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SPAM vs. Ms. Piggy: An Entertainment Law Cautionary Tale

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SPAM vs. Ms. Piggy: An Entertainment Law Cautionary Tale

Candi Henry*

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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,¹ yet it was the modestly-performing family flick, *Muppet Treasure Island*² 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*

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1. Box Office Mojo, 1996 Domestic Grosses, <http://www.boxofficemojo.com/yearly/chart/?yr=1996&p=.htm> (last visited Apr. 19, 2006).

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

*Productions*³ serves as a case study extolling the benefits of alternative dispute resolution procedures in entertainment law.

This article 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 article then explores alternative dispute resolution procedures that might have resulted in more favorable outcomes for the parties.

I. *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 1937.⁴ 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.⁵

In 1996, Henson released the movie *Muppet Treasure Island* and introduced a new Muppet character, "Spa'am," the high priest of a tribe of wild boars that worship Miss Piggy.⁶ 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.⁷

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," the use did not constitute trademark infringement or dilution.⁸

3. *Hormel Foods Corp. v. Jim Henson Prods.*, 73 F.3d 497 (2d Cir. 1996).

4. *Id.* at 500.

5. *Id.* at 502.

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

7. *Hormel* was litigated prior to the enactment of the Federal Trademark Dilution Act of 1996, 15 U.S.C. § 1125(c) (2000), 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-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 (2001).

8. *Hormel*, 73 F.3d at 501.

Analyzing the trademark infringement issue under the eight factor Polaroid test,⁹ which examines 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”¹⁰), the court found for Henson on all factors.

During its analysis of the infringement claim,¹¹ the court referenced no fewer than twelve times the fact that Henson’s use of Spa’am was a parody.¹² 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,”¹³ going so far as to say that Hormel should be “inured to any such ridicule,”¹⁴ since it is frequently a source of jest.¹⁵ 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 Henson¹⁶—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.

II. 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 article, 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.

9. Polaroid Corp. v. Polaroid Elecs. Corp., 287 F.2d 492, 495 (2d Cir. 1961).

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

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

12. *Hormel*, 73 F.3d at 502-05.

13. *Id.* at 501.

14. *Id.*

15. Hormel, incidentally, seemed far from “inured” to ridicule, declaring Henson’s Spa’am character to be “evil in porcine form.” *Id.*

16. As this author’s entertainment law professor quipped, “Who sues the Muppets?”

The primary source of federal law regarding trademark use is found in the Lanham Act, which prohibits the use of another's registered trademark.¹⁷ Ostensibly, the goal of trademark protection is to protect consumers from confusion—not to protect the business enterprise from weakening.¹⁸ 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.”¹⁹ 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

Despite 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.

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.²⁰

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 parties such as 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?

17. Lanham Act § 32, 15 U.S.C. § 1114 (2000).

18. At least one court has observed that to find a Lanham Act violation absent a clear finding of confusion 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).

19. *Id.*

20. Lauren P. Smith, *Trademarks and the Movies: “an Af-fair Use” to Remember*, 48 CLEV. ST. L. REV. 415, 426 (2000).

III. 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 are eventually resolved out of court. 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.²¹ 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 to the use of its trademark 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

21. See Dorothy Campbell, Lecture for “Entertainment Law” class at the University of Tennessee at Knoxville (Aug. 18, 2003) (on file with author).

solutions: Mediation, Arbitration, and Hybrid Approaches to dispute resolution.

IV. ALTERNATIVES TO LITIGATION

A. 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. In order from the most narrow to the broadest, these are Litigation Issues, "Business" Interests, Personal/Professional/Relational Issues, and Community Interests.²² Riskin proposes a simple process that parties can use to determine if mediation might be a preferred approach for dispute resolution. He suggests that potential litigants analyze their dispute in relation to the continuum of problems that mediation is best suited to address.²³ 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*.²⁴

22. Leonard L. Riskin, *Understanding Mediator Orientations, Strategies, and Techniques: A Grid for the Perplexed*, 1 HARV. NEG. L. REV. 7, 19-22 (1996).

23. *Id.* at 9.

24. As Leonard Riskin has pointed out:

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.

B. 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.²⁵ The decision may or may not be binding, depending upon the agreement 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.²⁶

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

[A] bewildering variety of activities fall within the broad, generally-accepted definition of mediation--a process in which an impartial third party, who lacks authority to impose a solution, helps others resolve a dispute or plan a transaction. Some of these processes have little in common with one another. And there is no comprehensive or widely-accepted system for identifying, describing, or classifying them. Yet most commentators, as well as mediators, lawyers, and others familiar with mediation, have a definite image of what mediation is and should be.

Riskin, *supra* note 22, at 8. This author's description of mediation is that which she has found to be common practice in her home state.

25. National Arbitration Forum, Arbitration, <http://www.arb-forum.com/programs/arbitration/> (last visited Apr. 20, 2006.)

26. LEONARD RISKIN & JAMES E. WESTBROOK, DISPUTE RESOLUTION AND LAWYERS 570 (2d ed. 1997).

award.²⁷ 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 could very well 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.

C. 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.

1. Early Neutral Evaluation

Early neutral evaluation (“ENE”) is a court-facilitated process that involves the parties presenting their arguments to a neutral person empowered to issue a ruling based on how s/he interprets the law involved.²⁸ Although the ruling is based upon law, the procedure involves limited presentation of evidence—usually an opening statement by either side.²⁹ 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

27. *Id.* at 562.

28. See Joshua D. Rosenberg and H. Jay Folberg, *Alternative Dispute Resolution: An Empirical Analysis*, 46 STAN. L. REV. 1487, 1490 (1994) (discussing a design of an early neutral evaluation program).

29. *Id.*

argument.³⁰ 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.³¹ If they agree, the neutral then facilitates those discussions.³² If they decline, the neutral issues the opinion, although it is not binding upon the parties.³³ The neutral then helps the parties organize a plan to manage their case efficiently.³⁴

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, because the court-facilitate process involves court-approved neutrals, 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."

2. Mini-Trial

A mini-trial is a procedure through which parties "adjudicate" their case in an environment more flexible than a traditional courtroom.³⁵ Parties agree upon procedure, conduct informal

30. *Id.*

31. *Id.* at 1490-91.

32. *Id.* at 1491.

33. *See id.*

34. *Id.*

35. *See* Eric D. Green, *Corporate Alternative Dispute Resolution*, 1 OHIO ST. J. ON DISP. RESOL. 238-39 (1985-1986).

[T]he 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

discovery, and present concise versions of their case in front of a mutually agreed upon neutral.³⁶ Witnesses appear, but the rules of evidence do not apply.³⁷ The parties send representatives with absolute authority to settle, and the neutral has no power to impose a decision.³⁸ Perhaps the best example of a hybrid solution, the mini-trial attempts to offer the best of all the available resolution procedures.

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*.

3. Mediation-Arbitration

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,³⁹ 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 regarding the likely outcome of any arbitration proceedings that might follow.⁴⁰ Another instance might empower the mediator to issue a binding opinion as an arbitrator if the parties fail to reach an agreement.⁴¹ 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 ability to choose a neutral

the structure of an on-going adjudication, and the goal is agreement rather than consistency with substantive law (negotiation and mediation).

Id. at 241.

36. *Id.* at 239.

37. *Id.* at 240.

38. *Id.* at 240-41.

39. MARTINDALE-HUBBELL, THE MARTINDALE-HUBBELL ADR PRIMER 1 (2001), available at <http://www.martindale.com/pdf/med-arb.pdf>.

40. *Id.* at 4.

41. *Id.*

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 with the industry—one who would help the parties to see their arguments outside of the legal entanglements. Furthermore, this approach would have facilitated circumstances in which the parties could resolve their dispute (i.e., the trademark concern), while also encouraging the broader business relationship that could have arisen from the dispute (e.g. a cross-promotional agreement). For Hormel and Henson, the distinct advantages offered by Med-Arb would not have been merely time-saving and money-saving; the procedure could have actually resulted in a money-making venture for both parties.

V. 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, s/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 an agreement, the neutral could issue a ruling largely unencumbered by the law, resulting in a final decree without the inconvenience of an appeal.⁴²

Certainly a mediation-arbitration for *Hormel* would be a judicially imperfect resolution; by turning to an alternative dispute resolution procedure, the parties actually contribute to the lack of definitive case law, perhaps complicating trademark disputes yet to arise. 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, and any dispute resolution

42. This variation on Med-Arb is sometimes called Arb-Med. *See id.*

procedure that has the potential to result in *more* money for both parties is, without doubt, a desirable outcome.

Entertainment is one of the United States's largest industries, and the film industry is the second largest export industry in the U.S.⁴³ 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.

43. Wharton Media & Entertainment Club, Film Industry Advice, <http://dolphin.upenn.edu/~meclub/film.html> (last visited Apr. 19, 2006).