

THIS CHAPTER IS FROM THE INTERNET LAW AND BUSINESS HANDBOOK

BY MARK RADCLIFFE AND DIANNE BRINSON

(the book is currently out of print, but being revised, to reserve a copy send an email to mradcliffe@sonic.net)

CHAPTER 3

OWNERSHIP OF COPYRIGHTS

This chapter covers the Copyright Act's ownership rules, and, in less detail, the ownership rules for patents, trademarks, and trade secrets. Ownership rules discussed here apply only in the United States. Other countries have their own rules of intellectual property ownership.

The intellectual property ownership rules discussed in this chapter are default rules that apply if the parties—employer and employee, employer and independent contractor, Web developer and client—do not reach their own agreement, in writing, on ownership.

Ownership issues that arise in specific types of relationships are covered in chapters 5, 6, 8, 12, and 13.

INTRODUCTION

You need to understand copyright's ownership rules if you acquire, use, or develop Web content. Here's why:

The types of material used for Web site content—music; graphics; text; and video, film, and television show clips—are protected by copyright, as are Web site designs and software. If you want to use copyrighted material belonging to a third party on your Web site, generally you need the permission of the copyright owner, as discussed in chapters 9 and 10. Only the permission of the true owner will protect you from an infringement suit. Getting permission from someone who

mistakenly believes he or she is the copyright owner will not protect you.

Example: Web Marketing Director saw some photographs she liked on Z Company's Web site. Director contacted Z Company's president and got permission to use the photographs on the Web site owned by Director's company. The photographs were created for Z Company by a freelance photographer. If the copyrights in the photographs are owned by the photographer (likely) and Z Company does not have the right to sublicense the use of the photographs, Z Company cannot authorize Director to use the photographs. Only the photographer can. Getting permission to use the photographs from Z Company will not protect Director if the photographer sues Director for copyright infringement.

If you create Web content or commission freelancers (graphic designers, writers, or photographers, for example) to create Web content, you should give careful consideration to the question who will own the copyright in that content. The exclusive rights of copyright discussed in chapter 1 belong to the copyright owner.

Example: Web Entrepreneur commissioned Graphic Designer to create graphics for a Web site. If Web Entrepreneur owns the copyright in the graphics, then Entrepreneur has the exclusive right to reproduce and modify the graphics for use on another Web site. If Graphic Designer owns the copyright, Entrepreneur needs Graphic Designer's permission to reproduce and modify the graphics for use on another Web site.

If you are involved in Web site development, either as a developer or a client, you should give careful consideration to the question of who will own the copyright in Web site designs and program code, for the reason just discussed.

Example: Web Developer created a Web site for Client. The Web site includes a shopping cart program. Whether Web Developer can use the shopping cart program in projects for other clients

depends on who owns the copyright in the program.

INITIAL OWNERSHIP

Ownership of copyright initially belongs to the author or authors of the work. 17 USC § 201(a).

Example: Sarah, a photographer, took a photograph of the Lincoln Memorial. Sarah is the author of the photograph and the initial owner of the copyright in the photograph.

The "author" is generally the individual who created the work, but there is an exception for "works made for hire." This exception is discussed in the next section.

THE WORK MADE FOR HIRE RULE

The "author" of a work made for hire is the employer or hiring party for whom the work was prepared. This default ownership rule is known as the work made for hire rule. Unless the parties have agreed otherwise in a signed written document, the employer or hiring party owns the copyright of a work made for hire. 17 USC § 201(b).

There are actually two branches to the work made for hire rule: one covering works made by employees, and one covering specially commissioned works. 17 USC § 101. We discuss these in this section.

Works Made by Employees

A work created by an employee within the scope of his or her employment is a work made for hire. The employer for whom the work is made is the author of the work for copyright purposes and is the owner of the work's copyright (unless the employee and employer have agreed otherwise).

Example: As part of his job, John, an employee of Big Company's training division, created original interactive training materials on e-commerce for Big's marketing

staff. Even though John created the training materials, Big is the author for copyright purposes. Big owns the copyright in the training materials (unless John and Big have agreed in a signed contract that John owns the copyright).

The work made for hire rule does not give employers ownership of works made by employees outside the scope of their employment.

Example: Darryl, an engineer at Productions, Inc., does nature scene watercolors in his free time. The work made for hire rule does not apply to Darryl's watercolors. If Productions wants ownership of the copyrights in the watercolors, it must get an assignment (discussed in "Assignments," later in this chapter) from Darryl.

Specially Commissioned Works

The second category of works made for hire is limited to nine types of specially ordered or commissioned works. These are works commissioned for use as:

- A contribution to a collective work.
- Part of a motion picture or other audiovisual work.
- A translation.
- A supplementary work.
- A compilation.
- An instructional text.
- A test or answer material for a test.
- An atlas.

- A sound recording.

For these types of works, if the hiring party and independent contractor creating the work agree in writing, before the contractor begins the project, to designate the work as a work made for hire, the work is a work made for hire. If the parties do not have an agreement to treat the independent contractor's work as a work made for hire, it's not a work made for hire.

Example: Game Company hired Don, a software developer, to design the software for Game Company's new online game (an audiovisual work). Game Company and Don did not agree in writing to consider the software a work made for hire, so the software is not a work made for hire. Don owns the copyright in the software.

Even if the hiring party and independent contractor agree in writing to consider the independent contractor's work a work made for hire, the work is not a work made for hire unless it falls into one of the nine special categories listed in the first paragraph of this subsection.

Example: Sarah commissioned John, a freelance painter, to do an oil painting of Sarah's home. Although Sarah and John agreed in writing that the painting would be considered a work made for hire, the written agreement does not make the painting a work made for hire because the painting is not in one of the nine categories of works that can be specially commissioned works made for hire. If Sarah wants to own the copyright, she needs an assignment (discussed in "Assignments," later in this chapter) from John.

The rules governing ownership of copyrights in works created before January 1, 1978 (the

effective date of the Copyright Act of 1976), were different from the rules described in this chapter. The 1909 Copyright Act did not distinguish between employees and independent contractors (works created by both independent contractors and employees were automatically owned by the employer or hiring party unless the parties agreed otherwise). In the case *Community for Creative Nonviolence v. Reid*, 490 US 730 (1989), the U.S. Supreme Court made it clear that the current Copyright Act does distinguish between employees and independent contractors.

The issue in *Reid* was who owned the copyright in a sculpture created by the artist Reid for the Community for Creative Nonviolence (CCNV). The Court concluded that the work made for hire rule did not apply for two reasons: Reid was not an employee of CCNV, and the sculpture was not one of the types of works that could be designated a work made for hire by written agreement of the parties.

Foreign Copyright Law

The work made for hire rule discussed in this chapter and in other chapters of this book applies to copyrights in the United States. Other countries have different rules on copyright ownership. Although many countries have rules similar to the first branch of the Copyright Act's rule (works made by employees), the second branch (specially commissioned works) of the U.S. rule does not exist in most countries.

To obtain international copyright ownership for works that fall within the second branch of the Copyright Act's work made for hire rule, parties that commission works should obtain assignments of copyrights (see "Assignments," later in this chapter) from independent contractors. Ownership of independent contractors' works is discussed in "Copyright Ownership," chapter 6.

JOINT AUTHORSHIP AND OWNERSHIP

According to the Copyright Act, the authors of a joint work jointly own the copyright in the

work they create. 17 USC § 201(a). A joint work is defined in Section 101 of the Copyright Act 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."

Example: Ann and Bruce worked together to create an e-commerce site, with Ann developing the software and user interface and Bruce developing the content. The work is a joint work, and Ann and Bruce jointly own the copyright.

Of course, if Ann and Bruce worked as employees of an employer rather than as individuals, their employer would be the copyright owner, as discussed in "The Work Made for Hire Rule," earlier in this chapter.

You do not become the author of a joint work merely by contributing ideas or supervision to a work. You do so by contributing material that meets the standards for copyright protection (see "Standards," chapter 1).

Example: Susan suggested that John write a book on how to beat the stock market, and John did so. Susan is not a joint author of John's book.

Joint Authorship or Not?

Corky Ballas, a competitive dancer, asked a music producer to create a compact disk of music appropriate for dance competitions. Ballas made suggestions about concepts and suggested songs for the recording. When Ballas and the producer parted company, Ballas claimed to be a joint author of the completed CD. The court held that the producer was the sole author, because Ballas had contributed only uncopyrightable ideas and concepts to the project. Ballas v. Tedesco and Ballroom

Blitz Music Inc., 41 FSupp2d 531 (DNJ 1999).

When the copyright in a work is jointly owned, according to U.S. law, each joint owner can use or license the work (authorize others to use it) without the consent of the other owner, provided that the use does not destroy the value of the work and the parties do not have an agreement requiring the consent of each owner for use or licensing. A joint owner who licenses a work must share any royalties he or she receives with the other owners.

Many foreign countries (Germany and France, for example) require that all joint owners consent to the grant of a license. Generally, joint ownership is not recommended because of the complications it adds to licensing worldwide rights. In addition, it is unclear what effect the filing of bankruptcy by one joint owner would have on co-owners.

COMMUNITY PROPERTY

In nine states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin), any property acquired during a marriage is jointly owned by the husband and wife. Whether a copyright in a work created by one spouse during marriage is community property is unclear. In *Marriage of Worth*, a California state court held that the copyrights in several books created by a man during his marriage were jointly owned by the man and his wife. 195 Ca3d 768 (1987). The court's reasoning—that the copyrights were community property because they were the result of one spouse's expenditure of time, effort, and skill during the marriage—could apply to patents, trademarks, and trade secrets as well. However, a federal court in Louisiana recently held that copyrights created by one spouse during a marriage are not community property because treating copyrights as community property would risk damaging the Copyright Act's goals of predictability and certainty as to copyright ownership and national uniformity. *Rodrigue v. Rodrigue*, 55 FSupp2d 534 (ED La 1999).

ASSIGNMENTS

A transfer of the ownership of a copyright is known as an assignment. When a copyright is assigned, the assignee (individual or company to whom it is assigned) becomes the owner of the exclusive rights of copyright in the protected work. (These rights are discussed in "The Exclusive Rights," chapter 1.)

Example: Tom, an individual working on his own, created Web development tool software and then assigned the copyright in the software to Software Publisher. After the assignment, Software Publisher has the exclusive right to reproduce and publicly distribute the software. If Tom starts selling the software, he will be infringing the Software Publisher's rights as copyright owner.

The ownership of copyright may be transferred in whole or in part. 17 USC § 201(d). Examples of partial transfers are an assignment of the copyright for a term of ten years (time limitation) and an assignment limited to California (geographic limitation). In addition, the individual exclusive rights (reproduction, modification, and so forth) can be transferred.

Assignments are common in many industries—for example, music composers often assign copyrights in their compositions to music publishers.

An assignment is not valid unless it is in writing and is signed by the owner of the rights conveyed or the owner's authorized agent. 17 USC § 204(a).

Is an Email a Signed Writing?

So far, only one court has ruled on the question of whether an email satisfies the Copyright Act's "signed writing" requirement. That court held that the email at issue in that case was not

“signed.” Ballas v. Tedesco and Ballroom Blitz Music Inc., 41 FSupp2d 531 (DNJ 1999). Until this issue is clarified—either through amendment to the Copyright Act or through a general federal electronic records law—don’t rely on emails to satisfy the “signed writing” requirement. (A federal electronic records law is likely to be passed by late 2000.)

An assignment can be recorded in the Copyright Office to give others "constructive notice" of the assignment. Constructive notice is a legal term that means you are presumed to know a fact (because it is a matter of public record) even if you have no actual knowledge of the fact. (Constructive notice is discussed in more detail in "Obtaining a License," chapter 10).

Recording an assignment in the Copyright Office to give constructive notice protects the assignee from future conflicting transfers. An assignment that is recorded properly within one month after its signing prevails over a later assignment. If the assignment is signed outside the U.S., the assignee has two months to record it. 17 USC § 205(d). (The mechanics of recording are discussed in "Obtaining a License," chapter 10.)

Example: Songwriter assigned the copyright in her song to Music Publishing Company in Boston on August 1, 1993. On August 15, 1993, Songwriter assigned the copyright in the same song to World Enterprises. So long as Music Publishing recorded its assignment properly in the Copyright Office by September 1, Music Publishing owns the copyright because its assignment prevails over Songwriter's later assignment to World Enterprises.

A properly recorded assignment even prevails over an earlier assignment that was not recorded if the later assignment meets two criteria:

- The later assignment was taken in good faith and without notice of the earlier assignment.

- The assignee paid money or something of value for the assignment or made a promise to pay royalties.

Example: Author assigned the copyright in his novel to Publishing, Inc. on November 1, 1993. Publishing, Inc. did not record the assignment. On January 15, 1994, Author assigned the copyright in the same novel to Media, Inc. for \$10,000. Media, Inc. recorded its assignment in the Copyright Office. So long as Media, Inc. acted in good faith and did not know or have reason to know about Author's 1993 assignment to Publishing, Inc., Media, Inc. owns the copyright. The assignment to Media, Inc. prevails over Author's earlier assignment to Publishing, Inc.

LICENSES

A license is a copyright owner's grant of permission to use a copyrighted work in a way that would otherwise be copyright infringement. A copyright owner who grants a license is known as a licensor. A party receiving a license is known as a licensee.

Implied in every license is a promise by the licensor to refrain from suing the licensee for infringement based on activities within the scope of the license.

A copyright license can be exclusive or nonexclusive. An exclusive license is a license that cannot overlap another grant of rights.

Example: Author granted Publisher the exclusive right to sell Author's novel in the United States. She granted Movie Developer the exclusive right to create and

distribute a movie version of the novel. Both Publisher and Developer have exclusive licenses. There is no overlap between the two licenses.

Under copyright law, an exclusive license is considered a “transfer of copyright ownership.”

17 USC § 101. An exclusive license, like an assignment, is not valid unless it is in writing and signed by the owner of the rights conveyed. A nonexclusive license is valid even if it is not in writing.

No Writing, No Case

During the Cannes Film Festival, New World Entertainment orally agreed to grant Television Espanola the exclusive right to broadcast the television show *Spiderman* in Spain. Written documents were to be prepared by Television Espanola later. When Television Espanola delivered the documents to New World for signing, New World refused to sign, because by then it had granted the broadcast rights for Spain to another party. Television Espanola sued New World for breach of contract. Television Espanola lost the case because oral exclusive copyright licenses are unenforceable. *Radio Television Espanola S.A. v. New World Entertainment, Ltd.*, 183 F3d 922 (9th Cir 1999).

An exclusive license, like an assignment, can be recorded in the Copyright Office to give constructive notice. Recording the exclusive license protects the license against unrecorded earlier transfers of copyright ownership and against later transfers. (See "Assignments," earlier in this chapter.)

Licensing is discussed in detail in chapter 10.

TERMINATION RIGHT

The author of a work other than a work made for hire has the right to terminate any license or assignment granted on or after January 1, 1978 during a five-year period that starts thirty-five years after the grant was made. If the grant involves the right to distribute the work to the public, the termination period begins thirty-five years after distribution begins or forty years after the grant was made, whichever is earlier. 17 USC § 203.

For works published before January 1, 1978, a different rule applies to pre-1978 licenses and assignments: The five-year termination period begins fifty-six years after the work was published. 17 USC § 304(c). For older works in their renewal term in 1998 for which the termination right had expired before 1998, there is an additional five-year termination period beginning at the end of seventy-five years from the date the copyright was originally secured. 17 USC § 304(d). Renewal of copyright, applicable only to pre-1978 works, is discussed in “Public Domain Works,” chapter 9.

The termination right cannot be waived in advance. If the author dies before the termination period begins, the termination right can be exercised by the author's widow or widower, children, and grandchildren. If none of these people are alive at the time the termination right can be exercised, the right can be exercised by the author's executor, administrator, personal representative, or trustee.

OWNING A COPY OF A WORK

Copyright law distinguishes the ownership of a copy of a protected work (a print of a photograph, a compact disc, a book, a diskette) from ownership of the intangible copyright rights. The transfer of a copy of a work does not transfer any rights in the copyright. Thus, purchasing a book (a copy of a literary work, in copyright terminology) does not give you permission to make copies of the book and sell those copies.

There are several exceptions to the principle that the transfer of a copy of a work does not

transfer copyright rights. We'll discuss the most important ones in the rest of this section.

Displaying a Copy

The owner of a lawfully made copy of a work has the right to display the copy publicly, "either directly or by the projection of no more than one image at a time, to viewers present at the place where the copy is located." 17 USC § 109(c).

Making a Backup Copy

It is not infringement for the owner of a copy of a computer program to make another copy of the program if doing so is necessary to use the program or for archival purposes. 17 USC § 117(a).

“First Sale” Doctrine

The owner of a lawfully made copy of a work has the right to resell or otherwise dispose of possession of that copy. This exception to the distribution right is known as the "first sale doctrine." 17 USC § 109(a).

Example: Don bought a copy of Publisher's new book on Web design. Don can resell his copy of the book. The first sale doctrine gives him that right.

Sale or License?

The first sale doctrine is only triggered by a sale of a copy of a work, not by a license. Software and database products, whether delivered online or in tangible form, are generally licensed rather than sold. Licenses allow software suppliers to tailor products to specific markets. A multiuser site license, for example, provides different use rights and carries a different price from a single-user license. Software and database suppliers also use licenses to obtain protection for factual

information and prohibit reverse engineering. Whether such provisions are binding, given that copyright law does not protect facts and permits reverse engineering, is discussed in “When You Don’t Need a License,” chapter 9.

For mass-marketed software and databases delivered in tangible form (diskette or CD-ROM), licenses generally take the form of “shrink wrap” agreements contained on or in the product packaging. Some people maintain that shrink wrap agreements do not create binding contracts because they are “contracts of adhesion” (contracts based on “offers” that give the consumer no meaningful choice). They believe that the typical transaction wherein a consumer acquires a copy of mass-market software or database material is a sale, triggering the first sale doctrine.

Some courts agree with this analysis. The Court of Appeals for the Fifth Circuit held that an end-user software license prohibiting reverse engineering was a contract of adhesion. *Vault Corp. v. Quaid Software Ltd.*, 847 F2d 255 (5th Cir 1988). The Court of Appeals for the Third Circuit also held shrink wrap licenses invalid. *Step-Saver Data Systems, Inc. v. Wyse Technology*, 939 F2d 91 (3d Cir 1991). However, more recently, the Seventh Circuit Court of Appeals held that shrink wrap licenses are enforceable unless their terms are objectionable on grounds applicable to contracts in general. *ProCD, Inc. v. Zeidenberg*, 86 F3d 1447 (7th Cir 1996). The court noted that even though the consumer in this case could not review the license terms before concluding the transaction, ProCD’s license gave the consumer the right to reject the product if the consumer found the license terms unsatisfactory. Other aspects of the *ProCD* case are discussed in “When You Don’t Need a License,” chapter 9.

Sale or License Transaction?

Sometimes the documents used in a transaction use “sale” terminology and “license”

terminology, making it unclear whether the transaction is a sale triggering the first sale doctrine or not. In *Adobe Systems Inc. v. One Stop Micro Inc.*, 84 FSupp2d 1086 (ND Cal 2000), Adobe sued a company that had acquired copies of “education versions” (stripped-down, less expensive versions) of Adobe products, removed the “education version” labels, and sold the products to consumers. The defendant claimed that it had a right to distribute the software because it had purchased the copies from educational resellers who had purchased the copies. The reseller agreement used the word “purchase.” Other language in the reseller agreement indicated that Adobe was only granting licenses to educational resellers. The court found that the reseller agreement was a license, so the first sale doctrine was not triggered between Adobe and the educational resellers. The court held that the defendant infringed Adobe’s copyrights by distributing the products without a license.

PATENTS, TRADEMARKS, AND TRADE SECRETS

Patent law does not have a work made for hire rule. Patentable inventions created by employees within the scope of their employment are owned by the employee. However, the employee may have a legal obligation to transfer ownership to the employer under the patent law's "hired to invent" doctrine. This doctrine provides that when an employee is hired to perform research or solve a specific problem, the employer is entitled to get an assignment of a patent received by the employee on the results of the research.

Generally, as a condition of employment, employers require employees to agree to assign their interests in patentable inventions to the employer. The Patent Act implicitly recognizes the validity of such agreements, providing that a patent may be granted to the assignee of the inventor. The Employee Nondisclosure and Assignment Agreement in appendix B (Form 6) includes an assignment clause.

A trademark is owned by the first party to use it in connection with goods or services or the

first to apply to federally register it. A trademark can be owned by an individual, company, or any other legal entity. Acquisition of trademark rights is discussed extensively in chapter 16.

An employer or hiring party generally owns trade secrets developed by employees and by independent contractors who are hired to invent.

Ownership of patents, trade secrets, and trademarks, like the ownership of copyrights, can be assigned. As with copyrights, owners of these types of intellectual property frequently grant licenses authorizing others to do things that would otherwise violate the owner's exclusive rights.

Mark Radcliffe is a senior partner with DLA Piper which has 3600 attorneys in 24 countries and 65 cities. He is the Chair of the Open Source Practice. DLA Piper has a very active open source practice with five partners in the group and DLA Piper represents both startups and large companies in their open source matters. He is the pro bono outside General Counsel of the Open Source Initiative and he chaired one of the four committees which reviewed the new version of the GPL. He has a blog at <http://lawandlifesiliconvalley.blogspot.com/> which frequently deals with open source issues and his contributions to the open source industry have been recognized in the press http://www.theregister.co.uk/2007/08/30/open_source_mark_radcliffe/.