to work together again, parties have every incentive to avoid protracted adversarial engagements. Finally, because of the existing incentives to settle, most cases do eventually settle. The result of such a settlement-based environment is a paucity of judgments upon which litigants could base their arguments were they to head to court.<sup>21</sup> Compounding the general lack of legal precedent in the field with the particular difficulties in trademark law results in a situation that seems ripe for the application of alternative dispute resolution procedures.

For an industry booming with cross-promotional marketing techniques, it is even more baffling that *Hormel* should have seen not one but two courtrooms. A seemingly simple solution would have seen *Henson* approach *Hormel* for licensing permission, whether or not *Henson* felt it was legally necessary. It certainly seems possible that *Hormel* would have assented for a fee far less than *Henson* would otherwise be forced to pay attorneys, and *Hormel* could still assert that it vigorously protected its trademark. In the entertainment industry at least, it is *not* easier to ask forgiveness than to ask permission. Some preemptive legwork on the part of *Henson* might have spared much trouble.

Accepting the above as an example of how *Hormel* might have been better resolved, the question then arises, "What alternative

dispute resolution procedure would most likely result in such a favorable scenario?" Three categories of procedures present possible solutions: Mediation, Arbitration, and Hybrid Approaches to dispute resolution.

## MEDIATION

Although exact procedures vary, mediation is generally considered the procedure by which an impartial third party who lacks the power to impose a resolution helps others negotiate to resolve a dispute. Leonard Riskin identifies a four-part continuum of issues in a dispute that mediation might address.<sup>22</sup> In order from the narrowest to the broadest, these are Litigation Issues, "Business" Interests, Personal/Professional/Relational Issues, and Community Interests. Riskin proposes that an analysis of the dispute in relationship to the continuum of problems that mediation can address will help parties determine if mediation might be a preferred approach for them. This continuum is useful for orienting the *Hormel* dispute.

The problems in *Hormel* involve much more than the mere question of law: Can *Henson* parody *Hormel*'s trademark without *Hormel*'s permission? A definitive legal ruling, even if possible to achieve, would not necessarily serve the interests of both parties. In this case, a clear win by either party would still result in loss of potential licensing revenue by the other party. This leads to the second level on Riskin's continuum, "Business" Interests. Although a continuing business relationship is not necessarily essential for the parties in *Hormel*, a successful determination of this issue would, at least, result in financial gain for both parties.

The application of Riskin's third and fourth levels to the *Hormel* case would probably be mere conjecture, but the analysis of the first two levels alone indicates that mediation might be an appropriate remedy for cases such as *Hormel*. The mediation environment might provide the parties with the opportunity to craft a win-win situation, despite the inability of either to rely on solid principles of law. Mediation does, however, have some components that could render it cumbersome for the parties in *Hormel*.

Mediation does not always result in agreement (binding or otherwise) between parties. In fact, at any time and for any reason, either party or the mediator can end the mediation. If the parties fail to reach an agreement, they retain the option of pursuing litigation. While this might act as a measure of security in some instances, for the *Hormel* parties such circumstances might function as a barrier to agreement. Clearly, both *Henson* and *Hormel* were willing to take their chances in court, despite the fact that the case law upon the subject was sparse and unclear. Mediation does not necessarily incorporate a process through which the adverse parties can become educated as to the potential outcome were they to pursue litigation. In colloquial terms, *Henson* and *Hormel* needed a reality check regarding their respective likelihoods of success in a courtroom, and mediation probably would not have provided that for them.

## ARBITRATION

Arbitration retains the adversarial nature of a dispute while diverting it from the court. It empowers an arbitrator to impose a decision upon the parties after hearing from both of them. The decision may or may not be binding, depending upon the agreement

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that the parties make prior to entering arbitration. Arbitration procedures are usually hailed for their flexibility and expediency, but they can be extremely protracted; arbitration is not necessarily a faster or less expensive option than litigation.<sup>23</sup>

For the *Hormel* parties, arbitration's major advantage over mediation would most likely be allowing them to avoid the appellate process. An arbitrator's decision will not generally be vacated for a mistaken interpretation of law. Indeed, a showing of "manifest disregard of the law" is probably necessary to overturn an arbitration award.<sup>24</sup> Considering the fact that the trademark law is so uncertain, it seems almost inconceivable that a court could find a manifest disregard of the law. Arbitration, therefore, would probably have allowed the *Hormel* parties to avoid the costs and delays associated with an appeal. Unfortunately, the lack of guiding legal principles would most likely have resulted in an arbitrator doing basically what the courts have tended to do: rule based on guiding principles of logic rather than law. At this point, the case would seem to turn in favor of Henson, based on the "Who sues the Muppets?" mentality. Aside from the potential cost-savings for the parties, such an outcome is not necessarily more desirable than the outcome derived from litigation.

At this point, it seems clear that, while mediation and arbitration offer distinct advantages over traditional litigation, the *Hormel* parties would not necessarily reach the win-win scenario described above using either of these methods. The parties need a system that facilitates mutually beneficial negotiation while impressing upon them the uncertainty of court proceedings. Toward this end, a hybrid approach to dispute resolution might be most appropriate.

## HYBRID APPROACHES

Hybrid approaches to dispute resolution seek to combine elements of adversarial and non-adversarial approaches. Although these approaches are many and varied, three seem like viable options for the *Hormel* parties: early neutral evaluation, mini-trial, and mediation-arbitration.

Early neutral evaluation ("ENE") is a court-facilitated process that involves the parties presenting their arguments to a neutral who is empowered to issue a ruling based on how s/he interprets the law involved. Although the ruling is based upon law, the procedure involves limited presentation of evidence—usually an opening statement by either side. After the neutral has heard the statements, s/he may question the parties, identifying the key areas of dispute, and probing for relative strengths and weakness of each argument. The neutral then retires to write an opinion, but before delivering the opinion, the neutral asks the parties if they would like to enter into settlement discussions. If they agree, the neutral then facilitates those discussions. If they decline, the neutral issues the opinion, although it is not binding upon the parties. The neutral then helps the parties organize a plan to manage their case efficiently.<sup>25</sup>

ENE appears to offer several advantages over both arbitration and mediation. By allowing the parties to argue their cases and giving them the opportunity to gauge their effectiveness based upon the neutral's questions, the parties might benefit from mutual education regarding the likelihood of success on the merits of the law. In the case of *Hormel*, this might mean a realization that the law is simply too inconsistent to risk the gamble, thus serving as

encouragement to the parties to reach a negotiated settlement.

The major disadvantages associated with ENE are that a final ruling is not guaranteed and that the main focus of the determination is upon the underlying legal merit of the case. Additionally, unlike arbitration and mediation, the parties' ability to handpick a neutral is somewhat limited. If the parties are desirous of a neutral well-associated with the entertainment industry, they might be dissatisfied with the procedure being handled by someone not in "the business."

A mini-trial is a procedure through which parties "adjudicate" their case in an environment more flexible than a traditional courtroom. Parties agree upon procedure, conduct informal discovery, and present concise versions of their case in front of a mutually agreed upon neutral. Witnesses appear, but the rules of evidence do not apply. The parties send representatives with absolute authority to settle, and the neutral has no power to impose a decision. Perhaps the best example of a hybrid solution, the mini-trial attempts to offer the best of all the available resolution procedures:

. . .the mini-trial provides the parties the opportunity to present proofs and arguments on the merits of the case [much like adjudication]. . .but in a process that has greater capacity to arrive at "win/win" results (negotiation) because the business representatives can work out their own integrative solution. The parties set their own rules of procedure and select a third party to help them resolve the dispute by considering the proper outcome (arbitration). But the third party has no binding decision-making capacity (mediation). The procedure is private (arbitration, mediation, negotiation), but is usually carried on within the structure of an on-going adjudication, and the goal is agreement rather than consistency with substantive law (negotiation and mediation).<sup>26</sup>

Like ENE, the mini-trial offers the parties greater flexibility in reaching a solution while coming to a better understanding of the likelihood of success in the courtroom. The mini-trial also presents an advantage in that the parties could choose a neutral who is well-versed in the entertainment industry. Unfortunately, because the mini-trial does not provide the means for a guaranteed final determination of the issue, it seems unlikely to have resulted in the desired outcome for the parties in *Hormel*.

For Henson and *Hormel*, an appropriate dispute resolution procedure would result in a binding decision by an agreed upon neutral who has the capacity to understand the complicated underpinning law combined with the ability to facilitate a successful negotiation. The hybrid combination of mediation and arbitration, often referred to as Med-Arb, is probably the best dispute resolution option for parties in situations similar to that in *Hormel*. Med-Arb can take several forms. One configuration might have an arbitrator serving as a silent presence during a mediation unless s/he is asked to issue a non-binding opinion upon how an arbitration of an issue would be resolved. Another instance might empower the mediator to issue a binding opinion as an arbitrator if the parties fail to reach an agreement. The process combines the flexibility inherent in both mediation and arbitration and serves to shift the focus away from legal determinations and toward amicable solutions. Further, the

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ability to choose a neutral who is well-versed in the entertainment industry might further encourage the parties to accept the guiding hand of the neutral as a facilitator of settlement negotiations. Failing that, at least the opinion of a highly-respected and specially-educated neutral might give the appearance of fairness that a formal courtroom proceeding can sometimes lack.

Med-Arb would have offered Henson and Hormel the certainty of a definitive outcome absent the uncertainty of a murky field of law. The parties would have had the flexibility to appoint a neutral well-acquainted the industry—one who would help the parties to see their arguments outside of the legal entanglements. This would have facilitated circumstances in which the parties could have resolved the particular legal issue while also exploring but the broader business relationship that could have arisen from the dispute.

## MED-ARB AS THE PATH TO BETTER RESOLUTION OF ENTERTAINMENT LAW DISPUTES

It is not difficult to imagine the neutral in a Med-Arb proceeding helping Henson and Hormel to arrive at the amicable solution described earlier. Upon hearing the legal arguments, she/he could point out the possible futility of a courtroom proceeding, considering the state of parody and trademark law. Encouraging the parties to work within procedures well-established in the entertainment industry, s/he might suggest some sort of cross-promotional arrangement. Finally, if the parties failed to reach agreement, the neutral could issue a ruling largely unencumbered by the law, resulting in a final decree without the inconvenience of an appeal.

Certainly a mediation-arbitration for *Hormel* would be an imperfect resolution; by turning to an alternative dispute resolution procedure, the parties actually contribute to the lack of definitive case law, perhaps resulting in more disputes. Still, individual business parties in these circumstances are far less likely to be concerned about judicial precedent than they are about getting on with their businesses.

Entertainment is one of the United States' largest industries, and the film industry is the second largest export industry in the U.S.<sup>27</sup> Uncertainty in the field of entertainment law puts the industry at risk of being paralyzed by litigation. Adoption of a Med-Arb procedure for cases such as *Hormel* might help the cases that should never have been remain the cases that never were.

known enough to attract litigation can actually be classified as non-commercial. (See Sarah Mayhew Schlosser, *The High Price of (Criticizing) Coffee: The Chilling Effect of the Federal Trademark Dilution Act on Corporate Parody*, 43 Ariz. L. Rev. 931 (Winter 2001).)

<sup>8</sup> *Id.* at 501.

<sup>9</sup> *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492, 495 (2d Cir.), cert. denied, 368 U.S. 820 (1961).

<sup>10</sup> *C.L.A.S.S. Promotions, Inc. v. D.S. Magazines, Inc.*, 753 F.2d 14, 18 (2d Cir. 1985).

<sup>11</sup> For the purposes of this discussion, only the federal infringement claim (and not the state dilution claim) will be examined

<sup>12</sup> *Hormel*, 73 F.3d at 502-05.

<sup>13</sup> *Id.* at 501.

<sup>14</sup> *Id.*

<sup>15</sup> *Hormel*, incidentally, seemed far from "inured" to ridicule, declaring Henson's Spa'am to be "evil in porcine form." *Id.*

<sup>16</sup> As this author's entertainment law professor quipped, "Who sues the Muppets?"

<sup>17</sup> *Lanham Act* §32, 15 U.S.C. §1114 (1982).

<sup>18</sup> At least one court has observed that to find a Lanham Act violation absent a clear finding of confusing results in "changing the focus of the trademark laws from protection of the public to the protection of the trademark owner's business interest." *General Mills v. Henry Regnery Co.*, 421 F. Supp. 359, 362 n.2 (7th Cir. 1976).

<sup>19</sup> *Id.*

<sup>20</sup> Lauren P. Smith, *The Cameo Role of The Copyright Act and So-Called "Fair Use,"* 48 Clev. St. L. Rev. 415, 426 (2000).

<sup>21</sup> Dorothy Campbell. Lecture for "Entertainment Law" class. University of Tennessee at Knoxville. August 18, 2003.

<sup>22</sup> Leonard L. Riskin, *Understanding Mediator Orientations, Strategies, and Techniques: A Grid for the Perplexed*, abridged and reprinted in Leonard Riskin and James E. Westbrook, *Dispute Resolution and Lawyers* 314-328 (2d. Ed.) (1997).

<sup>23</sup> Riskin and Westbrook 570.

<sup>24</sup> *Id.* at 562.

<sup>25</sup> Joshua D. Rosenberg and H. Jay Folberg, *Alternative Dispute Resolution: An Empirical Analysis*, reprinted and abridged in Riskin and Westbrook 621-628.

<sup>26</sup> Eric D. Green, *Corporate Alternative Dispute Resolution*, reprinted and abridged in Riskin and Westbrook 647 654.

<sup>27</sup> Wharton Business School "Film Industry Advice" at <http://dolphins.upenn.edu/~meclub/film.html>, accessed on 02/07/06.

<sup>1</sup> Candi Henry received her A.B. from Harvard University and her J.D. from the University of Tennessee. She is mother to a one-year-old who loves Ms. Piggy and SPAM equally.

<sup>2</sup> *Box Office Mojo*, 1996 Domestic Grosses, available at <http://www.boxofficemojo.com/yearly/chart/?yr=1996&p=.htm>, accessed Nov. 29, 2004.

<sup>3</sup> The movie grossed only \$34 million domestically, according to *Box Office Mojo*. To put this in perspective, the Jim Carrey flick *The Cable Guy*, released the same year, was widely considered to have bombed at the box office, yet it made over \$60 million. *Id.*

<sup>4</sup> *Hormel Foods Corporation v. Jim Henson Productions*, 73 F.3d 497 (2d Cir. 1996).

<sup>5</sup> *Id.* at 500.

<sup>6</sup> "Spa'am is pronounced as two distinct syllables, SPAM only one." *Id.* at 503.

<sup>7</sup> *Hormel* was litigated prior to the enactment of the Federal Trademark Dilution Act of 1996 (15 U.S.C. 1125(c)), an act that ostensibly created a fair use defense for non-commercial parody (141 Cong. Rec. S19310 (daily ed. Dec. 29, 1995) (statement of Sen. Hatch)). It is unclear, however, the extent to which parodies well-

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## THE “PASS PAYMENT”: NEGOTIATING THE PROFESSIONAL ATHLETE’S CHILD SUPPORT OBLIGATIONS

By: Matthew G. Grimmer, Katherine A. Kinser and Jonathan J. Bates



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*Katherine A. Kinser Esq. and Jonathan J. Bates, Esq. are both Board Certified in Family Law by the Texas Board of Legal Specialization and work to identify particular matrimonial law issues that impact professional athletes and their spouses and are experienced in the trial of complex child custody and marital property issues. For more information, contact Kathy or Jonathan toll free at (866)707-8667 or visit [www.courtroom.com](http://www.courtroom.com). This article does not constitute legal advice and you are directed to your personal legal and tax advisor for more information on the issues in this article.*

Finally, after four months of negotiations, the veteran professional athlete was anxious to get back out on the field without the recent distractions. The distractions had not involved his employment contract negotiated by his sports agent. Instead, they concerned his child support obligation, which was negotiated by his family law attorney.

As the negotiations were concluding, he was facing fifteen years of monthly payments to his child’s mother. He wished there was a way to avoid the monthly inconvenience and claims of missed or late payments. Since he had the money now, he simply wanted to write one check to provide for his child during the years to come and to minimize his interaction and conflict with his child’s mother. However, he had reasons to be afraid that a lump sum payment to his child’s mother would be quickly squandered.

Fortunately, a friend advised him about the single child support payment tool known as the Professional Athlete Single Support Payment (the “PASS Payment”). The PASS Payment allows the professional athlete to make a single lump sum payment to a third-party insurance company, which then becomes responsible to make monthly payments to the child support recipient. The athlete may be relieved of any further responsibility and the payment stream is guaranteed. After

this innovative financial tool was brought to the negotiating table, the disputes were quickly resolved and his goals were accomplished.

Usually, a child support obligation continues long after an athlete has retired his bat or hung-up his jersey. As time goes on, the athlete must continue to make payments and manage cash flow to insure that money will be available to meet the ongoing child support obligation. However, fortunately, once the PASS Payment is made by the athlete to the third-party insurance company, the athlete has satisfied the then-existing obligation in full, provided financial security for his child and removed the child support payment dollars from the reach of potential creditors.

Child support obligations are confirmed in writing between the parties<sup>1</sup> wherein the parties set forth the specific amount and terms of payment. Child support is generally required to be paid on a monthly or weekly basis. However, when appropriate terms are negotiated and set forth in writing by the parties<sup>2</sup>, the PASS Payment allows the athlete to avoid years of check writing by making a single payment which fully satisfies his then existing child support obligation. For example, if the athlete negotiates to make monthly child support

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payments of \$3,000 per month for the next 15 years (\$576,000 = \$3,000 x 15yrs.), the athlete will be able to satisfy this support obligation with a single PASS Payment today of approximately \$405,000.<sup>3</sup>

Under the PASS Payment approach, the first step in the process is negotiating the child support amount. Child support laws vary dramatically from state to state. For example, in Texas, generally only the first six thousand net dollars per month are considered for child support purposes, essentially setting a cap on the child support obligation. However, other states do not have such a cap or have a much higher cap. The California child support formula considers the income of both parties. In other states, however, it is only the income of the paying party that is generally considered. Adding to the complexity, the child support laws of New York are different from those of California or Michigan. Because of the different considerations and consequences involved, it is essential for the athlete to obtain representation by a family law specialist to ensure the propriety and enforceability of the agreement and that all necessary documents are properly drafted.

Once parties have agreed on the child support terms<sup>4</sup> the athlete engages the services of a third-party insurance company and makes the PASS Payment to the insurance company. At that point, the insurance company essentially steps into the shoes of the athlete and makes each regular ongoing support payment to the child's caregiver. By engaging the insurance company, and not writing a lump sum check directly to the other party, the athlete has guaranteed that the monthly payments will continue for the entire term of the obligation or that the balance is returned to the athlete if the support payments are no longer required. Additionally, the athlete has guaranteed that the funds will always be available to support his child and will not be tied-up in risky investment schemes or lost through poor investment choices. The child's caregiver receives a corresponding benefit because she has guaranteed that she will receive regular payments.

But what if the athlete wants to modify (i.e., reduce) his child support obligation after he has assigned and funded the previously negotiated child support payments, or what if the obligation is terminated (e.g., death of child)? These questions are answered by adding a trust to the transaction. Rather

than having the support payments paid directly from the third-party insurance company to the child's guardian (or state agency as required in certain states) the payments are first paid to a trust which then distributes payments to the child's guardian in accordance with the "then prevailing" support document. Therefore, if the payment terms are modified downward, the trust will pay-out accordingly, and the surplus will revert back to the athlete who funded the trust. If the support obligation is prematurely terminated (e.g., an emancipation event occurs) then the remaining funds held by the insurance company are liquidated to the trust and are distributed back to the athlete.

Because the PASS Payment avoids the numerous financial and legal landmines that arise over years of making support payments, it is a "win-win" situation for all involved. It provides significant protection for both the child and the parties against the risks of injury, bankruptcy or other financial concerns. It may also eliminate or greatly simplify potential future litigation involving the parties and the child. Ultimately, the PASS Payment provides the benefits of convenience, security and peace-of-mind for both the parties and the child.

<sup>1</sup> In certain states this writing is an agreed court order, in other states the writing is an agreement between the parties.

<sup>2</sup> Again, the required writing will be either an agreement between the parties or an agreed court order, depending on state law.

<sup>3</sup> This is not a quote for the sale of an insurance product. Please be advised that rates change and actual PASS Payment costs may vary.

<sup>4</sup> In certain states this requires a judge

's signature.

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**RECENT CASES OF INTEREST**

Prepared by the South Texas College of Law Students  
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**Student-Athletes Do Not Possess A Constitutionally Protected Interest In Their Participation In Extracurricular Activities**

The Texas Supreme Court recently heard a case concerning whether a student-athlete has a protected interest of due course of law under Article I, Section 19 of the Texas Constitution. The Court addressed whether the case was moot, and whether a student-athlete's athletic reputation and speculative future financial opportunities were constitutionally protected interests under due process. *National Collegiate Athletic Association, et al., v. Yeo*, 171 S.W.3d 863 (Tex. 2005).

The National Collegiate Athletic Association ("NCAA") bars a student who transfers from one four-year member institution to another from participating in intercollegiate athletic competitions for one full academic year. However, this restriction may be waived if the former institution does not object to the transfer. See 2001-2002 NCAA Division I Manual. Joscelin Yeo, a collegiate student-athlete decided to follow her swim coach, and transfer from the University of California at Berkeley ("UC-Berkeley") to the University of Texas at Austin ("UT-Austin"). UC-Berkeley refused to waive the restriction, and thus Yeo was ineligible to compete at UT-Austin for an academic year.

Yeo brought suit against UT-Austin to enjoin it from disqualifying her from competing in the 2002 NCAA swimming and diving championship. She also sought declaratory relief based on a claim that UT-Austin's enforcement of the NCAA's ineligibility ruling unconstitutionally deprived her of protected liberty and property interests under due process.

The Texas Constitution (Article I, Section 19) states that no citizen of this State shall be deprived of life, liberty, property, privileges or immunities, or in any manner disfranchised, except by the due course of law of the land." In *Stamos*, construing the Texas Constitution's guarantee of due course of law for other constitutional guarantees of due process, the court held that students do not possess a constitutionally protected interest in their participation in extracurricular activities." *Spring Branch I.S.D. v. Stamos*, 695 S.W.2d 556, 561 (Tex. 1985). Nevertheless, Yeo contended that she was entitled to notice and a meaningful hearing before the NCAA's rules were applied to her because of her unique reputation as a highly decorated athlete and her earning potential. She argued that disqualifying her from participating in the swimming competition violated the Texas

Constitution by depriving her of protected property and liberty interests in her reputation, and existing and future financial opportunities. While the trial court and court of appeals agreed with Yeo's claim, the Texas Supreme Court ruled otherwise.

The Texas Supreme Court first held that, even though Yeo graduated from UT-Austin and ended her college swimming career, the case was not moot because the NCAA could impose retroactive sanctions.

The Texas Supreme Court then addressed whether a student-athlete's reputation alone was a protected interest for purposes of due process and whether the nature of one's interest in a good reputation was the same regardless of the reputation's quality. Since the parties did not identify any difference between the state "due course of law" and the federal "due process of law" guarantees, the Court looked to cases construing the federal constitutional guarantee of due process as persuasive authority. *University of Texas Med. Sch. v. Than*, 901 S.W.2d 926, 929 (Tex. 1995); *Mellinger v. City of Houston*, 3 S.W. 249, 252-53 (Tex. 1887). While Yeo acknowledged the United States Supreme Court's ruling that reputation alone was not a protected property or liberty interest, she contended that it is the "degree of her interests" and "not merely their character, that bring them within constitutional protection. *Paul v. Davis*, 424 U.S. 693, 701 (1976). The lower courts agreed. The Texas Supreme Court, however, held that "whether an interest is protected by due process depends not on its weight but on its nature." Yeo argued and the lower courts agreed that the weight of the interest can determine its nature and that a stellar reputation like hers "is categorically different from a more modest reputation." The Texas Supreme Court disagreed, stating that "the nature of one's interest in a good reputation is the same no matter how good the reputation is" because "the loss of either may be, to its owner, substantial."

Lastly, the Court held that student-athletes do not have a constitutionally protected interest in their speculative future financial opportunities for purposes of due process. Even though Yeo had established a reputation as a world-class athlete prior to her participation in intercollegiate athletics, a student-athlete's future financial interests are expectations, not entitlements. The Court stated that in order to have a property interest in a benefit there must be an actual "legitimate claim of entitlement to it" and that "while student-athletes remain amateurs, their future financial opportunities remain expectations."

By: Tim Brinkley



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**ENTERTAINMENT & SPORTS LAW SECTION**  
**of the STATE BAR of TEXAS**  
**MEMBERSHIP APPLICATION**

The Entertainment & Sports Law Section of the State Bar of Texas was formed in 1989 and currently has over 500 members. The Section is directed at lawyers who devote a portion of their practice to entertainment and/or sports law and seeks to educate its members on recent developments in entertainment and sports law. Membership in the Section is also available to non-lawyers who have an interest in entertainment and sports law.

*The Entertainment & Sports Law Journal*, published two times a year by the Section, contains articles and information of professional and academic interest relating to entertainment, sports, intellectual property, art and other related areas. The Section also conducts seminars of general interest to its members. Membership in the Section is from June 1 to May 31.

To join the Entertainment & Sports Law Section, complete the information below and forward it with a check in the amount of \$25.00, made payable to the Entertainment & Sports Law Section, ATTN: ESLS Treasurer, P.O. Box 12487, Capitol Station, Austin, Texas 78711.

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