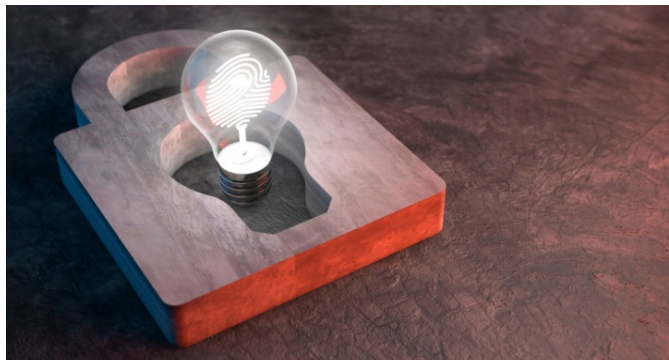


Unintended Consequences of Copyright and Trademark Protection in Design

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It is widely accepted that some designs may be entitled to both copyright protection (as original, creative expressions of an idea) and trademark protection (as indicators of the source of a product or service).

Brand owners can benefit from exercising both copyright and trademark rights in such property. However, they should be mindful of potential conflict when commissioning a design from an outside designer. A potential unintended consequence is bifurcated ownership where the original copyright in the design is held by a party that can re-claim its rights long after the copyright was assigned to the trademark owner.

This feature article explores how we arrived at this divide from a U.S. perspective. It considers some arguments available to trademark owners to protect their existing rights and potential steps to mitigate the conflict between these two competing rights.

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Statutory Basis

Under Section 203 of the 1976 U.S. Copyright Act, an assignment or license of copyright, executed by the author on or after January 1, 1978, is subject to termination after 35 years. 17 U.S.C. § 203.

There is a five-year window to effect the termination. The period either starts 35 years from the execution date of the grant of rights, or, if the grant included the right of publication of the work, then the period is either 35 years from the date of publication, or 40 years from the execution date of the grant, whichever ends earlier. 17 U.S.C. § 203(a)(3).

The required written notice of termination must be served between two and ten years before the five-year window. If the termination right is not effected within the five-year window, it is forfeited. The termination right cannot be waived in advance per Section 203(a)(5):

Termination of the grant may be effected notwithstanding any agreement to the contrary,

including an agreement to make a will or to make any future grant.

Example: A freelance designer assigns all rights in a logo to the brand owner on May 1, 1985 (assume publication was after the assignment date). The designer must serve written notice of termination of the assignment between May 1, 2010, and May 1, 2023, following the notice requirements in Section 203(a)(4), with the termination effective between May 1, 2020, and May 1, 2025.

Section 304 of the 1976 U.S. Copyright Act applies to termination of transfer of rights to works made prior to 1978, beginning 56 years after that assignment was made. 17 U.S.C. § 304(c). Section 304 allows copyright owners to benefit from the extended term of copyright from 56 to 95 years.

Purpose

The termination right gives authors and their heirs a chance to recapture the copyright to their work and renegotiate for its known marketplace value. *See* H.R. Rep. No. 94-1476, at 124 (1976), 1976 U.S.C.C.A.N., pp. 5659, 5739:

A provision of this sort is needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work's value until it has been exploited.

Considering the legislative history, and the works made for hire exclusion, applying the termination right to a trademark design is questionable. Trademark designers are rarely in an “unequal bargaining position.” *See* H.R. Rep. No. 94-1476, at 5742. (The Section 203 examples are a theatrical production contract and book publishing contract.) The long-term value of a trademark design is rarely attributable to the author.

Relevant Excluded Works: Works Made for Hire and Certain Derivative Works

A work made for hire is excluded from this termination of transfers. 17 U.S.C. § 203(a).

A work made for hire is:

- (1) a work prepared by an employee within the scope of his or her employment; or*
- (2) a work specially ordered or commissioned ... if the parties expressly agree in a written instrument ... that the work shall be considered a work made for hire....*

17 U.S.C. § 101.

When a work is made for hire, the employer/commissioning party is the author of the work. 17 U.S.C. § 201(b). Trademark designs are not among the specially commissioned works; thus, to be works made for hire, they must be prepared by an employee within the scope of the employment.

A derivative work prepared before termination is also excluded. *See* 17 U.S.C. § 203(b)(1).

The termination provision only impacts a narrow scope of trademark protectable designs, but still leaves some brand owners exposed.

Case Law

No cases were found addressing the conflict between copyright and trademark rights in a logo. A few cases address the conflict in other media, with limited relevance in a dispute between a designer and the brand owner regarding termination of a transfer. A pending case involving the asserted termination of rights in a

mascot will be addressed in a future article, namely *Phillies LP v. Harrison/Erickson Inc.*, 1:19-cv-07239, in the U.S. District Court for the Southern District of New York.

Copyright Preemption

“The Copyright Act preempts rights under common law or state statutes that are equivalent to any of the exclusive rights within the general scope of copyright. ... The Supreme Court has extended this principle of copyright preemption to the Lanham Act and federal trademark protection.” *Lions Gate Ent. Inc. v. TD Ameritrade Servs. Co., Inc.*, 170 F. Supp. 3d 1249, 1264 (C.D. Cal. 2016) (citing *Dastar v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33–38 (2003)). *Lions Gate* involved infringement claims against TD Ameritrade regarding use of the iconic line, “Nobody puts Baby in a corner,” from the film *Dirty Dancing*. The copyright and trademark claims were the plaintiff’s claims; there was no issue of competing copyright and trademark claims of the opposite parties. The court acknowledged “that there are instances where a communicative good can be protected under both copyright and trademark” but did not find an instance in that case, dismissing the trademark claims. *Lions Gate*, 170 F. Supp. 3d at 1268.

The Second Circuit ruled similarly in a case involving use of SWING SWING SWING with music in the style of the Louis Prima composition “Sing, Sing, Sing (With a Swing)” in a golf commercial. *EMI Catalogue P’ship v. Hill, Holliday, Connors, Cosmopolos Inc.*, 228 F.3d 56 (2d Cir. 2000) (recognizing there are cases where both rights can be claimed. *Id.* at 64).

Copyright Termination Right Does Not Affect Trademark Rights

The termination right reverts the copyright to the author or his or her heirs but leaves undisturbed rights arising under any other federal law, including trademark rights. See 17 U.S.C. § 304(c)(6)(E) (“Termination ... affects only those rights covered by the grant that arise under this title, and in no way affects rights arising under any other Federal, State, or foreign ... laws.”). This limitation implies that termination rights do not affect trademark rights—thus, if the original author owns the copyright to the design, the original author cannot claim company profits attributable to trademark rights. *Siegel v. Warner Bros. Ent. Inc.*, 542 F. Supp. 2d 1098 (C.D. Cal. 2008).

In *Siegel*, by terminating the grant of copyright to the first story featuring a comic book superhero, the author’s heirs were not entitled to profits gained by the original grantee’s successors in interest on the basis of trademark rights or post-termination exploitation of unaltered pre-termination derivative works. *Id.* at 1142.

Hypothetically, a plaintiff copyright owner of a trademark design, then, cannot use the termination right to disturb the trademark rights of a defendant trademark owner.

Copyright Ownership Is Not a Defense to Trademark Infringement

Copyright ownership does not provide “an automatic defense to any trademark” infringement claim. Mark S. Lee, *Entertainment and Intellectual Property Law* § 2:94. If an author draws another’s trademark and claims copyright in the drawing, that author has not obviated trademark infringement liability for later use of the copyrighted work as a trademark. *Id.* (citing *University of Alabama Bd. of Trs. v. New Life Art, Inc.*, 683 F.3d 1266, 1280 (11th Cir. 2012)).

Trade dress rights, similarly, exist separately from copyright. See *Nova Wines, Inc. v. Adler Fels Winery LLC*, 467 F. Supp. 2d 965, 983 (N.D. Cal. 2006). Hypothetically, a plaintiff copyright owner, then, cannot rely upon its copyright interests to interfere with the trademark interests of another party (depending on

First Amendment issues). None of these cases involves competing claims of copyright versus trademark in the same work.

In sum, trademark protection, rights, defenses, remedies, and liability exist separately, and must be analyzed and applied separately, from copyright protection, rights, defenses, remedies, and liability, despite the ability of the same design to be captured under both areas of law.

Trademark Owner Should Retain Ownership of Trademark Design

Arguably, the termination right was designed to address more “typical” copyrightable works where the artistic value of the work increases over time—an increase that can only be assessed after exploitation of the work. By comparison, the *artistic* worth of a trademark design does not increase over time. Increase in value is the result of using the design as a trademark and the goodwill established by the brand owner.

The exclusion of works made for hire from the termination right supports this distinction: the employer asserts ownership over all works tied to the business. A design that derives its value not from its creativity but from its reputational strength should be retained by the brand owner. After all, copyright protects “fruits of intellectual labor,” whereas trademark protection “grows out of the adoption and use of a distinctive symbol by the party using it.” *EMI Catalogue v. Hill et al.*, 228 F.3d at 63–64. The success of the design as a trademark should not affect the analysis of its value as a copyright.

Even though this distinction is recognizable in theory, in practice, copyright owners may still assert ownership over trademark designs by exercising the termination right.

Avoiding Potential Conflict of Ownership

A trademark owner can take steps to mitigate the conflict between competing copyright and trademark rights.

Ensure the Design Is a Work Made for Hire

Create all trademark designs as works made for hire. An employee creating a logo within the scope of his or her employment is not an author under the Copyright Act, and therefore, has no right to terminate. This applies to a hired agency or in-house designer, but not freelancers or employees not hired to design logos.

Update the Design Before the Termination Period

Create derivative works (updated designs) as permitted by the original assignment, pre-termination. The author’s right to terminate does not extend to a company’s right to exploit unaltered pre-termination derivative works—although a license from the owner for the original work is still necessary.

Re-Negotiate/Exercise Right of First Negotiation

Calculate transfer dates to anticipate termination rights. A company cannot contract around the termination right, but it can renegotiate with the author, which in effect would change the termination date. Entering a subsequent agreement to address the increased value of the work, and to acknowledge the increased bargaining power of the author, is exactly what the termination rights were intended to do. *See Milne ex rel. Coyne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1046 (9th Cir. 2005) (where a subsequent agreement “appears to be the type expressly contemplated ... by Congress”).

Co-Author Rights

Ensure the trademark owner is the co-author of the copyright in the design, in that the owner made significant contributions to the design. Register the trademark owner as the co-author of the copyright.

Conclusion

Ultimately, there will be situations where competing copyright and trademark rights cannot be reconciled. Not only does the conflict risk exposure to trademark owners, it creates significant legal uncertainty outside the United States where the termination of transfer concept is not specifically recognized. Legislative action may be necessary to ensure protection for the trademark owner, namely, (a) by expanding the work made for hire definition in the Copyright Act to include trademark designs, or (b) by amending the Lanham Act.

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