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The Copyright Doctrine of 'Works Made for Hire'

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Many organizations deal with the copyright doctrine of "works for hire" whether they know it or not. When a bank has an employee write a computer program, for example, the program is a work for hire. When a business contracts with a newspaper for the newspaper to create an advertisement, the ad may (or may not) be a work for hire. When a store contracts with a graphic designer to produce a catalog, the catalog may similarly be a work for hire.

Most of these arrangements, of course, will not give rise to litigation. When they do, special problems ensue because courts have not agreed on two key points about works for hire: the interpretation of the term "employment" in the Copyright Act, and on the difference between an "employment" relationship and a relationship in which a copyrightable work is created on "special order or commission."

As of the date of this writing, a writ of certiorari has been granted by the Supreme Court in a work-for-hire case,¹ but however the issues are resolved, lawyers representing businesses that use the creative talents of free-lancer artists and designers, or who represent the artists and designers themselves, will want to understand those issues right now and know what to do to minimize the risk of litigation.

What difference does it make whether something is a work for hire?

The status of a work as "for hire" or not determines three things: (1) who is the initial owner in the absence of a contractual agreement. A work for hire belongs to the hiring party. A work not for hire belongs to the work's creator.²

(2) whether the creator can terminate a license. If a work is *not* "for hire," the author or the work or the author's heirs

can, between 35 and 40 years after a license or transfer or rights is executed, terminate the license or transfer. The author or heirs, in other words, can get the copyright back and there is nothing either party can do to waive this "termination" right. If a work is "for hire," then no one has any termination right. Once the rights to a work for hire are sold, they are gone for good.³

(3) what is the duration of a copyright. The normal term of a copyright is for the life of the author plus an additional 50 years after the author's death. When a work is made "for hire," however, the term is not life plus 50, but either 75 years from the year the work was first published, or 100 years from the year of the work's creation, whichever is less.⁴

What is a "work for hire?"

Here's what the Copyright Act says: A "work made for hire" is either

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(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 supplemental 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.⁵

Notice that there are two provisions: one for works created by an employee, and one for works created on "special order for commission." Some things about these two provisions will not be apparent on first inspection. For example:

1. *Pre-existing works cannot be "for hire" despite the parties' agreement.*

Other than in the limited circumstances of the second provision (works created "on special order or commission"), the parties to a contractual agreement cannot turn a work that is not "for hire" into one that is. For example, unless the hiring party is in some way the motivating force behind a work's creation, the work cannot be "for hire." In other words, if there is no pre-existing relationship between a work's creator and a party who later buys the work, the work cannot be "for hire."

2. *"Works for hire" cannot be anything else despite the parties' agreement.*

A "work made for hire" cannot be anything else regardless of the parties' agreement. If the parties are in an employment relationship, and the employee creates something within the scope of employment, the result is a work for hire. The parties can sign a written agreement that the employee, not the employer, will own the copyright to any works the employee creates, but that will not change the fact that the works are "for hire."⁶

3. *Specially ordered or commissioned works must meet three requirements to be "for hire."*

The second relationship, for works made "on special order or commission," sets out three requirements:

(a) that a work be made "on special order or commission"; (b) that the work fit into one of the categories listed in the Act (a contribution to a collective work, a part of a motion picture, etc.); and (c) that the parties sign a writing expressing their understanding that the hired party's works will be "for hire."

Outside of employment relationships, the only way a work can be considered "for hire" is if it meets *all three* of the commissioned work tests. If, for example, the parties to a "special order or commission" relationship do not agree in writing that their works will be "for hire," the works cannot be "for hire." If the works do not fall into one of the listed categories, then they cannot be "for hire" even if the parties do sign an agreement that they should.

What are the problems in interpreting "employment" and "commissioning" relationships?

The primary legal problem with works created for hire is that courts have not agreed on what "employment" means, or on the significance of the dividing line between "employment" and "special order and commission." At one time or another, courts have stated or implied four different interpretations of "employment":

a) Employment means regular, salaried, "formal" employment. In *BPI Systems, Inc. v. Leith*,⁷ for example, a developer of computer software contracted with an independent computer programmer to write some computer programs. The programmer wrote the programs and delivered them, but later began selling very similar programs on his own, in competition with the developer who had hired him. In the resulting dispute over copyright ownership, the court found that there was no employment relationship between the two, noting that the programmer had performed the work at his own "place of business on his own computers. He was paid per program and no social security or income tax was deducted from his pay."⁸ The court seemed to equate "employment" with regular salaried employment.

b) Employment is defined by the tort law test of vicarious liability, determined by asking whether the hiring party not only had the right to direct and control

the work of the hired party, but *actually did* control that party. In a second circuit case, *Aldon Accessories Ltd. v. Spiegel, Inc.*,⁹ an importer contracted with a foreign ceramics firm to design and produce small ceramic figurines, which it did. Another American firm copied and sold similar figurines. The importer sued the competitor, who defended on the grounds that the figurines were created by the foreign firm, were not "for hire," and that therefore the importer had no standing to assert ownership rights.

The Second Circuit decided in favor of the importer, finding that the importer's representative had "actively supervised and directed the work step by step," hence was an "employer" for copyright purposes and therefore the owner.¹⁰

c) Employment is determined by asking whether the hiring party actually controlled, or at least had the *right* to control the work of the hired party. When a town asked a volunteer to prepare a manual for operation of its juvenile justice system, for example, the town was found to have had the right to direct the writing of the manual even though in practice an independent consultant had written almost all of it. Result: the town was the owner of a work for hire. *Clarkstown v. Reeder*.¹¹

d) Employment simply means that one party has hired another to create a work. In a Fifth Circuit case, *Murray v. Gelderman*,¹² for example, an organization hired an author to write a cookbook. The author expressly bargained for the right to control all details of the book's presentation. Yet the court found that the hiring organization was still an "employer" for copyright purposes, primarily because

(Continued)

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the book had been created at its instance and expense—in other words, the organization had hired somebody.

The definition of “employment” has thus varied widely; it remains the central unresolved issue in work-for-hire law today.

A second and related problem is judicial confusion over whether the “employment” and “on special order or commission” provisions are mutually exclusive, or must be examined one after the other.

One view is that Congress meant them to be exclusive: a work is *either* made by an employee, *or* it is made on special order or commission, but not both. Some courts have implied this conclusion. *BPI Systems, Inc. v. Leith*,¹³ the case involving the computer programmer for example, suggested the mutually exclusive nature of the two provisions by observing that “Defendant was not an employee. . . . The work he did was specially ordered and commissioned.”¹⁴

Nevertheless, several courts have first determined that a work was “commissioned,” but then gone on to ask whether the creator of the work was also an “employee.”¹⁵ Some courts have even concluded that a work cannot be “commissioned” *because* it does not fit into one of the listed categories of commissioned works, or the parties made no written agreement.¹⁶ The statute seems to say, in contrast to this approach, that the two conditions—fitting into the listed categories of commissioned works and the presence of a writing—determine whether a commissioned work can be “for hire,” not whether a work can be considered “commissioned” in the first place.

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What to watch out for in work-for-hire situations

Relatively few disputes arise from situations of regular, salaried employment. The hard cases arise when one party hires another not as a salaried employee, but under a limited contract.

Unexpected use of works is the problem

Businesses make these sorts of contracts with other businesses or freelancers to do copyrightable work all the time: for brochures, advertising, corporate reports, fabric designs, blueprints, posters and on and on. Usually the parties to these agreements have a certain use in mind for the works to be created. As long as the hiring party does with the work only what it was planning to do and what the freelancer thought was going to be done, there will seldom be a problem. But if the hiring party later decides to make some other, unforeseen, unbargained for use of the work, that's when work-for-hire litigation arises.

Obviously the thing to do is get these situations covered by a written contract. Even if you cannot change the status of a work as “for hire” or not, you can be sure who gets ownership rights by arranging for a transfer of rights and by expressly noting the nature of the rights.¹⁷ In any event, the most important thing for both sides is to have the contract say explicitly who will be the owner of all rights *not otherwise enumerated* in the contract or contemplated ahead of time.

Copyright and the statute of frauds

The Copyright Act has a statute of frauds provision. If you rely on a transfer (assignment, license, etc.) of exclusive rights to avoid any questions of work-for-hire ownership, the transfer *must be in writing and signed by the transferor*.¹⁸ Nonexclusive transfers may be oral. Remember, though, that a contract transferring copyright rights does change the status of a work as "for hire" or not—it just says who the *owner* of the work will be.

Contracts and subcontracts

Even an iron-clad contract leaves room for problems. Take this situation: the ACME company hires an advertising agency to create a magazine advertisement. ACME includes a clause in the ad agency contract making ACME the copyright owner by an express transfer of rights. The ad agency then subcontracts out some art work to a freelance artist and fails to say anything about copyright rights to the artist. ACME gets the ad from the agency and likes the resulting artwork so much that it uses it in promotional brochures as well as the magazine campaign. The subcontracting artist then sues ACME over this unexpected use of the artwork.

The outcome is far from certain, given the split of views among the circuits, the artist might well win despite ACME's expectations otherwise: the artist did not sign a writing about works for hire, nor are "art works for advertising" listed in the list of commissioned works that can be "for hire," nor is the artist a regular, salaried employee of the ad agency or ACME. To avoid this possibility, ACME should get a requirement in the original contract with the ad agency that the agency will insist on copyright transfers from all subcontractors and subs of subcontractors, with an indemnity clause if it fails to do so.

Summary

Works for hire belong initially to the hiring party. Their copyright lasts for 75 years from publication or 100 years from creation, whichever is less. Once the rights to a work for hire are transferred, the transfer cannot later be revoked under the Act's "termination" provision.

The Copyright Act divides the world of works for hire into two kinds: those created by employees, and those on special order or commission. Unfortunately, neither the Act nor the legislative history defines those relationships, or makes clear the boundaries between them.

The parties to a contract for the creation of copyrightable works cannot modify the status of a work as being "for

hire" or not, but they can—and should—spell out their understanding with regard to the ownership of any works created. In particular, they should expressly allocate ownership rights not only for the uses of the works that both parties contemplate, but also ownership rights for all uses not otherwise specified in the contract.

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FOOTNOTES

1. *Community for Creative Non-Violence v. Reid*, 846 F.2d 1485 (D.C. Cir. 1988), petition for cert. filed, Docket No. 88-293 (1-17-88); cert. granted November 7, 1988.

2. 17 U.S.C. section 201(a) & (b).

3. 17 U.S.C. section 203.

4. 17 U.S.C. section 302(a) & (c).

5. 17 U.S.C. section 101.

6. 17 U.S.C. section 201(b)(by implication).

7. 532 F.Supp. 208 (W.D. Tx. 1981).

8. 532 F.2d 548 (2d Cir. 1984). For similar conclusions, see *Mister B. Textiles, Inc. v. Woodcrest Fabrics, Inc.*, 523 F. Supp. 21 (S.D.N.Y. 1982) and *Meltzer v. Chirgotis*, 520 F. Supp. 847 (D.N.J. 1981).

9. 738 F.2d 548 (2d Cir. 1984).

10. 738 F.2d at 550. See also *Brunswick Beacon, Inc. v. Schock-Hopchas Publishing Co.*, 810 F.2d 410 (4th Cir. 1987), and *Evans Newton, Inc. v. Chicago Systems Software*, 793 F.2d 889 (7th Cir. 1986).

11. 566 F.Supp 137 (S.D.N.Y. 1983).

12. 566 F.2d 1307 (5th Cir. 1978). The fifth circuit itself has recently repudiated this position. See *Easter Seal Society v. Playboy Enterprises*, 815 F.2d 323 (5th Cir. 1987).

13. 532 F.Supp. 208 (W.D. Tex. 1981).

14. 532 F.Supp. at 210

15. See *Sandwiches, Inc. v. Wendy's International*, Copyright Law Decisions 26,085 at p. 20,993.

16. See, e.g., *Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Construction Co.*, 542 F. Supp 252 (D.Nebr. 1982).

17. Outright transfers of an entire copyright, once the norm in many industries, are viewed with increasing suspicion by freelance artists, photographers, etc. There is a growing tendency to insist on a limited license defining where, how, and in how many copies a work will be reproduced.

18. 17 U.S.C. section 204. See also the definition of "transfer" in section 101.

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