

## Copyright Advisory

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# Are You Sure Your Company Owns That Copyright? The Work for Hire Doctrine

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As merger and acquisition activity begins to pick up, following the worst recession in decades, our clients have begun positioning themselves to take full advantage of the opportunities a recovery will bring. When examining their intellectual property portfolios to make sure all assets are in order in the event of a quick sale or needed due diligence, one of the areas in which intellectual property problems frequently occur involves proving ownership of your copyrights (i.e., “chain-of-title”). Although this Advisory is applicable to all businesses, it is targeted particularly to our clients in the software, video game, investment management, and financial services sectors and highlights the problems and solutions surrounding an often unknown or ignored but very important copyright concept called the “work for hire” doctrine. If not addressed at the time it first becomes relevant, these often complicated chain-of-title issues can become expensive and time-consuming, potentially delaying a closing.

## I. What is a Work for Hire?

As a general rule, ownership of a copyright initially vests in the “author” of a tangible work, namely the person who first reduced that original work into a tangible form (usually the creator).<sup>1</sup> If you take a picture, or write a computer program, or pen the next great American novel, then assuming that content is “original” (the threshold for which is generally very low), you likely own the copyright in that work as the “author” whether or not you register it or place a copyright notice on it.<sup>2</sup> As the owner, you are vested with a variety of rights involving use of the copyrighted work.<sup>3</sup>

One very important exception to this principle of individual ownership is the work for hire doctrine. If a work is created for hire, as defined by statute, the *employer* is legally considered the author and initial owner.<sup>4</sup> As discussed below, a work for hire generally has a longer term of protection than does a work created by an individual author. Thus, there are ramifications to determining whether a work is for hire or is a work that requires an assignment for ownership to transfer.

The 1976 Copyright Act defines a “work for hire” in Section 101 as:

1. a work prepared by an employee within the scope of his or her employment; or
2. a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose

of the foregoing sentence, a “supplementary work” is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an “instructional text” is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

This language is generally interpreted to mean that works for hire must fit into at least one of two categories. Either the creator must be an “employee” creating the work within the scope of her employment, or the work must be specially commissioned, in writing, by the hiring party and must be one of nine permissible types of copyrighted works. If the facts do not support one of those two categorizations, then work for hire status will likely not exist. Simply calling something a “work for hire” in a contract or otherwise will not make it a work for hire if it falls outside these statutory parameters. In such cases, ownership of the copyright in such a work can only be transferred in a written assignment signed by the assigning copyright owner(s). This Advisory will discuss the requirements of each category and offers several helpful points that any client should keep in mind when considering these issues.<sup>5</sup>

## II. Who Are “Employees”?

The first type of work for hire is one created by an “employee” within the “scope of their employment.” These qualifications are meant to confer on employers ownership of the copyrights in works created by their employees who were hired to do so, while simultaneously eliminating claims by employers to works their employees were not hired to create.

The first step in this analysis is determining whether the creator is properly classified as an “employee.” The U.S. Supreme Court established the analytical framework for resolving this question under the general laws of agency.<sup>6</sup> “Employee” status is now determined by weighing a multitude of inclusive factors. While these listed factors are not exhaustive, those considered most important by subsequent courts are in bold.<sup>7</sup>

- Does the hiring party have the right to control the manner and means by which the work is accomplished?
- The level of skill required to create the work
- Does the hiring party provide the instrumentalities and tools to do the work or does the creator provide those herself?
- Where is the work performed (at the hiring party's office, at the hired party's home, etc.)?
- The duration of the relationship between the parties
- Does the hiring party have the right to assign additional projects?
- The amount of discretion the hiring party has over when and how long the work is done
- The method of payment
- The hired party's role in hiring and paying assistants
- Is the work part of the regular business of the hiring party?
- Is the hiring party in business?
- Does the hiring party provide employee benefits to the hired party?
- The tax treatment of the hired party by the hiring party

If an analysis of the facts supports a finding that the creator is an employee, then the analysis continues to step two, which evaluates whether creation of the work was within the scope of employment of that employee. This means, assuming that the creator was an employee, evaluating whether that employee was generally hired to create this type of work. For example, if the employee was a receptionist for an investment bank and created a video game in her spare time using her own resources, then it is not fair that the employer should own that creation even if she was in fact an employee. If the employee had not been compensated for creating that type of work, then why should the employer be deemed the owner without paying the accompanying premium for its creation?

To determine whether an employee created the work within the scope of her employment, the general laws of agency are again used. This time the focus is narrowed to three specific inquiries:

1. Was the work of the type the employee was generally hired to perform?
2. Was the work created “substantially within the authorized time and space limits” of the employee’s job? Essentially, where did the employee create the work and by using whose resources?
3. Was the employee “actuated at least in part by a purpose to serve” the employer’s purpose?<sup>9</sup> Essentially, was the employee trying to help her employer or only benefit herself?

If on balance these three inquiries are answered in favor of the employer, then the work will be considered a work for hire.

### III. What About Independent Contractors?

In addition to a work created by an employee within the scope of her employment, a work for hire can also result from so-called “specially commissioned works.” These works are created, as specified by statute, when a hiring party requests that a third party create one of a number of different types of works pursuant to a written agreement between the parties accurately identifying it as a work for hire. For example, if a company hires a marketing firm as an independent contractor to write and create a television commercial with the understanding in writing that the copyright in the video will be owned by the company on a work for hire basis, then it will be deemed a work for hire.

The “specially commissioned” work must fall within one of nine categories of works specifically enumerated in the copyright statute. If the work is not one of these specific types of works, then even if there is an agreement stating the work is being created on a work for hire basis, it is not a work for hire. (Note that these categories do *not* apply to works created by employees as discussed above.) These statutorily enumerated types of works are:

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;
5. a compilation;
6. an instructional text;
7. a test;
8. answer material for a test; and
9. an atlas.

Note that software is typically considered a “literary” work under copyright law (since the code is written), and literary works generally are noticeably absent from the above list. Therefore, companies cannot rely solely on work for hire provisions in agreements with contractors that state the software is being created on a work for hire basis. While in some cases (e.g., video games), it *may* be argued that the software is an audiovisual work in addition to being a literary work (and thus covered as one of the enumerated categories), there is no guarantee that a court would accept this interpretation and we suggest (as outlined below) other methods for ensuring that specially commissioned software is properly assigned to the hiring party.

A second requirement for specially commissioned works is that they must be specially ordered or commissioned by the hiring party. While in some cases it is clear that the hiring party is requesting another to create a work (e.g. a Statement of Work or other such formal arrangement), in other cases the issue is not so clearly cut. Courts generally resort to an analysis of whether the “motivating factor” of the creator in creating the work was a request by the hiring party or not. This general rule is influenced by factors such as how any licensing or royalty provisions are structured and whether the hiring party listed itself as the author of the work or instead lists the actual creator.

The third requirement is that there must be a writing, signed by *both* parties, agreeing that the work is one that is being made for hire. Here the law can be particularly thorny because there is a split among courts regarding whether the writing must be signed by both parties *before* the work is created, or whether a writing confirming a pre-creation *oral* agreement that the work is for hire can be signed by the parties *after* the work is created. Courts respected for their copyright expertise are on both sides of this debate.<sup>10</sup> This split arose because some courts have accepted a signed contract containing a work for hire clause signed *after* the work was created if in those special cases the written agreement was merely confirming a *pre-creation* oral agreement between the parties confirming that the work was being created on a work for hire basis. It is not ideal to rely on such oral agreements in this context and every effort should be made to obtain a written agreement signed by both parties prior to any work commencing.

#### IV. Joint Ownership of Works

If the work fails to qualify under the above prongs as a work for hire, all may not be lost for the employer. If the employer materially contributed as an author itself (e.g., an executive of the employer helped create the work by making significant contributions), then even if another party such as an employee or contractor is deemed to be an author (because a work for hire argument failed and there was no backup assignment—as discussed below), then the employer/hiring party may still be deemed a joint author as a result of its employees’ contributions. The 1976 Copyright Act defines a “joint work” as “a work prepared by two or more authors *with the intention* that their contributions be merged into inseparable or interdependent parts of a unitary whole.”<sup>11</sup> It is important that the employer be able to show that the authors *intended* the two parts constituting the joint work to be combined into one work. Additionally, it is important to note that with joint works, any owner has the right to license the *entire* work (without the approval of the other owner[s]) but can only do so nonexclusively. The licensing party must also account to (i.e., pay) the other owners their pro-rata share of any fees obtained through any such nonexclusive license of a jointly-owned work.

#### V. Common Problem Areas

As discussed above, one of the most misleading areas of this doctrine is the fact that works, such as computer software, created by an independent contractor or other third party may NOT be considered a work for hire despite a writing between the parties to the contrary. While software created by an *employee* within the scope of his employment is a work for hire, software created by independent contractors likely will not qualify for such treatment. Thus, it is essential to carefully confirm that any third party content created by an independent contractor falls clearly within one of the nine enumerated categories, and, if it does not, supplement any work for hire clause with a copyright assignment as discussed below. Remember, paying to have a work created does not automatically vest ownership of the copyright in the paying party.

A prudent practice is to include as a backup to any work for hire agreement a copyright assignment that assigns any interest the creator has to the employer/hiring party. In the event the work is determined not to be for hire,

then the backup assignment will still act to convey rights to the employer/hiring party although in a slightly more limited way. An assignment is obviously preferable to not having any additional protection should the work for hire conveyance fail, but it should be noted that conveying rights under an assignment is not the same as obtaining rights as a work for hire for two reasons. First, the term of protection under a copyright assignment can be shorter than for a work for hire. A work made for hire has a term of protection of 95 years from the date of first publication or 120 years from creation, whichever expires first. A work created by an individual author and then assigned to the employer has a term equal to the life of the author plus 70 years. Second, when a work is assigned, the original author (or her heirs) may still have what is referred to as a “statutory termination of transfer” exercisable between the 35th and 40th years after the assignment. If applicable, this means that the creator or her heirs would have the right to “re-capture” the copyright in the work, effectively terminating the assignment at such time.<sup>12</sup> Due to the length of time that the original assignee would have title to the work, the risk of a statutory termination of transfer may not in most cases be material, but it is nonetheless something that should be kept in mind.

Due to the split in case law regarding whether a work for hire agreement must be signed by both parties *prior* to a work being created, it is always preferable for such an agreement to be fully signed *prior* to any work being commenced.

Finally, often overlooked is the interplay between the copyright laws pertaining to the work for hire doctrine and state and federal laws regulating obligations to pay disability, workers’ compensation, and unemployment insurance on behalf of employees. Employers tempted to argue that certain individuals are employees in order to avail themselves of the protections of the work for hire doctrine must be very careful in those cases to abide by the concomitant obligations an “employee” status confers on the employer. We urge companies in this position to consult with experienced intellectual property and employment counsel regarding what criminal or civil impact, if any, such a decision may have on these obligations.

As with all copyright issues, this Advisory is meant to highlight a topic of interest to our clients and should not be interpreted as legal advice or used as a substitute for consulting with a Mintz Levin copyright specialist. Since copyright issues are fact intensive by nature, please contact your Mintz Levin representative or one of the Mintz Levin copyright specialists listed on the linked page if you have any questions, or if we can be of assistance.

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## Endnotes

<sup>1</sup> 17 U.S.C. §201(a).

<sup>2</sup> Remember that although federal registration of a copyright confers certain important additional benefits, it is not strictly speaking necessary to register the copyright to obtain ownership of the underlying copyright. Not doing so, however, can preclude very valuable remedies such as federal jurisdiction and significant statutory damages.

<sup>3</sup> Copyright ownership generally conveys six very distinct rights: reproduction, adaptation, performance, display, distribution, and with respect to digital sound recordings, the transmission right.

<sup>4</sup> 17 U.S.C. §201(b).

<sup>5</sup> 17 U.S.C. §101.

<sup>6</sup> *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989).

<sup>7</sup> *Carter v. Helmsley-Spear, Inc.* 71 F.3d 77 (2d Cir. 1995); *Aymes v. Bonelli* 980 F.2d 857 (2d Cir. 1992).

<sup>8</sup> *Community for Creative Non-Violence v. Reid* at 751-752.

<sup>9</sup> Restatement (Second) of Agency, §228.

<sup>10</sup> *Shiller & Schmidt, Inc. v. Nordisco Corp.* 969 F.2d 410, 412 (7<sup>th</sup> Cir. 1992)(“The writing must precede the creation of the property in order to serve its purpose of identifying the (noncreator) owner unequivocally.”); *Playboy Enters., Inc. v. Dumas* 53 F.3d 549 (2d Cir. 1995)(the writing requirement “can be met by a writing executed after the work is created, if the writing confirms a *prior* agreement, either explicit or implicit, made *before* the creation of the work.”) (Emphasis added).

17 U.S.C. §101.

12 Statutory Terminations of Transfer are complex analyses and a qualified Mintz Levin Intellectual Property attorney should assist you in this area if you feel it may be applicable.

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