Copyright Transfer Terminations, Trademark, and Trade Dress: Forewarned is Forearmed

by Matthew C. Holohan and Samantha K. Picans

Authors of copyrighted works who have assigned rights in those works may terminate those assignments after thirty-five years. These terminations, which are subject to limitations under federal statutes and state contract law, may create conflicting intellectual property rights.

A provision added to U.S. copyright law in 1976 has recently begun to impact the landscape of copyrights in the United States. Specifically, the Copyright Act of 1976 (Act) includes a provision that allows authors of copyrighted works who have assigned rights in those works to other parties to terminate those assignments after thirty-five years. Given the timing of the provision, the first thirty-five-year termination rights became effective in January 2013. In recent years, therefore, authors of original works have been able to reclaim their transferred rights through compliance with the termination provisions in the Act. This has the potential to impact the rights of copyright assignees and to affect the use of reclaimed copyrighted materials in other contexts, such as trademark. In addition, because the transfers themselves are governed by general contract law principles, state and federal contract law may affect these termination rights. Going forward, it will be important for both authors and assignees to understand their rights and obligations under the termination provisions.

Right to Transfer: Past and Present

The Act includes a provision that allows authors of copyrighted works who transferred rights in those works on or after January 1, 1978 to terminate those transfers after thirty-five years.1 The first of these terminations became effective on January 1, 2013. Accordingly, it is important for holders of transferred copyright assets to understand what works are subject to termination and to be prepared to deal with authors seeking to reclaim their rights.

Historically, assignments of rights have been an important part of copyright law. It is common for an author (such as a writer, musician, or artist) to transfer or license his or her interest in an original work to a separate party (such as a publisher, record label, or other entity) that may be better positioned to exploit and monetize the creative work. Such transfers have traditionally operated as full, permanent assignments that eliminate the assignor’s interest in the work and vest full ownership in the assignee. Transfers may also take the form of licenses.

The Act allows authors of copyrighted works (or their heirs) to unilaterally terminate a previous transfer of the work after a period of thirty-five years (for transfers after 1977) or fifty-six years (for copyrights existing before 1978) by engaging in certain procedures delineated in the Act.2 The provision applies to transfers or licenses made on or after January 1, 1978.3 Accordingly, the first terminations under this provision began to take effect in 2013. This means that any copyrighted work—a book, song, film, software, or even potentially a logo—that is subject to rights that have been transferred by the artist is subject to recapture by the artist without any compensation to the assignee.

This represents a dramatic shift in the balance of power between artists and publishers. Artists such as Bob Dylan, Tom Petty, Bryan Adams, Loretta Lynn, Kris Kristofferson, Tom Waits, Charlie Daniels, and Kool and the Gang have already filed termination notices to recapture the rights of some of their most well-known and valuable works.4 A recent federal court decision from the U.S. District Court for the Southern District of California rejected an effort by a record label to invalidate thirty-three termination notices filed by Victor Willis, the lead singer of the Village People.5 Thus, since January 2013, holders of copyrights of all sorts have stood to lose these valuable assets.

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Extrapolated Effects: Intersection of Copyright, Trademark, and Trade Dress

Much of the focus of the recent wave of copyright transfer terminations has been on the entertainment industry, as musicians seek to reclaim their copyrighted works from their respective record labels. However, these terminations will have effects elsewhere, as well. A wide variety of works are subject to copyright protection (and thus termination), and many of these works implicate other areas of intellectual property law. For example, holders of trademarks that consist of or are based on assigned artwork may encounter attempts to terminate prior assignments. This is because a source-identifying logo may be sufficiently original and creative to qualify for copyright protection in addition to trademark protection.

One can envision a situation in which an artist assigns the copyright in a work of art to a company that then uses that image as a trademark or as part of a trademark. The company may have spent years building brand recognition around the image only to face an attempt to terminate the original copyright assignment by the artist who created the work. The artist would argue that the assignee would then be unable to use its own trademark without permission from the copyright holder.

It is important to note that, in such a situation, trademark rights, which are separate from copyright, would likely remain with the assignee. Although the artist would seek to regain control of the copyright in the work itself, the assignee would likely have good arguments that, even if such an attempt by the artist is successful, the assignee would continue to have the right to use the image as a trademark. Thus, the artist would seek to regain control of the original copyright, but he or she may be unable to use the image as a trademark in the same manner that the assignee used the image, even if he or she successfully regains control of the copyright. For example, if the assignee used the image as a trademark for shoes, the artist likely would not be permitted to attach the recaptured image to his or her own brand of shoes, because such use may infringe the assignee’s trademark rights.

Further, Congress recently strengthened protections against trademark dilution via the Trademark Dilution Revision Act (TDRA). The TDRA makes it easier for holders of strong trademarks to prevent use of similar marks that might not create confusion but that nonetheless are “likely” to cause dilution of the famous mark. In the example discussed above, the owner of a copyrighted work that has become a trademark for shoes could not turn around and use the same copyrighted work on his or her own brand of shoes. If the trademark had become strong under the TDRA, the copyright owner may also be unable to use the copyrighted work on unrelated products, or even sell the image on T-shirts or other media. It is important to note that these issues would arise under the TDRA only if the trademark resulting from the assigned copyright is sufficiently strong. Nonetheless, an author reclaiming a copyrighted trademark faces substantial risk if he or she seeks to exploit the work for his or her own benefit.

The conflict between trademark and copyright is not a new phenomenon. For example, in *Novo Wines, Inc. v. Adler Fels Winery LLC*, the plaintiff and the defendant both used images of Marilyn Monroe on wine bottles. The defendant had obtained the necessary copyright authorization to use the specific image of Marilyn Monroe in question, but the court held that the plaintiff had established a trade dress interest in associating Marilyn Monroe with wine—that is, the use of Marilyn Monroe’s image on wine bottles had become a source-identifier for the plaintiff. Accordingly, at the preliminary injunction stage, the court held that the plaintiff’s authorized use of a copyrighted image nonetheless may infringe another party’s trade dress. Thus, ownership of a copyright may not be sufficient to authorize the use of a copyrighted work in all settings. The valid exploitation of a work under copyright law may nonetheless tread on other intellectual property rights.

The Federal Circuit weighed in on this issue in *Boyle v. United States*, stating that “the government’s issuance of a service mark registration to [one party] cannot be construed as either authorization or consent for it to infringe [another party’s] copyright,” and “possession of a service mark is not a defense to infringement of a valid copyright.” Although these statements were made in the context of rejecting a copyright holder’s taking claim against the government for issuing a trademark, the case has been cited by decisions addressing the tension between copyright and trademark law where parties have conflicting ownership.

For example, in Sadhu Singh Hamdad Trust v. Ajit Newspaper Advertising, Marketing and Communications, Inc., the court denied summary judgment on a claim of copyright infringement regarding a work on which the same court had previously granted summary judgment on a claim of trademark infringement. The court acknowledged that “it may appear contradictory for the Court to deny plaintiff’s trademark claim, yet consider its claim of copyright infringement on the very same logo and masthead.” However, the court noted that “trademark and copyright law are distinct in both purpose and registration process,” and cited *Boyle* and *Novo Wines* for the proposition that a valid copyright does not authorize trademark infringement and vice versa.

Similarly, a dispute recently arose between the band The Velvet Underground and the Andy Warhol Foundation concerning an image designed by Andy Warhol for the band’s first album cover. The Velvet Underground claimed that the image achieved trademark status as a source identifier for the band. The image in question is an illustration of a banana with Andy Warhol’s signature, and was famously used as artwork on the cover for the album *The Velvet Underground & Nico*. The Velvet Underground sued the Andy Warhol Foundation after reading news reports that the Andy Warhol Foundation intended to license rights in the image to manufacturers of cases for mobile devices. The band asserted trademark infringement claims and sought a declaratory judgment that the Andy Warhol Foundation has no copyright rights in the image.

The court dismissed the declaratory judgment claim for lack of a sufficient controversy under Article III of the U.S. Constitution due to a covenant not to sue for copyright infringement granted by the Andy Warhol Foundation. Interestingly, the court rejected the band’s argument that it would be negatively affected by licensing of the Andy Warhol Foundation’s alleged copyright, holding that the claimed injury was insufficient to present a justiciable controversy, even though the court initially found that each party licenses its claimed rights in the image. The court did not address the trademark infringement claim, which the parties ultimately settled. While the Andy Warhol Foundation claimed to own rights to the original image, the association of the image with the Velvet Underground may have limited the Andy Warhol Foundation’s ability to use the image due to trademark concerns.
In another recent case, University of Alabama Board of Trustees v. New Life Art, Inc., the Eleventh Circuit held that a party could be liable for trademark infringement in connection with its use of a copyrighted work, even if the copyrighted work itself does not infringe the trademark. In New Life Art, the University of Alabama sued an artist it hired to create paintings of its football team. The university had given the artist a license to produce paintings and prints, but sued the artist for allegedly creating additional paintings without its permission and selling products such as calendars and mugs with the unlicensed paintings. The additional products featured the university's trademarks on uniforms. The court held that even though the copyrighted painting did not itself infringe the university's trademarks on uniforms, helmets, logos, and colors, and even though the artist could sell prints of the paintings on their own without infringing the trademark, the painter could still infringe the university's trademarks by, for example, placing the paintings on certain unauthorized products.

The Ninth Circuit's decision in Fleischer Studios, Inc. v. A.V.E.L.A., Inc. demonstrates the potentially fatal effect that may arise where a party owns only a subset of intellectual property rights to a particular work. The court upheld the trial court's dismissal of a copyright claim regarding the character Betty Boop, on the ground that the chain of title was broken and the plaintiff had failed to meet its burden of ownership of the copyright. As to the plaintiff's trademark claims regarding Betty Boop images and the phrase "Betty Boop," the court affirmed dismissal of the trademark claims in the images, but vacated and remanded as to the trademark claims in the phrase. The court reasoned that the plaintiff had proven ownership of a registration for the phrase, but not the images. The plaintiff was therefore entitled to the presumption of a valid trademark and established secondary meaning as to the phrase, but not the images. Nonetheless, the court recognized that this presumption of a valid trademark could be overcome where there is fractured ownership and other factors precluding secondary meaning. On remand, the trial court granted the defendant's motion for summary judgment, holding that the defendant did not infringe any trademark rights of the plaintiff.

The Fleischer Studios case illustrates the risk of allowing fractured ownership in copyright and trademark rights. Although the alleged infringers in Fleischer Studios could also claim intellectual property rights relating to Betty Boop, the reasoning of the decision is heavily reliant on the plaintiff's failure to prove ownership, rather than the defendant's potential claim to intellectual property rights.

In sum, a single creative work may be subject to copyright protection and also serve as a trademark. Where a single entity owns both the copyright and the trademark rights, the use of the image as a trademark is generally safe. However, if these ownership interests are split such that one entity owns the copyright and a separate entity owns the trademark, the simultaneous exercise of copyrights and trademark rights may be hindered. In such a situation, a termination in the assignment of a work that has been transformed into a trademark could result in neither the artist nor the assignee being able to use the image. The assignee would be deprived of its trademark, and the artist would be deprived of the right to exploit his or her own work. The public would be deprived both of the enjoyment of the work itself and of its function as a source identifier for the good or service identified by the trademark. Thus, a transfer termination does not end the inquiry as to the legal status of a particular work. All intellectual property rights potentially impacted by the work must be considered.

Statutory Limitations on Transfer Terminations

The Act places several specific requirements on the exercise of termination rights and the effect of a valid termination. The Act requires a notice of termination to be served at least two years, and up to ten years, before the effective date of termination. In addition, a termination notice must be recorded in the U.S. Copyright Office before the effective date of the termination, or it will not be effective. The Act also specifically allows the recipient and senders of a termination notice to enter into an agreement providing for a further grant of rights in the work. Further, the right of
termination under the Act is limited to the author of the work or his or her legal heirs if the author is deceased.\textsuperscript{35} In addition, the holder of a transferred copyright is authorized to create derivative works based on the original work. A “derivative work” is defined as:

a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted.\textsuperscript{36}

Terminations under the Act do not apply to derivative works that were created before the termination.\textsuperscript{37} An assignee retains ownership of such derivative works and may continue to use them even after the termination. Accordingly, in the context of a copyrighted work being used as a trademark, if the assignee has altered the original work (such as a logo) over the course of the assignment to a sufficient degree that a derivative work has been established, the assignee may continue to use these derivative works even after the termination becomes effective. Because logos typically evolve over time, this may be an effective way to minimize the effect of a copyright termination on trademark rights. However, no unauthorized future derivative works can be made after the termination, and thus the assignee may be limited to whatever altered versions of the original image were in existence at the time of termination.\textsuperscript{38}

Another approach would be to renegotiate the terms of the original transfer before termination. The Act allows an author to renew the transfer to the original assignee without formally terminating the transfer.\textsuperscript{39} This would enable the artist and the assignee to reach a mutually agreeable arrangement whereby the assignee may continue to use the image (and any future derivative works) as a trademark in exchange for some additional consideration to the artist, without ever losing ownership of the transferred work. This would also avoid the worthless image problem discussed above.

Additionally, the termination provision of the Act does not apply to works made for hire.\textsuperscript{40} A “work made for hire” is “a work prepared by an employee within the scope of his or her employment” or “a work specially ordered or commissioned for use as a contribution to” various categories of works.\textsuperscript{41} In general, only certain statutorily determined categories are eligible to be works for hire.\textsuperscript{42} Thus, if the artwork incorporated into a trademark was a work made for hire, the artist likely could not claim any rights under the work through the transfer termination provisions. This argument has already been made by assignees defending against attempts to terminate.\textsuperscript{43} For example, record labels have taken the position that the master recordings created by musicians are works made for hire that belong to the record labels in perpetuity.\textsuperscript{44} While some copyright experts are skeptical of this claim, the courts will have to determine the extent to which the work made for hire exception bars artists from reclaiming copyrighted work.

Indeed, courts have struggled with the question of whether a specific work is a work made for hire for the purposes of the termination provisions of the Act. In \textit{Siegel v. Warner Bros. Entm’t Inc.}, the court addressed an attempt by the heirs of the creator of Superman to terminate the transfer of certain copyrights under the Act.\textsuperscript{46} The validity of the termination turned in part on whether the works at issue were works made for hire.\textsuperscript{47} To complicate mat-
ters further, the question of whether the works at issue were works made for hire was governed by the Copyright Act of 1909, which was in place when the works were created. Applying the relevant law, the court concluded that some works created over a fifty-five-year period were works made for hire and some were not, and only the latter were subject to termination under the 1976 Act. Thus, when reviewing a copyright portfolio to identify works that may be subject to termination, companies should identify works created by an employee within the scope of employment or that fall under the statutory definition of works made for hire.

State Law Concerns

Although the termination provisions of the Act are quite explicit and precise, the underlying transfer instruments are contracts, and principles of contract law also come into play when dealing with copyright terminations. Where state contract law directly conflicts with the Act, the Act’s termination provisions likely control. However, in other instances where the operation of the Act is not as clear, state contract law principles may come into play.

For example, in Latin Am. Music Co. v. American Soc’y of Composers Authors & Publishers, a composer assigned his rights in a song via a contract in 1982. The contract, which was governed by New York law, “did not specify a termination date, the conditions under which the exclusive license could be terminated, or the manner in which the license could be terminated.” The evidence showed that the assignment agreement had been verbally terminated and that the verbal termination was valid under New York law. The assignee argued that the termination provisions of the Act preempted the New York contract law, and that any termination of assignment had to be in writing and comply with the terms of the Act. The court held that the termination provisions of the Act did not apply because a valid termination had been made under state law by a person other than “an author, or an author’s statutory heirs.” Thus, a state law termination by a person other than the author of the work rendered the Act’s termination provisions completely inapplicable, and the assignee lost its rights to the work based on the operation of state law.

Similarly, in Mihm v. Stephen Slesinger, Inc., a copyright transfer made by the author in 1930 was revoked by a contract executed by the heir of the original licensor and the successor licensee in 1983. The same instrument re-granted the rights to the assignee. However, while the author’s legal heir executed the revocation of the 1930 grant, the rights were re-granted by the trustees of a separate entity, and the heir was not listed as a trustee. The court held that the heirs could not terminate the grant under the 1976 Copyright Act because the 1983 grant was not made by the author. The pre-1976 termination provision also did not apply because no termination notices had been served before the execution of the 1983 agreement. Again, state contract law governed the outcome because the specific conduct of the author’s heir was not within the purview of the Act.

In areas of direct conflict between state contract law and the Act, however, federal law may preempt state law. In Kano v. Sipa Press, Inc., an author orally granted a nonexclusive license of unspecified duration to certain photographs. The Ninth Circuit applied California law to the terms of the oral agreement. Under California law, agreements that do not specify a duration, such as the oral agreement between the parties to this case, are terminable at will. The author therefore argued that he could terminate the copyright license at will, and that he had done so. The court held that the application of California contract law in this instance would directly conflict with federal copyright law—specifically, the requirements to terminate a copyright transfer under the Act. The court therefore held that the contract was not terminable at will.

Interestingly, the same court held that a contract transferring copyrights could be terminated via rescission due to material breach without complying with the termination provisions of the Act. This principle—allowing for rescission of a contract as a remedy for material breach—is recognized in federal law and, thus, according to the court, the Act’s termination provisions do not alter a party’s rescission rights based on general contract principles. This principle was also recognized in a recent decision in the U.S. District Court for the Central District of California, Lizalde v. Advanced Planning Services, Inc. The court, in the context of a motion to dismiss, held that a claim for copyright infringement had been properly pled. The complaint alleged that a copyright license agreement had been terminated for breach and the licensee continued to exploit the copyrighted works after the termination. Because the termination was based on rescission principles, the plaintiff did not need to plead compliance with the termination provisions of the Act.

Tips for Assignees

Assignees of transferred copyrights—whether those works are being used as trademarks or otherwise—should review their portfolios and be prepared to negotiate with authors of assigned works before being served with termination notices. Assignees should also consider creating derivative works ahead of the termination date to maintain some value in the transferred work in the event that the artist does seek to terminate the transfer. Even if an assignee decides to renegotiate the original transfer such that the assignee retains ownership (or a license) of the work itself, having derivative works that the assignee can continue to use without authorization from the artist may provide additional leverage in negotiations.

As a general matter, assignees may want to avoid proactively reaching out to artists and attempting to renegotiate transfers before being served with a termination notice or otherwise being contacted by the artist. Termination notices must be served within forty years of the original assignment to be effective, so making the first contact with an artist may prompt the artist to serve a termination notice that the artist may otherwise have waived through inaction.

In addition, termination notices must be recorded—that is publicly filed—with the Copyright Office before the effective date. If an assignee is concerned that a particular author may serve termination notices for works that are approaching their thirty-five-year termination date, the assignee can search the Copyright Office records to determine whether the author in question has served termination notices on other parties. The Copyright Office website can be used to quickly identify all termination notices filed by a particular author. If a search reveals that an author appears to be systematically reclaiming all of his or her transferred copyrights, it may be worthwhile for an assignee to open the lines of negotiation early.

Finally, assignees should take care to ensure that copyrighted works by their employees are works made for hire at the time of
creation. Even if the assignee and the author later agree to treat the works as works made for hire in an effort to place them beyond the reach of the Act’s termination provisions, it may not be possible to retroactively establish the works as works made for hire if they did not satisfy the statutory requirements at the time of creation.72

Conclusion

The termination provisions of the Copyright Act of 1976 give authors a potentially valuable tool to reclaim some or all of the value of their transferred copyrights. These provisions also have the potential to dramatically shift the balance of power in the entertainment industry and elsewhere. In addition, these termination provisions create potential conflicts with copyright, trademark, trade dress, and state laws. With some foresight and creativity, however, holders of transferred copyrights can prepare for termination notices and retain some value in their assigned works.

Notes

1. For rights transferred before 1978, termination rights accrue after fifty-six years. 17 USC § 304(c).
2. See generally 17 USC §§ 203 and 304.
3. 17 USC § 203(c).
6. See, e.g., Jada Toys, Inc. v. Mattel, Inc., 518 F.3d 628, 636 n.6 (9th Cir. 2008).
7. See 15 USC § 1125(c).
8. Id.
10. Id. at 977.
11. Id. at 983.
14. Id. at 582 n.6.
15. Id.
17. Id.
18. Id. at 403.
19. Id.
20. Id. at 404-11.
21. Id. at 408-10.
22. Id. at 402.
26. Id. at 965.
27. Id. at 965-68.
28. Id. at 966-68.
29. Id.
30. Id. at 967-68.
34. 17 USC § 203(b)(4).
35. 17 USC § 203(a)(1) and (2).
36. 17 USC § 101.
37. 17 USC § 203(b)(1).
38. Id.
40. 17 USC § 203(a).
41. 17 USC § 101.
42. The Copyright Act lists nine categories of specially commissioned works that may be contractually determined to be works for hire: (1) a contribution to a collective work; (2) a part of a motion picture or other audiovisual work; (3) a translation; (4) a supplementary work (a work prepared to be published with another author’s work, such as a forward or illustrations); (5) a compilation; (6) an instructional text; (7) a test; (8) answer material for a test; and (9) an atlas. 35 USC § 101. Notably absent from the listed categories are “literary works” and “audiovisual works” that are not created for use as a part of an audiovisual work.
43. Rohter, supra note 4.
44. Id.
45. Id.
47. Id. at 1056.
48. Id. at 1057.
49. Id. at 1060-84.
50. Latin Am. Music Co. v. Am. Soc’y of Composers Authors & Publishers, 593 F.3d 95, 98 (1st Cir. 2010).
51. Id.
52. Id. at 98.
53. Id. at 99.
54. Id. at 101.
56. Id. at *2.
57. Id.
58. Id. at *5.
59. Id.
61. Id. at 585 n.2.
62. Id. at 585.
63. Id.
64. Id.
65. Id.
66. Id.
68. Id. at 1163.
69. 17 USC § 203(a)(3).
70. 17 USC § 203(a)(4)(A).
72. See Marvel Characters, Inc. v. Simon, 310 F.3d 280, 291 (2d Cir. 2002) (holding that a settlement agreement stipulating that an original work had been a work for hire could not retroactively alter the relationship between the parties).