



The Business Suit

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Intellectual Property

The Most Important Thing Your Clients Need to Know About Copyright Law

by Angela Holt



As an IP attorney with a transactional and litigation practice, I am often in the position of advising clients with respect to protection of their copyrightable works. I have found that a majority of new clients do not understand who owns works created by independent contractors they've hired. Specifically, clients do not know that if they hire an independent contractor to create copyrightable works for them, in the absence of a written agreement vesting ownership of the works in the client, the independent contractor – and not the client – owns the copyright to the works.

This is a critical point of copyright law that your clients need to know. (IP lawyers may want to stop reading now. You already know this stuff.)

The general rule under U.S. copyright law is that, in the absence of a written agreement, the author or creator of a copyrightable work owns the copyright to the work. The owner of the copyright has the *exclusive* right in the work:

- to reproduce the work
- to prepare derivative works of the work
- to distribute copies of the work
- to publicly perform the work
- to publicly display the work

17 U.S.C. § 106.

The ownership rules can be counter-intuitive to businesses or individuals who have hired and paid good money to someone else to create copyrightable works for them. Consider this fictional (but typical) example:

- Mark, an individual business owner, hires a web developer, Carol, to create a website for his business, and pays her \$2,000. There is no written agreement.
- Carol creates the website and the website launches, hosted by a third-party web service provider.
- A year later, Mark decides the website needs an upgrade to change the graphics and content, all of

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which were authored originally by Carol.

- Mark hires his cousin, Tom, who is also a web developer, to perform the upgrades. (Perhaps his cousin will do the job cheaper than Carol will, or he has some other reason for not hiring Carol for this modification job.)
- Tom makes changes to the website design and the modified website launches.
- Carol discovers the website she created has been modified without her permission or knowledge. She has her lawyer send a letter to Mark, demanding \$10,000 for the modifications to her intellectual property.
- Mark is outraged. He assumes the website belongs to him: "I paid for it, I own it."
- Makes sense, right? Why would he pay any more money now? He ignores the letter, and Carol sues Mark for copyright infringement.
- Mark comes to you to defend the suit, convinced he is in the right.

In this case, Mark is wrong because he likely doesn't own the underlying intellectual property in the website (i.e., the copyright rights); Carol does. This scenario comes up with regularity, especially in the area of computer software, because businesses frequently hire independent contractors to write software and design websites and other electronic content. The example above could be any other instance in which a commissioning entity or person hires a non-employee to create a work, such as a painted portrait, a written employee manual, a song for an organization, etc.

Under the general rule of copyright ownership, Carol is the owner of the copyright in the website, because she created it. However, there is an exception to the general rule of ownership if the work is a "work made for hire." A copyrightable work is considered a work made for hire in two situations:

- 1) If the work is created by an employee within the scope of the employment; or
- 2) If the work is created by an independent contractor, *and*
 - a. The work is specially ordered or commissioned; *and*
 - b. The work is the type of work considered a work for hire (such as computer software); *and*
 - c. The parties expressly agree in a *written instrument signed by them* that the work shall be considered a work made for hire.

17 U.S.C. § 101.

In the example above, because Carol was an independent contractor and the website was commissioned, it would have been a work made for hire if Carol and Mark had entered into

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a written agreement saying the website was a work for hire (or that in any event Carol assigns the copyright in the works to Mark). An oral agreement does not suffice. So with a simple agreement -- as short as one paragraph, on one page -- Mark could have avoided the issue altogether.

What is Mark's recourse at this point? He almost certainly has an implied license to use the website in the form that Carol created it. An implied license is found where the copyright owner engages in conduct from which the other [Mark] may properly infer that the owner consents to his use. "Consent to use the copyrighted work need not be manifested verbally and may be inferred based on silence where the copyright holder knows of the use and encourages it." *Field v. Google Inc.*, 412 F. Supp. 2d 1106, 1115-16 (D. Nev. 2006). The existence of an implied license is an affirmative defense to copyright infringement. *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 775 (7th Cir.1996).

Thus, Mark is likely free to continue to use the website Carol created. However, Mark still may have infringed Carol's copyright in the website by having the website *modified*. Since Carol owns the copyright in the website, she alone has the right to create or authorize the creation of derivative works of the website, and Mark may have infringed her work by commissioning the creation of an unauthorized derivative work.

Mark may have an argument that there is an implied license to create a derivative work. But a court is less likely to find that Mark has an implied license to have derivative works created. See, e.g., *Estate of Hevia v. Portrio Corp.* 602 F.3d 34, 41 (1st Cir. 2010) ("[An] implied license is, by definition, of limited scope; it simply permits the use of a copyrighted work in a particular manner."). Implied licenses in copyright cases are typically narrowly construed, and the burden is on the party claiming its protection to prove the existence of such a license. *Bourne v. Walt Disney Co.*, 68 F.3d 621, 631 (2d Cir.1995); *SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharms., Inc.*, 211 F.3d 21, 25 (2d Cir.2000). As a practical matter, Mark's best option is likely to work out a settlement with Carol.

The law in this area is not new, and all IP lawyers are well-versed on the topic. But somehow we need to more effectively get the word out to the business owners. Especially in recent years, with the explosion of software- and web-related content, more and more businesses are outsourcing work to non-employees, and this results in the creation of copyrightable works with the copyright rights vested in the non-employee.

When the subject comes up in connection with litigation matters, it's usually too late to fix the ownership issues, and our clients are stuck dealing with potentially bad ownership facts in litigation. Thus, the best time to address the ownership issues is before your clients start to create any copyrightable works. Have your nearest IP lawyer set your clients up with work-for-hire agreements and copyright assignment agreement. Better yet, get your clients an appointment to have a complete IP audit performed. Finding

and repairing the holes in IP protection sooner rather than later is in our clients' best interests.

Angela Holt
Bradley Arant Boult Cummings
Huntsville, AL
aholt@babco.com
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