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Securing Copyright Ownership: A Question Of Timing

Law360, New York (April 03, 2009) -- For most companies today, intellectual property rights are a critical part of the value of the total assets of the company. If a company is about to be sold or a third party is weighing a potential investment in the company, the failure of the company to have secured title to the intellectual property rights to its key assets can stall or even thwart a sale, merger or investment transaction.

Many companies outsource the development of copyrightable works such as computer software, creative or entertainment content and other “tangible” works with the expectation of owning not just the works, but the related copyrights as well.

Unfortunately, companies often fail to enter into written agreements with those third-party developers that effectively transfer title to the developed work, and the related copyrights, to the company.

Without ownership of the copyright, the company does not enjoy the exclusive rights it believes it paid for. Only the copyright owner — in this case the developer, not the company — has the exclusive right under the U.S. Copyright Act to modify and distribute the work.

In the case of computer software, only the copyright owner may make improvements to the software. In the case of visual or artistic works, such as music, films or photographs, only the copyright owner may display and perform the work.

The Requirement of a Writing

To be effective, agreements that assign ownership of copyrightable works must be in writing — it is not enough that the company or client may have commissioned and paid for the work.

Written agreements that vest copyright ownership commonly appear in two forms. In the first, the developer of the work “assigns” his or her rights to the new owner. Under U.S. law, specific language of assignment must evidence the transfer.

Though in writing, an agreement that merely states the parties’ “intention” to transfer the copyright, or states that the client is the owner of the copyright, may be insufficient to vest ownership of the copyright in the client.

The second form of agreement that vests ownership of copyrights is known as a “work made for hire” agreement. According to Section 101(2) of the U.S. Copyright Act, a “work made for hire” is “a work specially ordered or commissioned [within specified categories of works] if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.”

In the abundance of caution commonly exercised only by attorneys, a typical copyright transfer in the U.S. will usually include both copyright vesting provisions: a direct copyright assignment and a “work made for hire” provision.

Why is it important to include both provisions in a copyright agreement — especially when only a subset of copyrights is eligible under the U.S. Copyright Act for “work made for hire” treatment?

The Statutory Right to Terminate Copyright Transfers

Under Section 203 of the U.S. Copyright Act, the developer, or “author,” of a copyrightable work may terminate a copyright transfer (including assignments and licenses) beginning 35 years after the date of execution of the transfer, simply by providing written notice to the transferee.

If an author elects to terminate the previous transfer, all rights to the copyright revert to the author, and the company or other person who commissioned or ordered the work loses its rights to the copyright or to derivative works prepared after the termination.

The prospect of having rights to a copyrightable work revoked should be especially worrisome for companies that have been assigned rights to creative works such as books, movies, music, photographs, characters and the like, that stand the test of time and are continuously being developed and expanded through derivative works.

However, even companies that have intellectual property rights to software, which tends to undergo rapid change and development, may be threatened if they are prevented from gaining rights to a software program that was developed after an author elected to terminate a transfer, but which is still considered a “derivative” of the original program.

Unlike assignments, “works made for hire” are not subject to the Section 203 termination proviso. When a copyrightable work is commissioned as a “work made for hire,” the company that commissioned the work steps into the shoes of the author as

copyright owner, and ownership of the work automatically vests in the company at the moment of creation.

The original author retains no copyright interest in the work. For this reason, it is important that companies, whenever possible, treat the development of outsourced works as “works made for hire” under the U.S. Copyright Act.

“Works Made for Hire” and the Current Circuit Court Split

Yet designating an outsourced work as a “work made for hire” is not always a simple affair. Notably, the U.S. Copyright Act is silent on whether the written agreement designating the work as a “work made for hire,” to be effective, must be executed prior to the author’s creation of the work, or whether the agreement can be entered into at a later date.

As a result of this ambiguity, the federal courts are in disagreement over whether a company may retroactively satisfy the writing requirement under the “work made for hire” provision.

Based on current case law, if a company fails to enter into an appropriate written agreement with a third-party developer at the outset of the development relationship, it may be too late thereafter to enter into an agreement designating the developed work as a “work made for hire.”

The U.S. Courts of Appeals that have so far considered this issue are evenly split. The Courts of Appeals for the Seventh Circuit and the Ninth Circuit have held that parties must have an express, executed agreement designating a “work made for hire” arrangement prior to the creation of the copyrightable work, in order for the work to be deemed a “work made for hire.”

According to these courts, once a third party has created or developed the copyrightable work, it is too late to enter into an agreement designating the work as a “work made for hire.”

In contrast, the U.S. Court of Appeals for the Second Circuit and U.S. District Courts in the First and Fifth Circuits have held that parties may go back after the creation of the work and designate the work as a “work made for hire” (assuming such protection is otherwise available under the U.S. Copyright Act).

There is no clear answer to whether a court will allow retroactive “work made for hire” arrangements, outside of the few federal courts that have already considered this issue.

The first court to address the issue was the Seventh Circuit in *Schiller v. Nordisco Corp.*, 969 F.2d 410 (7th Cir. 1992). In *Schiller*, the plaintiff commissioned an independent contractor to take eighteen photographs for its office supply catalogue.

Schiller sought copyright protection based on the contractor's statement, made nine years after the photographs were taken, granting Schiller copyright ownership status. *Id.* at 412.

Holding that the "work made for hire" agreement must precede the creation of the work, the Seventh Circuit emphasized that the writing requirement under the "work made for hire" doctrine is not merely a statute of frauds provision "designed to protect people against false claims of oral agreements." *Id.*

The writing must be executed prior to the creation of the work so that it clearly and unambiguously identifies the owner of the copyright at the outset, ensuring that the property will be "readily marketable." *Id.*

The Seventh Circuit established a bright line rule that a "work made for hire" agreement must be reduced to a writing before the work is created or the copyright vests in the creator.

Most recently, the Ninth Circuit in *Gladwell Govt. Services Inc. v. County of Marin*, 265 Fed. Appx. 624 2008 WL 268268 (9th Cir. 2008), suggested that the plain language of Section 101(2) of the U.S. Copyright Act requires that an agreement be reduced to a writing prior to the creation of the work.

The court stated the language of Section 101(2) "indicates that a work-for-hire agreement cannot apply to works that are already in existence. Works 'specially ordered or commissioned' can only be made after the execution of an express agreement between the parties." *Id.* at 626.

The alternate line of cases, originating in the Second Circuit, holds that "work made for hire" agreements can be reduced to a writing after the work has been completed. However, the existence of a valid "work made for hire" is conditioned upon the existence of either an "explicit" or "implicit" agreement evidencing the "work made for hire" arrangement prior to the work's creation.

In *Playboy Enters. Inc. v. Dumas*, 53 F.3d 549 (2d Cir. 1995), Playboy sought copyright protection for paintings the magazine had commissioned over a 10-year period.

As in Schiller, the parties did not sign a contract memorializing the "work made for hire" relationship until after the artist completed the paintings.

The Second Circuit found that although the U.S. Copyright Act requires the parties to enter into a "work made for hire" agreement prior to creation of the work, the court did not agree "that the actual writing memorializing the agreement must be executed before the creation of the work." *Id.*

In response to the Seventh Circuit's claim that a bright line rule allows for clarity in determining ownership rights, the court observed "such a requirement could itself create uncertainty." *Id.* (citing *Nimmer On Copyright*, § 5.03(B)(2)(b) (1994)).

The Second Circuit was trying to avoid applying a rule that has the potential of frustrating the intent of the parties by disallowing work for hire agreements that, for one reason or another, were not formally executed in a writing.

In 2001, a U.S. District Court in the Fifth Circuit followed the Second Circuit in holding that a written agreement may be executed after the creation of the copyrightable work. *Compaq Computer Corp. v. Ergonome Inc.*, 210 F. Supp. 2d 839 (S.D. Texas 2001).

Here, the author of a computer book and a photographer entered into a signed, written "work made for hire" agreement after the photographer had completed one of two photography sessions. *Id.* at 843-44.

The court held that this was a valid work for hire agreement conveying to the book author copyright ownership in the photographs taken at each session.

Likewise, in *TMTV Corp. v. Mass Productions Inc.*, 345 F. Supp. 2d 196 (D. Puerto Rico 2004), scriptwriters for a television show penned the first three scripts prior to signing the written agreement memorializing the "work made for hire" arrangement.

In holding that a valid work for hire contract was formed, the United States District Court emphasized that the parties already had a "clear and undisputed understanding" that the scripts produced would be "works made for hire," and the executed contracts merely ratified the understanding between the parties. *Id.* at 206-207.

Conclusion

There are three considerations that must guide every U.S. company's approach to the outsourced development of copyrightable works (whether computer software, entertainment content or other "works of authorship").

These considerations are: (1) the legal requirement that agreements apportioning ownership of copyrights be in writing, (2) the right under U.S. law for the author of a copyrightable work to revoke an assignment, license, or other transfer of the work, and (3) the current uncertainty regarding the enforceability of "work made for hire" arrangements entered into after the creation of the copyrightable work.

In light of these considerations, companies must take the necessary steps to protect their intellectual property rights in a copyrightable work, at the time they order or commission the work.

Where the company intends to be the copyright holder, the company must have a written agreement establishing ownership of the work.

If the copyrightable work is eligible for treatment under the U.S. Copyright Act as a “work made for hire,” the written agreement should include appropriate “work made for hire” provisions, so the company will own the copyright in the work and in all derivative works for the full life of the copyright.

Companies should also evaluate their existing intellectual property to ensure that ownership of intellectual property rights has been effectively transferred to the company. It would be too late to take these steps once the intellectual property, or the company itself, is put up for sale.

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