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High Court steps in to smooth out copyright dispute



The High Court recently delivered its judgment in a case relating to the ownership of the copyright of the ‘halo’ logo (the “Dude Logo”) used on the well-known brand of ‘Innocent’ smoothies (**Fresh Trading Limited v Deepend Fresh Recovery Limited and Andrew Thomas Robert Chappell** – <http://www.bailii.org/ew/cases/EWHC/Ch/2015/52.html>).

The decision serves as a warning of the risks of failing to properly document the transfer of IP rights and highlights the real significance, from both a commercial and a legal perspective, of (i) drafting clear provisions regarding the ownership and assignment of copyright where one party commissions another to design material for it and (ii) entering into a signed written agreement which addresses such ownership and assignment issues.

Background

In 1998, three friends set up the business (“Fresh”) which today very successfully sells smoothies under the ‘Innocent’ brand. At that time, Fresh commissioned a third-party design agency (“Deepend”) to design the branding for their smoothies and marketing materials. Deepend agreed to provide Fresh with design services in return for shares in Fresh, rather than immediate payment. An agreement (the “Contract”) was drafted by Fresh which included a clause under which Fresh would receive “full intellectual copyright of any work presented by Deepend and then subsequently approved by Fresh” and an entirely separate clause by which Deepend would be awarded shares in Fresh in three stages.

The Contract was sent to Deepend underneath the words ‘subject to contract’. Although no signed copy of the Contract could be located, it was accepted by the parties that the Contract had been agreed. Shortly afterwards, a Deepend employee created the Dude Logo that has since been used by Fresh as the public badge of its ‘Innocent’ smoothie business. It was common ground between the parties that the Dude Logo was first drawn by the Deepend employee and he was the author of the artistic work.

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In 2001, Deepend was put into liquidation. At that point it had received no shares in Fresh, although this resulted from the shareholding not being a priority for either Fresh or Deepend; indeed, it was not in dispute between the parties at that time that Deepend was entitled to a shareholding in Fresh under the terms of the Contract. It subsequently came to the attention of the second defendant, Mr. Chappell (a friend of the Deepend employee who had designed the Dude Logo) that it might be possible to turn potential intellectual property claims of Deepend to his financial advantage. Therefore, just before the liquidation of Deepend was concluded in October 2007, Mr. Chappell acquired from the liquidators all of Deepend’s interest, if any, in the copyright in all works created by Deepend for Fresh.

These rights were then assigned to a company called Deepend Fresh Recovery (“DFR”) which Mr. Chappell had incorporated. In 2009, and completely out of the blue for Fresh, Mr. Chappell sent a letter to Fresh intimating potential IP infringement claims and advising disclosure “to potential investors”. The designer of the Dude Logo acknowledged in evidence that press publicity over a potential acquisition of Fresh by Coca-Cola was the catalyst for sending the letters.

Mr. Chappell’s letters elicited no response from Fresh. Therefore, DFR brought invalidity proceedings before the Office for the Harmonization of the Internal Market (“OHIM”) against Fresh’s community trade mark (CTM) for the Dude Logo, on the basis that DFR owned the copyright in the Dude Logo. OHIM found in favour of DFR. As a result, Fresh lodged an appeal with OHIM and began the proceedings before the High Court seeking a declaratory judgment that it was the owner of the copyright in the Dude Logo (and other works designed for it by Deepend). **High Court Decision** Deputy Judge Eglehart QC identified a number of material issues, including:

1. Was the Contract signed by Deepend and, if so, did it effectively transfer the legal title of the copyright in the Dude Logo to Fresh?
2. Whether or not the Contract was signed, did it constitute a concluded binding agreement?
3. What was the event upon which the copyright in the Dude Logo was to transfer to Fresh?
4. Even if Fresh is not the legal owner, is it the equitable owner of the copyright?
5. If Fresh is neither the legal nor the equitable owner of the copyright pursuant to the Contract, what (if any) right under the copyright does it enjoy by implication?

Legal ownership of copyright

The first issue was important since an assignment of the legal title in copyright must be in writing, signed by the assignor, for it to be effective. The Deputy Judge found that, on balance, it had not been established that Deepend had signed the Contract. He was therefore unable to find a legal assignment. Significantly, the Deputy Judge noted that even had the parties signed the Contract, Fresh was at most an equitable assignee of the copyright in the Dude Logo. Key to this was that at the time of the Contract there were no actual works, only potential works which might come into existence and which then might or might not be approved by Fresh.

The Deputy Judge considered that statute only provided for an assignment of future copyright where the copyright vests in the assignee “on the copyright coming into existence”. Based on the language of the Contract, assignment of the copyright was conditional upon Fresh’s subsequent approval of the designs rather than “on the copyright coming into existence”. The Deputy Judge therefore found that Fresh was at most an equitable rather than legal assignee of the copyright in the Dude Logo.

Equitable ownership of copyright

The Deputy Judge found that the parties had intended for the Contract to be legally binding (despite the use of the words “heads of agreement” and “subject to contract”) and that both parties’ conduct suggested that they had accepted and were operating under the terms of that Contract. He dismissed the defendants’ argument that copyright would only vest in Fresh when shares in Fresh were allotted to Deepend as having no basis as under the Contract; the obligation to transfer copyright and the obligation to allot shares were concurrent, not conditional on each other and, in any event, Fresh’s consideration for the assignment of the IP was the promise to allot shares rather than actual allotment.

Implied assignment or licence

The Deputy Judge also noted that even if he had not found an express assignment of copyright, he would have found an implied equitable assignment rather than a licence. He considered it commercially unrealistic and improbable that Deepend would use works which were employed as Fresh marketing materials, either for themselves or for other clients, or that Fresh would have agreed to a mere licence to the copyright which could be terminated by Deepend at any time.

Conclusion and significance

Whilst successful at the High Court, Fresh’s costly and lengthy legal battle with DFR, and the initial cancellation of its CTM by OHIM, clearly demonstrate how important it is for companies to take prompt and adequate steps to ensure that they own legal title to the intellectual property rights in their brands and used in relation to their business. When employing third-party designers to create designs or branding, brand owners should ensure that they put in place and securely maintain a written copyright assignment that has been signed by the designer. This is the only way to transfer legal ownership of copyright and, crucially, remove any risk that the designer is entitled to claim rights in the material. Additionally, for those ongoing arrangements with designers which are likely to involve the creation of copyright in the future, it is valuable to note that an assignment of future copyright will not be effective if it is subject to further conditions (as in this case in relation to Fresh’s approval of the designs). It is therefore important that in such circumstances the contract is drafted carefully and appropriately to avoid problems arising later.



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