Intellectual Property Interests in the Age of Student-Athlete NIL Rights – Part I[1]

Background

For over a century, the National Collegiate Athletic Association (NCAA) prohibited student-athletes of member institutions (hereinafter, "university") from receiving non-educational financial compensation.[2] Meanwhile, the NCAA's revenue for the fiscal year ending August 31, 2021, exceeded $1.1 billion.[3] Individual sports conferences also generate revenue, with the Big Ten for example disclosing revenue approaching $800 million for the fiscal year ending June 30, 2020.[4] Former Big Ten Commissioner James Delaney received a salary of over $5.5 million.[5] The NCAA expressly allows coaches to receive multiple forms of payment,[6] and, in some states, a coach is the highest paid public employee.[7]

In response to such financial disparities, the State of California became the first state to enact new laws that prohibit state universities, conferences, and the NCAA from enforcing rules that prevent a California student-athlete "from earning compensation as a result of the use of the student's name, image, or likeness."[8] The new laws become effective January 1, 2023.[9] Other states followed suit and enacted similar laws, many becoming effective immediately or soon after passage.[10] After a number of states passed such laws, and days after the Supreme Court's decision in *NCAA v. Alston* unanimously affirming that certain NCAA restrictions on academic related composition of student-athletes violated federal antitrust laws,[11] on June 30, 2021, the NCAA introduced an interim policy that (i) deferred to state name, image, and likeness (NIL) laws and (ii) stated that, for student-athletes in states without a NIL law, the NCAA bylaws prohibiting student-athlete compensation would not apply to a student-athlete's exercise of NIL rights.[12]

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[2] *Nat'l Collegiate Athletic Assn. v. Alston*, 594 U.S. ___, 141 S. Ct. 2141, 2148 (2021) (citing Intercollegiate Athletic Association of the United States Constitution By-Laws, Art. VII, § 3 (1906)); 2021-22 NCAA Divisional I Manual, Constitution, Bylaws, Article 12.1.2.

[3] NCAA Consolidated Financial Statements (available at https://ncaaorg.s3.amazonaws.com/ncaa/finance/2020-21NCAAFIN_FinancialStatement.pdf).

[4] IRS Form 990 submitted May 17, 2021 (available at https://projects.propublica.org/nonprofits/organizations/363640583/202111379349303256/full).

[5] *Id*.

[6] 2021-22 NCAA Divisional I Manual, Constitution, Bylaws, Figure 11-1.

[7] For example, Scott Frost, Head Coach of the University of Nebraska Football team had a salary of $5 million for the fiscal year ending June 30, 2022. No other employee of the State of Nebraska, excluding other coaches and the Chancellor of the University of Nebraska, had a salary exceeding $400,000. *See* Personnel Roster, University of Nebraska, Fiscal Year 2021-2022, and State of Nebraska, 2021 Personnel Alamance.

[8] CAL. SB-206 (2019) § 2(a)(1)-(2).

[9] *Id*. § (2)(h).

[10] See, e.g., OREGON SB-5 (2021) § 1 (effective June 29, 2021); Nevada AB 254 § 5 (2021) (effective immediately).

[11] *NCAA*, supra.

[12] Interim NIL Policy (available at http://ncaaorg.s3.amazonaws.com/ncaa/NIL/NIL_InterimPolicy.pdf).

Recognizing that the NCAA interim policy was more lenient than some newly enacted state laws, some states quickly repealed their new NIL laws, thus leaving the more lenient NCAA interim policy as the active rule within those states.[13]

Since the NIL state laws and NCAA interim policy have been introduced, the marketplace has developed various commercial mechanisms for student-athletes to exercise their NIL rights. For example, companies such as The Brandr Group and Opendorse act as an intermediary between the university, student-athletes, and those seeking student-athlete endorsement, and allow for joint marketing between the university and the student-athletes. In such arrangements, the NIL rights of the student-athlete are licensed in conjunction with trademarks and other intellectual property ("IP") of the university.[14] In other instances, the student-athletes have entered into endorsement deals without the involvement of the university with which the student-athlete is associated. Further, student-athletes of some universities have entered into "NIL collectives" where members of the public pay a fee to have personal access to players at meet-and-greets, among other benefits.[15]

IP Issues

With the commercial environment of NIL rights still in its infancy, many potential scenarios raise important IP issues for both the university and the student-athlete.

First, a student-athlete alone or with a third party might try to exercise the student-athlete's NIL rights in conjunction with a *university trademark,* but without approval from the university. For example, a student-athlete may appear in marketing material endorsing a third party's product while wearing clothing that shows a university trademark. Or the student-athlete may alone design and sell t-shirts bearing the student-athlete's NIL as well as a university trademark. It may not be to the student-athlete's commercial advantage to include intermediaries such as The Brandr Group and thus have to share proceeds with the university and the intermediary. How universities will address unapproved use of university trademarks, when the student-athlete is involved, will be interesting to see.

Second, and similarly, a student-athlete alone or for a third party might try to exercise the student-athlete's NIL rights in conjunction with *elements of the university's trade dress*, such as color(s) that bring the university to mind without directly incorporating registered trademarks of the university.[16] For example, the student-athlete may appear in marketing material endorsing

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[13] See, e.g., ALA. ACT 2022-2 (Feb. 3, 2022) repealing ALA. ACT 2021-227 (April 20, 2021).

[14] Whether the school's participation in such deals is itself a violation of NCAA bylaws is an issue that does appear to have been addressed.

[15] Whether a "NIL collective" is *actually* an exercise of a student-athlete's NIL rights, rather than booster funded "pay for play," is a subject for Part II of this series. The NCAA issued guidance in May 2022, where the NCAA seems to take the latter view. NCAA May 2022 NIL Guidance (available at https://ncaaorg.s3.amazonaws.com/ncaa/NIL/May2022NIL_Guidance.pdf).

[16] See, e.g., *Bd. of Supervisors for La. State Univ. v. Smack Apparel Co.*, 550 F. 3d 465 (5th Cir. 2008) (where the court affirmed district court holding that t-shirt maker were liable to various universities because "the colors, content, and

a third party's product while wearing clothing that incorporates all or part of the university's color scheme. Or the student-athlete may alone design and sell t-shirts bearing the student-athlete's NIL as well as all or part of the university's color scheme.

The first two scenarios could be avoided through education and through contract. Some universities request their student-athletes to disclose potential exercises of NIL rights to the school before the NIL rights are exercised.[17] Presumably, these universities incorporate these terms into the contract between the student-athlete and the university. If not, then they should. The universities should make it clear student-athletes cannot utilize university registered and unregistered trademarks and trade dress in attempt to help consumers make a mental connection between the university and the student-athlete, while the student-athlete is exercising their NIL rights.

Third and related, how the university handles a student-athlete's request to use university trademarks and trade dress while exercising NIL rights requires careful consideration. On one hand, denying the request might lead to discord between the student-athlete and the university. On the other hand, granting the request might raise issues of compliance with NCAA bylaws, especially if the approval were provided without requiring the student-athlete to pay for the approval. Joint marketing, with the university and the student-athlete dealing separately with a third party, such as The Brandr Group, appears to be the most preferable solution. However, not all universities have entered into a relationship with such a third party.[18]

Fourth, potential conflicts of interest arise when the university has an "exclusive" relationship with a brand (e.g., a soda brand or chain of grocery stores) and the student-athlete has an opportunity to enter into a NIL relationship with a rival brand. A university should consider state law relating to tortious interference with a prospective economic advantage, before charting a course of action that results in the student-athlete not following through with that potential NIL relationship with the rival brand. A preferable solution is prospective – to address this issue contractually with the student-athlete, with the contract detailing the brands with which the university has an "exclusive" relationship and with the student-athlete agreeing not to exercise NIL rights with a preconceived list of rival brands. However, it may be difficult to preconceive of all rival brands.

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context of the offending t-shirts are likely to cause confusion as to their source, sponsorship, or affiliation" despite lack of incorporation of any registered trademark).

[17] For example, the University of New Mexico NIL portal for student-athletes states: "You are required to disclose your NIL activities in ARMS, to UNM Athletic Compliance, prior to engaging in those activities to verify that the activity does not violate NCAA Rules in regards to extra benefits, inducements or recruiting." In addition, the portal states: "Student-athletes shall not use University of New Mexico facilities, athletic apparel, registered trademarks, products protected by copyright, or official logos or marks without the express written permission of the University of New Mexico." See https://golobos.com/name-image-likeness/.

[18] For example, again, the University of New Mexico NIL portal states: "UNM is exploring the possibility of co-branding opportunities within the NCAA Rules and State of New Mexico Law. More information regarding this topic will be available later in year."

Perspectives

Katie Hoffman, General Counsel of Opendorse, provides the following perspective:

> "At the infancy of NIL, there was uncertainty in how the NCAA would respond and states crafted the legislation cautiously understanding that the worst thing would be for an athlete, school or team to be penalized by the NCAA in response to state legislation. However, as we go into the second year of NIL, the NCAA has made clear that they don't intend to restrict athletes from earning money, as long as doing so is not an inducement to attend or remain at any university or as a reward for play. As we go forward, it will be great for NIL and college athletics to see universities and student-athletes working together to promote their sports, brands and universities via IP use in NIL deals where everyone has a say."

Laura Gonnerman, Associate General Counsel of the University of Nebraska system, provides this additional perspective:

> "Finding the right balance between the university's need to manage its intellectual property and brand while not impeding student-athlete's abilities to capitalize on their NIL has been challenging for institutions since *Alston*. We've found that the best approach has been to remain flexible with our policies as the environment continues to shift and to work with our student-athletes early and often to educate them on their rights and responsibilities."

Recommendations

For Universities – Universities may want to consider prospectively addressing IP issues either via guidance to the student-athlete, or even contractually[19] with the student-athlete. The guidance or contract could include the following points:

a) That the student-athlete is precluded from using university trademarks and trade dress, including one or more colors, while exercising NIL rights outside of a co-branding relationship with the university – including a non-exhaustive list of prohibited examples, such as wearing university uniforms and other university branded apparel while engaging in product endorsements;
b) That the only manner in which the student-athlete can exercise NIL rights in conjunction with university trademarks and trade dress is in a co-branding relationship with the university through a third party; and

[19] California's Fair Pay to Play Act, for example, specifically envisions contracts between the student-athlete and the university. CAL. SB-206 (2019) § 2(e)(1), (f) ("team contract").

c) That the student-athlete is precluded from entering into an endorsement relationship with companies that are considered to be a competitor of any company with which the university has an "exclusive" relationship.[20]

For Student-Athletes – Student-athletes will need to evaluate whether exercising NIL rights will be more valuable when exercised alone without university IP or when exercised in a co-branding relationship with the university, most likely with an intermediary also taking a cut of the revenue. For the vast majority of student-athletes, who perhaps do not have name recognition beyond their association with the university, co-branding with the university seems like the better choice. However, for the rare student-athlete with more national name recognition, exercising NIL rights without paying to also utilize university IP may be the more lucrative option.

[20] Consideration might include the student-athlete being able to participate in university athletics. Another option might be the university granting the student-athlete permission to use university trademarks and trade dress in certain situations, such as while the student-athlete is exercising NIL rights in a manner that does not suggest product endorsement.