

## WORK MADE FOR HIRE: The Fiction, The Reality And The Impact Upon Software Development

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### I. INTRODUCTION

The United States has long been a leader in software development. True stories of rags-to-riches in the software industry abound.<sup>1</sup> Copyright law has been struggling to keep up with the rapid advances in software development and the problems that arise concerning what is copyrightable, what constitutes infringement, and who owns the copyright in software that has been developed.

This Article examines the last of these issues: who owns the copyright in software that has been developed by one party for another under the Copyright Act of 1976 ("the 1976 Act").<sup>2</sup> A critical issue is the application of the "work made for hire" doctrine. A "work made for hire," as defined in the 1976 Act, is: "(1) a work prepared by an employee within the scope of his or her employment; or (2) a work specifically ordered or commissioned" within one of nine enumerated categories "if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire."<sup>3</sup> The 1976 Act considers "the employer or other person for whom the work was prepared" to be both the author of a work made for hire and the initial owner of "all of the rights comprised in the copyright."<sup>4</sup>

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1. For example, Lotus Development Corporation and Microsoft, Inc. are now multi-million dollar companies, founded by a few forward-looking software engineers.

2. 17 U.S.C. §§ 101-810 (1982).

3. 17 U.S.C. § 101 (1982). For a list of the nine categories in the second half of the definition see *infra* note 14.

4. 17 U.S.C. § 201(b) (1982). The owner of the copyright possesses the exclusive right to undertake or authorize another to undertake the reproduction, preparation of derivative works, distribution, and public performance and display of the copyrighted work. 17 U.S.C. § 106 (1982). These rights vest in the author of the work upon its creation. 17 U.S.C. § 201(a) (1982). For software, this means the right to sell or license the program and receive the profits from the sale or licensing.

Courts have taken four general approaches in interpreting the work made for hire provisions of the 1976 Act. All four are similar to the extent that each initially seeks to determine if the commissioning party can be considered either the "author" or the "employer" and thus the statutory copyright holder. The differences in the four approaches lie in the interpretation of the first prong of the definition: "work prepared by an employee within the scope of his or her employment."<sup>5</sup>

Implicit in the statute is the "actual employee" test. A commissioning party, or employer, owns the copyright of work created by actual employees. Independent contractors are never considered actual employees.<sup>6</sup> The second of these approaches, enunciated in *Community for Creative Non-violence v. Reid*,<sup>7</sup> is a "right to control" test. This test states that where the commissioning party has the right to control the manner in which the creator does his work, whether or not such right is exercised, the commissioning party holds the copyright in the work created. The third approach is the "actual control" test set forth in *Aldon Accessories Ltd. v. Spiegel, Inc.*<sup>8</sup> Under this test, a commissioning party who actually controls the manner in which the creator does his work holds the copyright in the work created. Courts have relied upon different factors to determine whether the commissioning party actually controls the creator. *Easter Seal Society v. Playboy Enterprises*<sup>9</sup> recently offered a fourth approach. This test applies agency law to determine if an employer/employee relationship exists. If such a relationship does exist, then the product is a work made for hire and the copyright is owned by the employer.

These disparate approaches do not provide a harmonious environment for software development contracting. The conflict among the standards has created an environment of uncertainty for both software developers and commissioning parties. Confusion and misunderstandings experienced by the parties concerning copyright ownership will hinder the working relationship necessary for efficient and effective software development.

This Article describes the realities of software development and the history of the work made for hire doctrine. It then analyzes the case law interpreting the work made for hire provisions of the 1976 Act and considers the likely results of disputes over copyright ownership under the various interpretations.

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5. 17 U.S.C. § 101 (1982).

6. See, e.g., O'Meara, "Works Made for Hire" Under the Copyright Act of 1976—Two Interpretations, 15 CREIGHTON L. REV. 523, 527 (1982); *Meltzer v. Zoller*, 520 F. Supp. 847, 854 (D.N.J. 1981).

7. 652 F. Supp. 1453 (D.D.C. 1987).

8. 738 F.2d 548 (2d Cir.), cert. denied, 469 U.S. 982 (1984).

9. 815 F.2d 323 (5th Cir. 1987), cert. denied, 56 U.S.L.W. 3662 (U.S. Mar. 29, 1988) (No. 87-482).

The approach for determining copyright ownership set forth by the court in *Easter Seal* will be shown to be the preferred method for resolving disputes concerning the ownership of the copyright in specially commissioned software. The *Easter Seal* approach comes the closest to following the intent of Congress in modifying the copyright law in 1976. Furthermore, this procedure will provide more consistent results for resolving disputes. With the law clarified, litigation resulting from misunderstandings concerning the copyright ownership status will occur less often. Finally, the *Easter Seal* decision will permit a cooperative software development environment. This environment is necessary to continue the rapid advancement of the technology of software development.

## II. SOFTWARE DEVELOPMENT

Software development occurs in a broad range of commercial environments. In most cases, regardless of whether the commissioning party is an inexperienced software purchaser or a highly sophisticated purchaser of custom software, some degree of "expertise disparity" will exist between the commissioning party and the software developer. Many organizations do not have in-house software development teams of sufficient size to handle very large software development projects. Therefore, outside software developers are commissioned to develop the code.

### A. *The Reality of Software Development*

At the beginning of a software development project, a commissioning party must convey to the software developer the precise needs and functions that the commissioning party wants embodied in the final program. However, before any code is developed, steps must be taken by a commissioning party to give the software developer at least some idea of the functions desired by the end user. A commissioning party generates requirements and converts them into a series of specification statements that will be used by the contractor for the software development. After a contract is awarded, software may be designed and developed at a software developer's own facility where the direct supervision of the software developer's employees by the commissioning party may not be apparent or desired. However, an intense series of design reviews may take place in which the commissioning party participates. At these design review meetings, the software developer describes the software design, in accordance with the provided specifications, to the commissioning party or its technical representatives. At that time, the commissioning party may

approve of the software design or make recommendations for change.

After the design reviews are completed, a software developer usually works on its own to create the code necessary to implement the design as reviewed and approved by the commissioning party. After the completion of this software coding process, the software developer may conduct an in-house test. The commissioning party will participate in this test to ensure that the software meets its requirements.

The next step in the development process is to install the software at the commissioning party's facility. This phase involves installation and testing of the software, as well as transition to use by the commissioning party. The software developer works closely with the commissioning party to install the software and to run a series of tests to determine whether the software works correctly and fulfills the needs and requirements of the commissioning party. Only after this phase will a commissioning party finally approve the software system and consider the system operational.

### *B. The Commissioning Party Without Software Expertise*

In many instances, a commissioning party may have only a general idea concerning its needs for software. It will select a software developer and have the developer determine the party's software needs. The developer will then be left on its own to develop the working programs. A typical software development scenario for this type of commissioning party might unfold as described in the following hypothetical.

The I-Need-Help Company ("INH") wants to automate its record keeping and inventory system. Its records have been maintained and updated using inkwells and quill pens. INH, embracing the computer age, acquires a computer and creates documentation that describes in some detail its needs for an automated system. INH contracts with the Independent Software Company ("ISoft"), a recognized expert in the field of software development, to create the software necessary to automate its operations.

The contract between INH and ISoft provides for a series of program review meetings. At the program review meetings, ISoft describes the system it is developing and presents to INH an outline of the software design, the software modules that will be used to meet INH's requirements, and some examples of the display screens to be used by the computer system operators and data entry personnel of INH. Additionally, ISoft clarifies some questions it has concerning the statement of requirements given to

ISoft by INH at the beginning of the development effort. INH provides comments to ISoft concerning the ISoft design, allowing ISoft to make further design modifications to the proposed software. At the close of the program review meetings, both INH and ISoft know what is expected of each other in the software design project. In addition to the program review meetings, the contract provides that INH make a series of progress payments to ISoft, with the final payment and any holdback of payments to be made upon acceptance of the software by INH in accordance with objective testing criteria. No mention of copyright ownership is made in the contract.

After the software is created and successfully installed at the INH facility, however, both INH and ISoft decide independently that the software is so good that other businesses will be willing to purchase it. Both parties begin vigorous marketing efforts under their own copyright notices. Subsequently, INH and ISoft each learn of the other's successful marketing of the software and demand that the other cease its marketing operations and pay lost royalties. Both INH and ISoft claim ownership of the copyright in the software.

### *C. The Commissioning Party With Software Expertise*

In many instances, a company may have a well-developed idea concerning the software that it wants designed. Additionally, many organizations have programming and systems analysis staffs that are capable of developing software with the needed characteristics. However, an organization may not have a sufficient staff to develop the software in a timely fashion. In such an instance, the company may turn to outside programmers for assistance. A typical software development scenario for this type of organization might unfold as described in the following hypothetical.

The Pyrotechnic Operations and Performing Service, Inc. ("POPS") is a small yet sophisticated company that possesses several well-qualified systems analysts and computer programmers. POPS wishes to automate its inventory system by installing a new computer and creating specialized software to meet its warehousing and inventory needs. While POPS has personnel who can fully design the required software system and do some of the programming, it does not have sufficient programming staff to complete the software development in time for the bicentennial of Wappinger's Falls, New York, a celebration during which POPS expects to receive many orders for its pyrotechnic products.

In order to complete the software development on time, POPS decides to employ the services of the Independent Software Com-

pany ("ISoft" again). ISoft will provide POPS with ten senior and mid-level programmers who will, under the direction and supervision of POPS personnel, complete the development of the inventory and warehouse software. Since POPS has only one project leader and two programmers, the ISoft programmers will make up the bulk of the programming effort. POPS and ISoft enter into a contract that provides that POPS will pay ISoft on a "time-and-materials" basis for the efforts of the ISoft programmers. POPS is to pay ISoft on a monthly basis for services rendered by ISoft personnel at the POPS plant. The contract provides for the ISoft employees to work at the POPS plant in order to permit the most efficient execution of the project. No mention of copyright ownership is made in the contract.

The project is completed smoothly and a valuable piece of software is created. The program is so good that POPS begins to market it to other developers of fireworks. Simultaneously, ISoft begins to market the inventory and warehouse software created under the POPS contract. Both parties claim copyright ownership of the software resulting from the contract.

As can be seen from the above examples, commissioning companies may exhibit radically different levels of control and approval over the development of software. Depending upon which judicial test is applied, the ultimate determination of who owns the copyright in the software will vary.

### III. WORK MADE FOR HIRE BEFORE THE 1976 ACT

Prior to the enactment of the 1976 Act, copyright was governed by the Copyright Act of 1909 ("the 1909 Act").<sup>10</sup> The copyright ownership presumption under the 1909 Act designated a commissioned work as a work made for hire unless the parties agreed otherwise. In *Yardley v. Houghton Mifflin Co.*,<sup>11</sup> the court explained the presumption in the context of a commissioned work of art:

If [an artist] is solicited by a patron to execute a commission for pay, the presumption should be indulged that the patron desires to control the publication of copies and that the artist consents that [the patron] may, unless by terms of the contract, express or implicit, the artist has reserved the copyright to himself.<sup>12</sup>

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10. Act of July 30, 1947, ch. 391, 61 Stat. 652-68 (repealed 1976).

11. 108 F.2d 28 (2d Cir. 1939), *cert. denied*, 309 U.S. 686 (1940).

12. *Id.* at 31, *quoted in* *Easter Seal Soc'y v. Playboy Enters.*, 815 F.2d 323, 325 (5th Cir. 1987), *cert. denied*, 56 U.S.L.W. 3662 (U.S. Mar. 29, 1988) (No. 87-482).

At the time the 1976 Act became effective, the decisive factor was: "whether the work was created at the employer's insistence and expense, or, in other words, whether the motivating factor in producing the work was the employer who induced its creation."<sup>13</sup> Therefore, before the 1976 Act, the conflicts between INH and ISoft and between POPS and ISoft concerning ownership of the copyright in the software would have been governed by the presumption that the party commissioning the work was the copyright owner, unless otherwise agreed, and INH and POPS would have owned the copyright in the software.

#### IV. THE 1976 ACT

##### A. *The Work Made for Hire Provisions*

The 1976 Act's definition of work made for hire reverses the traditional presumption in the case of commissioned works, except for limited, specifically enumerated categories where the parties have expressly agreed in writing that the work is made for hire.<sup>14</sup> However, any work created by an employee for an employer within the scope of employment is considered work made for hire without a written agreement.<sup>15</sup> Unfortunately, the statute does not explain how to determine when works created by someone other than a traditional "employee" can be considered works made for hire under an employer/employee relationship.

Initial ownership of a copyrighted work vests in the actual author.<sup>16</sup> However, with a "work made for hire," the "employer or other person for whom the work was prepared is considered the

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13. *Murray v. Gelderman*, 566 F.2d 1307, 1310 (5th Cir. 1978). The statute itself said only that "the word 'author' shall include an employer in the case of works made for hire." Act of July 30, 1947, ch. 391, 61 Stat. 659 (repealed 1976).

14. The second half of the definition of a work made for hire encompasses "a work specially ordered or commissioned for use

- [1] as a contribution to a collective work,
- [2] as a part of a motion picture or other audiovisual work,
- [3] as a translation,
- [4] as a supplementary work,
- [5] as a compilation,
- [6] as an instructional text,
- [7] as a test,
- [8] as answer material for a test, or
- [9] 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." 17 U.S.C. § 101 (1982).

15. See 17 U.S.C. § 101 (1982) (first half of the definition of a work made for hire); see generally 1 M. NIMMER & D. NIMMER, *NIMMER ON COPYRIGHT* § 5.03[B][1][b] (1987) [hereinafter NIMMER].

16. 17 U.S.C. § 201(a) (1982).

author . . . ."<sup>17</sup> Thus, in the absence of an express transfer of some of the rights, the determination of whether a work is made for hire will determine authorship and therefore ownership of the copyright.

The legislative history of the 1976 Act acknowledges that "[t]he work-made-for-hire provisions of [the] bill represent a carefully balanced compromise."<sup>18</sup> A conflict in Congress arose over the drafting of the portion of the 1976 Act dealing with the ownership of the copyright once the work is completed. Those who supported creators argued that all future rights should not belong to the person for whom the work was created. They argued for a "shop right" doctrine, as found in patent law, where the employer would retain the right to use the work created under his employ for all purposes relevant to his business. The employee in turn would retain all other rights and refrain from authorizing competing uses of the copyright.<sup>19</sup> This position, though, was not well received in either House of Congress. The concept of copyright in a commissioned work vesting in the employer was "well established in American copyright law."<sup>20</sup> Substitution of a shop right doctrine for this well-established employer ownership concept was thought to be of dubious value to both employer and employee. Congress believed that such a provision would create other "unspecified" and presumably fractious issues.<sup>21</sup>

As a result of this conflict, a compromise measure was worked out by the drafters of the 1976 Act that allowed a work to be considered made for hire under two different situations. First, the compromise resulted in sections 101 and 201(b), codifying the traditional employer/employee work made for hire rule to the extent that the copyright in works created by an employee acting within the scope of employment vests in the employer.<sup>22</sup> Second,

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17. 17 U.S.C. § 201(b) (1982).

18. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 121, *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5736 [hereinafter HOUSE REPORT]. The House Report continues: "The status of works prepared on special order or commission was a major issue in the development of the definition of 'works made for hire' in § 101, which has undergone extensive revision during the legislative process. The basic problem is how to draw a statutory line between those works written on special order or commission that should be considered as 'works made for hire,' and those that should not. The definition now provided by the bill represents a compromise which, in effect, spells out those specific categories of commissioned works that can be considered 'works made for hire' under certain circumstances." *Id.* at 5737. Because the 1976 Act contains these balances around which industries have structured relationships, courts should interpret copyright law in light of the negotiations that produced the compromise. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 903 (1987). Such an examination of the work made for hire provisions is beyond the scope of this article.

19. See HOUSE REPORT at 5737.

20. *Id.*

21. S. REP. NO. 473, 94th Cong., 1st Sess. 104-05 (1975).

22. HOUSE REPORT, *supra* note 18, at 5736. ("Section 201(b) of the [1976 Act] adopts one of the basic principles of the present law: that in the case of works made for hire the employer is considered the author of the work, and is regarded as the initial owner of copyright unless there has been an agreement otherwise.").



Congress recognized that only "under certain circumstances" could specially ordered or commissioned works be considered works made for hire.<sup>23</sup> In such circumstances, the parties must expressly agree that the work should be considered a work made for hire and the work must fall into one of the enumerated categories of the statutory definition. If the work satisfies both parts of the second prong it can be considered a work made for hire.

Under the "employee" prong of the statute, a commissioning party will own the copyright only if the software creator is deemed an employee of the commissioning party. Software creators working on commission usually are not the typical employees envisioned by the statute. They do not receive health insurance, unemployment insurance, or other forms of benefits from the employer, which could be considered the *quid pro quo* for the employer's ownership of the copyright. On the other hand, their compensation may put them in a better financial position than employees with benefits. Most importantly, however, freelance software developers generally are not subject to the same degree of supervision as are regular employees. Therefore, they should be included as "employees" only in very limited circumstances.

Although not the focus of this article, the second prong of the work made for hire provision deserves consideration. Under the second prong of the statute, Congress "spells out those specific categories of commissioned works that can be considered 'works made for hire' under certain circumstances."<sup>24</sup> The express work made for hire provision therefore was limited in its application. Statutory construction generally dictates that where Congress provides only a general description of the reach of the law, courts may logically define that reach. However, when Congress specifically enumerates categories for application of a statute, the courts should not enlarge the scope of the provisions beyond that provided by Congress. This concept of *expressio unius est exclusio alterius* is a standard maxim of statutory construction meaning that the expression of one thing is the exclusion of another.<sup>25</sup> The 1976 Act is a textbook case of such an enumeration of categories. The categories of work made for hire are distinctly defined and are a result of a "carefully balanced compromise."<sup>26</sup> Statutory construction and the legislative history support the conclusion that

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23. *Id.* at 5737. At all times, Congress was well aware that not all commissioned works were to be considered works made for hire. *Id.*; see also S. REP. NO. 473, 94th Cong., 1st Sess. 105 (1975).

24. HOUSE REPORT, *supra* note 18, at 5737.

25. See, e.g., *National R.R. Passenger Corp. v. National Ass'n of R.R. Passengers*, 414 U.S. 453, 458 (1974); *Burgin v. Forbes*, 293 Ky. 456, 463, 169 S.W.2d 321, 325 (1943).

26. HOUSE REPORT, *supra* note 18, at 5736.

works not within the work made for hire definition should not be the subject of express work made for hire clauses.<sup>27</sup>

In light of this statutory construction, two questions should be considered by the court in rendering a copyright ownership judgment concerning commissioned works created by an independent contractor who is not considered an employee: (1) is the work the subject of a written agreement designating it work made for hire; and (2) does the work fit within the categories provided by Congress. Both questions must be answered affirmatively for a commissioned work to be made for hire, thereby vesting the copyright in the commissioning party. If the work is not made for hire, the copyright resides with the creator.

In answering the second question in the context of commissioned software, one must look to the definition of the work made for hire categories.<sup>28</sup> Only occasionally, as illustrated below, will software developed on a commission basis be within the enumerated categories.

Software may fall within the category of "collective work." This category refers to separate works assembled into a whole, thereby creating another work.<sup>29</sup> For instance, an independent programmer may be hired to create one module of a more complex program. Once the software modules are assembled, the resulting work may be considered a collective work. In many instances, however, the efforts of a programmer may not fit within the term "collective work." For example, the programmer or outside company employing several programmers may create the entire program. Further, individual modules might not qualify as independent works if they could not function as stand-alone programs.

The term "compilation" also is defined by the 1976 Act.<sup>30</sup> A compilation is formed by a collection of pre-existing materials into

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27. *Id.* at 5737 ("The definition now provided by the bill represents a compromise which, in effect, spells out those specific categories of commissioned works that can be considered 'works made for hire' under certain circumstances."). The implication, therefore, is that works not within the "specific categories" cannot be considered works made for hire. See also 1 NIMMER, *supra* note 15, § 5.03[B][2][a], at 5-19 ("If a work does not fall within one of the [nine] categories then even if it had been prepared by one person upon the special order or commission of another, it will not qualify as a 'work made for hire' . . ."); *Meltzer v. Zoller*, 520 F. Supp. 847, 854-55 (D.N.J. 1981) (finding that architectural plans are not included within the enumerated categories and therefore must be excluded under principles of statutory construction).

28. See *supra* note 14 (listing the categories for commissioned works in 17 U.S.C. § 101 (1982)).

29. 17 U.S.C. § 101 (1982) (defining a "collective work" as "a work . . . in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective whole.").

30. *Id.* (defining a "compilation" as "a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship. The term 'compilation' includes collective works.").

an original work of authorship. Again, in certain instances, developed software may fit into this category. An example would be when certain independent subroutines from different programs are combined into a new program. However, for software to be part of a compilation, it must have been developed prior to the commission. If a work is created pursuant to a commission, it was not "pre-existing."

A "supplementary work" is a work prepared as a secondary adjunct to another work, illustrating or explaining the other work.<sup>31</sup> Programmer or user documentation, or annotated source codes, provided to a user or commissioning party would fit within this category. This documentation usually is developed or finished after the software is created and debugged, since it is based on the original software and is used to explain the program. Another possible, but less likely, category for such documentation is the "instructional text."<sup>32</sup>

Finally, a program rewritten to run under a different operating system or in a newer programming language could be categorized as a "translation." Perhaps programming that results from a detailed algorithm also could be a translation.<sup>33</sup>

The other categories within the definition of a commissioned work made for hire are unlikely to encompass a computer program.<sup>34</sup> While a commissioned computer program may, at times, fit within one or more of the categories mentioned, many software programs will not fit within those categories.

### *B. Misuse of the Work Made for Hire Provisions by Commissioning Parties*

In response to the 1976 Act, businesses began to include "work made for hire" clauses in many contracts for commissioned works. In some cases, a firm will place a restrictive endorsement on the back of a check paid to the creators, noting that the work for which the check was issued was to be considered a work made for hire.<sup>35</sup>

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31. *Id.* (defining a "supplementary work" as "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 . . .").

32. *Id.* (defining an "instructional text" as "a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities").

33. For an argument that "[a]n algorithm is the English language version of a computer program," see Note, *The Creative Commissioner: Commissioned Works Under the Copyright Act of 1976*, 62 N.Y.U. L. REV. 373, 401 (1987).

34. The remaining categories are a motion picture, a test, answer material for a test, and an atlas. See *supra* note 14 (listing the categories).

35. Such a restrictive endorsement should be invalid on normal contract grounds because no additional consideration is given to the creator for giving up all rights to the copyright in the work.

These clauses are used regardless of the type of work being done by the independent contractor.<sup>36</sup> Businesses that use the clauses when a work does not fall within the enumerated categories are confusing or attempting to circumvent the provisions of the 1976 Act. A work made for hire clause is unnecessary if the creator can be considered an employee and should have no effect if the creator is not an employee and the work does not fall within the enumerated categories.

The 1976 Act provides added protection to creators and authors and describes the bundle of rights that they possess. These rights are freely alienable. However, misunderstanding and improper use of the work made for hire provisions under the 1976 Act circumvents the added protection intended by Congress.

For courts to allow this circumvention when the work does not fit within one of the enumerated categories would run counter to the intent and wording of the 1976 Act. In short, if an employer/employee relationship does not exist and the work does not fit into one of the work made for hire categories, the use of an express "work made for hire" clause should be without effect. Therefore, the copyright should belong to the creator, not the commissioning party.

## V. WORK MADE FOR HIRE CASE LAW

The case law concerning the work made for hire provisions of the 1976 Act is not extensive. The case law dealing with software development is even less extensive. Four tests have been used to determine if the creator is an employee for purposes of the 1976 Act: actual employee; right to control; actual control; and agency. If the creator is found to be an employee under the test used by the particular court and the work is within the employee's scope of employment, the employer will own the copyright. Other-

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36. The following provide some examples of work made for hire clauses in company contracts:

Scholastic Magazine, Inc.—This shall be considered to be a work made for hire.

Crazy, Marvel Magazine Group, Inc.—By acceptance . . . of this check, payee acknowledges . . . all [his] works are and shall be considered as works made for hire.

Playboy Magazine—ANY ALTERATION OF THIS LEGEND-AGREEMENT VOIDS THIS CHECK. IT CONTAINS THE ENTIRE UNDERSTANDING OF THE PARTIES AND MAY NOT BE CHANGED EXCEPT BY A WRITING SIGNED BY BOTH PARTIES. BY ENDORSEMENT, PAYEE: acknowledges payment in full for the services rendered on a work-made-for-hire basis in connection with the work named on the face of this check, and confirms ownership by Playboy Enterprises, Inc. of all right, title, and interest (except physical possession), including all rights of copyright, in and to the work.

Doubleday & Company, Inc.—This work has been specifically ordered or commissioned by Doubleday as described in Section 101 of the Copyright Act of 1976 and the parties expressly agree that the work shall be considered a work made for hire. The Publisher shall have the right to register the copyright in its own name.

(These examples are courtesy of and reprinted with permission of the Graphic Artists Guild, New York, N.Y.)

wise, the employer will own the copyright only if the work falls within one of the statutory categories and is designated a "work made for hire" in a written agreement. Apparently, though, some courts are unwilling to reverse the prior copyright law presumption that a commissioned work is a work made for hire unless the parties agree otherwise.

### A. Actual Employee Test

Under the "actual employee" test, an independent contractor by definition is not an employee and the "employee" half of the work made for hire definition will not apply. Likewise, a creator who admits to being an employee will not hold the copyright on works within the scope of employment by virtue of the work made for hire doctrine.

In *May v. Morganelli-Heumann & Associates*,<sup>37</sup> the court followed the "actual employee" approach in dicta.<sup>38</sup> The court considered an architect to be an independent contractor and not an employee, so only the "specially ordered or commissioned" part of the work made for hire definition could apply to render the work a work made for hire.<sup>39</sup> Because no written agreement existed and the work did not fall within one of the enumerated categories, the copyright would belong to the architect under the 1976 Act.<sup>40</sup>

In *Meltzer v. Zoller*,<sup>41</sup> the court followed the "actual employee" test and determined the copyright issue on the basis of the 1976 Act. Meltzer had contracted with a builder for the construction of his home. The builder hired an architect to design the house in accordance with Meltzer's specifications and drawings. After a second house was planned based on the same design, Meltzer claimed copyright ownership of the design. The court declared that "the only 'works made for hire' [prepared by an independent contractor] are those which fall within one of the statutory categories set forth in 17 U.S.C. § 101, and concerning which the parties enter into an express written agreement designating the work as such."<sup>42</sup>

In neither of these cases, did the court discuss the possibility that an independent contractor could fit within the definition of

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37. 618 F.2d 1363 (9th Cir. 1980).

38. Although the case was decided under the 1909 Act, the court stated what its reasoning and decision would have been if the 1976 Act had applied.

39. *May*, 618 F.2d at 1368 n.4. The court also observed that, with the 1976 Act, "Congress changed copyright law in its entirety . . . . Section 101 now limits works made for hire by independent contractors to the [enumerated] categories . . . ." *Id.*

40. *Id.*

41. 520 F. Supp. 847 (D.N.J. 1981).

42. *Id.* at 854.

an employee. This may have been the result of the fact situations in the cases—dealing with architects, who tend to be especially independent—rather than the result of a reasoned interpretation of the statutory language. If this is true, the “actual employee” approach may be simply an application of one of the other tests where the contractors are extremely independent.

### B. Right to Control Test

Under the “right to control” test, if the commissioning party has the right to control the work of the creator, then, regardless of whether the right is exercised, the creator is considered to be an employee.<sup>43</sup> This may mean only that the commissioning party is the “motivating factor” in the creation of the work. If the creator is considered to be an employee under the “right to control” analysis, then the copyright is the property of the commissioning party. This interpretation only slightly changes the work made for hire doctrine under the 1909 Act.

Courts have referred to the importance of the right to control in determining ownership of the copyright in some cases, but have also considered other factors in deciding those cases. In *Community for Creative Non-Violence v. Reid*,<sup>44</sup> the court stated that if the “employer” was either the ‘motivating factor’ in the production of the work or possessed the right to ‘direct and supervise’ the manner in which the work was done, the copyright is his no matter the degree of creative license actually exercised by the artist-employee.<sup>45</sup> The plaintiff, Community for Creative Non-Violence (“CCNV”), contracted with the defendant, Reid, for the sculpture of a modern nativity scene depicting contemporary homeless people. Reid rendered sketches for CCNV. At the suggestion of officials of CCNV, Reid modified his proposal for the sculpture. Disputed testimony indicated that officials of CCNV influenced the final statue in other ways. The defendant worked without CCNV assistance or supervision, but with CCNV funding, to complete the statue. Upon delivery, Reid received a final payment from CCNV.

In the subsequent dispute over the ownership of the copyright in the statue, the court examined the employment relationship between Reid and CCNV to determine whether the statue was a

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43. See *Easter Seal Soc'y v. Playboy Enters.*, 815 F.2d 323, 331 (5th Cir. 1987), cert. denied, 56 U.S.L.W. 3662 (U.S. Mar. 29, 1988) (No. 87-482); see also 1 NIMMER, *supra* note 15, § 5.03[B][1][a], at 5-12 to 5-13 (“The crucial question in determining an employment relationship is whether the alleged employer has the right to direct and supervise the manner in which the writer performs his work.”).

44. 652 F. Supp. 1453 (D.D.C. 1987).

45. *Id.* at 1456.

work made for hire. The court stated that the employer/employee relationship giving rise to copyright is more expansive than the master/servant relationship found in the common law of agency.<sup>46</sup>

In deciding that the statue created by Reid was made for hire, the court found that CCNV was the "motivating factor" in the creation of the work. CCNV "not only conceived the idea . . . , they did so in starkly specific detail. They then engaged Reid to utilize his representational skills, rather than his original artistic vision, to execute it."<sup>47</sup> In addition, the court determined that CCNV possessed the right to supervise and direct the creation of the work. After acknowledging that "much was undoubtedly left to [Reid's] discretion" in executing the statue, the court concluded that CCNV had "directed enough of [Reid's] effort to assure that, in the end, [Reid] had produced what [CCNV], not [Reid] wanted . . . ."<sup>48</sup> The court also found it significant that CCNV did not make its final payment until it was satisfied that the statue "convey[ed] the message [CCNV] had intended for it."<sup>49</sup> Thus, CCNV had possessed the right to direct and supervise the work.

In *Peregrine v. Lauren Corp.*,<sup>50</sup> the commissioning party also had the right to supervise the creator's work, but the creator was not "actually controlled" by the commissioning party. Despite the lack of exerted control, the court found that the copyright resided with the commissioning party. In *Peregrine*, the defendant, Lauren Corporation ("Lauren"), commissioned the plaintiff, Peregrine, to take pictures. When Lauren failed to pay the fee demanded by Peregrine, Peregrine registered his copyright in the photographs and filed suit for copyright infringement. The court found that a "work made for hire" relationship existed because the "work was undertaken at the insistence of the employer and . . . the employer had the right to supervise [the plaintiff's] work."<sup>51</sup> The court concluded that it is the "longstanding presumption that

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46. *Id.* The court cited *Murray v. Gelderman*, 566 F.2d 1307 (5th Cir. 1978), and *Town of Clarkstown v. Reeder*, 566 F. Supp. 137 (S.D.N.Y. 1983) to support this proposition. However, the first case specifically was decided under the 1909 Act and the second case mentions the 1976 Act only after completing its analysis under the 1909 Act. Therefore, neither case supports directly this expansive view of the work made for hire provisions of the 1976 Act.

47. *Community for Creative Non-Violence*, 652 F. Supp. at 1456.

48. *Id.*

49. *Id.* at 1457.

50. 601 F. Supp. 828 (D. Colo. 1985).

51. *Id.* at 829. The defendant cited *Epoch Producing Corp. v. Killiam Shows*, 522 F.2d 737, 744 (2d Cir. 1975) to support his claim under the right to control issue. The court recognized that *Epoch* was decided before the enactment of the 1976 Act and therefore that more recent authority was required. However, the court used *Murray v. Gelderman* and *Clarkstown v. Reeder*, the same cases cited in *Community for Creative Non-Violence*. See *supra* note 46. The *Peregrine* court also relied on *Nimmer* for the right to control principle and stated: "The view that a work for hire relationship exists when an employer has the right to control the party doing the work has received wide judicial acceptance." *Peregrine*, 601 F. Supp. at 829.

the mutual intent of the parties to the creation of an artistic work . . . was to vest title to the copyright in the person at whose insistence and expense the work was done."<sup>52</sup>

In both the *Community for Creative Non-Violence* and *Peregrine* cases, the courts relied on the standards applied under the 1909 Act.<sup>53</sup> The presumption that the copyright resided with the commissioning party unless otherwise agreed is clearly residual from the 1909 Act.<sup>54</sup> In using the right to direct and supervise the work as factors, the courts used holdover considerations from the doctrine under the 1909 Act that deemed the commissioning party at whose "insistence and expense" the work was created to be the copyright holder.<sup>55</sup>

### C. Actual Control Test

The "actual control" test requires participation by the commissioning party in the control of the creative process.<sup>56</sup> If actual control and participation are established, the commissioning party and the creator are considered to be in an employer/employee relationship.<sup>57</sup> Therefore, the copyright belongs to the commissioning party under the first prong of the work made for hire definition.

In *Aldon*, the defendant admitted that its statuettes copied plaintiff's statuettes. However, the defendant asserted that the plaintiff was not the holder of the copyright because the statuettes were made by an independent contractor, not an employee of the plaintiff. Therefore, the independent contractor was the copyright holder and the plaintiff lacked standing to sue for infringement.

The *Aldon* court rejected this argument, stating that an employer/employee relationship could exist even though the employee was not a "regular or formal" employee.<sup>58</sup> The court found that the 1976 Act did not intend to "dispense with [the] prior law applying the concepts of 'employee' and 'scope of employment.'"<sup>59</sup> The court apparently responded to two factors: (1) an employee of the plaintiff demonstrated substantial day by day

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52. *Peregrine*, 601 F. Supp. at 829.

53. See *supra* notes 46 and 51.

54. Compare *Community for Creative Non-Violence*, 652 F. Supp. at 1457 ("Reid could have bargained with CCNV for the copyright but did not do so.") with *Yardley v. Houghton Mifflin Co.*, 108 F.2d 28, 31 (2d Cir. 1939), *cert. denied*, 309 U.S. 686 (1940) (presumption described under the 1909 Act).

55. See *supra* notes 10-13 and accompanying text (describing the law under the 1909 Act).

56. See *Aldon Accessories Ltd. v. Spiegel, Inc.*, 738 F.2d 548, 551-53 (2d Cir.), *cert. denied*, 469 U.S. 982 (1984); *Easter Seal*, 815 F.2d at 332.

57. *Aldon*, 738 F.2d at 551-53.

58. *Id.* at 552.

59. *Id.*



control over the artistic endeavors of the independent contractor;<sup>60</sup> and (2) the defendant apparently admitted to the infringement and was attempting to escape liability by asserting the work made for hire doctrine against the plaintiff.<sup>61</sup> The close supervision and control exercised by plaintiff's employee rendered the relationship between the plaintiff and the independent contractor an employer/employee relationship:

[Plaintiff] did more than communicate a general concept or idea to the Japanese and Taiwanese artists and artisans, leaving creation of the expression solely to them. There was evidence that [plaintiff] actively supervised and directed the creation of both the porcelain and brass statuettes. While he did not physically wield the sketching pen and sculpting tools, he stood over the artists and artisans at critical stages of the process, telling them exactly what to do. He was in a very real sense the artistic creator.<sup>62</sup>

Therefore, the employer/employee relationship was found to exist because the employer actively directed the work and exerted actual control, even though the independent contractor who actually constructed the statuette was not a "regular or formal" employee of plaintiff.

A number of courts have followed the *Aldon* "actual control" test. In *Iris Arc v. S.S. Sarna, Inc.*,<sup>63</sup> the defendant, Sarna, infringed plaintiff's copyrights for the production of giftware statues. Defendant attacked the validity of the plaintiff's copyrights on the ground that the work had been created by an independent contractor. The court ruled that an employer/employee relationship existed if the commissioning party exercised control over the creator.<sup>64</sup> The court concluded from the trial testimony that:

[The contractor] worked closely with . . . [the] president of Iris and with other Iris employees through all the

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60. *Id.* at 553.

61. See *Easter Seal*, 815 F.2d at 333. This second factor may have caused the court to decide as it did. However, other courts have used the *Aldon* test to resolve disputes between a contractor and a commissioning party, not just between a commissioning party and an infringer. See *infra* notes 66-82 and accompanying text (discussing *Joseph J. Legat Architects v. United States Dev. Corp.*, 625 F. Supp. 293 (N.D. Ill. 1985); *Evans Newton, Inc. v. Chicago Systems Software*, 793 F.2d 889 (7th Cir.), *cert. denied*, 107 S. Ct. 434 (1987)).

62. *Aldon*, 738 F.2d at 553.

63. 621 F. Supp. 916 (E.D.N.Y. 1985).

64. *Id.* at 919-20 ("a contractor who works under the supervision and direction of the hiring party is considered to be an 'employee' acting 'within the scope of employment.'") (quoting *Aldon*, 738 F.2d at 552).

stages of the creative process, from the initial conception of the work to the final prototype. [The contractor] maintained an office on plaintiff's premises . . . [and] Iris employees provided substantial input into the work; their modifications and suggestions were incorporated into the final designs. Ultimately a design had to meet with plaintiff's approval before it could go into production.<sup>65</sup>

In other words, the incorporation of plaintiff's modifications and suggestions and the need for plaintiff's approval of the design demonstrated actual control. Of course, the *Iris* court, like the *Aldon* court, may have been responding to the fact that the defendant was not the independent contractor but rather a guilty infringer invoking the lack of a work made for hire as a defense.

On the other hand, in *Joseph J. Legat Architects v. United States Development Corp.*,<sup>66</sup> an independent contractor successfully sued a commissioning party. The court examined claims to copyright in the architectural plans created by plaintiff, Legat, and commissioned by defendant, United States Development Corporation ("USDC"). The contract between the parties provided that Legat would be paid incrementally for its work and that the plans would remain the property of Legat. When USDC failed to pay Legat the total fee for its services and claimed that an employee of USDC was the architect of the work, Legat sued for copyright infringement. USDC argued that the plans were a work made for hire and that, consequently, it owned the copyright. The court disagreed.<sup>67</sup>

In making its determination of whether an employer/employee relationship existed, the court considered the amount of control exercised by USDC over Legat.<sup>68</sup> The court noted that USDC could veto the final product presented by Legat but did not have any right to "direct and supervise [Legat's] day to day preparation of the documents."<sup>69</sup> In fact, USDC did not even claim to have "directly supervised or controlled Legat's work."<sup>70</sup> Further, since Legat was a registered architect and USDC's employees were not, the court found that it was "highly unlikely that in such cir-

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65. *Iris*, 621 F. Supp. at 920.

66. 625 F. Supp. 293 (N.D. Ill. 1985).

67. *Id.* at 297.

68. *Id.* at 298. The court observed that "[n]either the 1976 Act nor the Committee Reports define the terms 'employee' or 'scope of employment.'" *Id.* The court suggested that the test was "whether the alleged employer has the right to direct and supervise the manner in which the work is performed." *Id.* The court then discussed whether USDC *actually* supervised or controlled the architect. *See id.*

69. *Id.*

70. *Id.*

cumstances [USDC] would 'supervise' Legat's work in the sense meant by the 'work for hire' doctrine."<sup>71</sup> Thus, the court was swayed by the expertise required by Legat to execute the commissioned work, in contrast to the lack of expertise in architecture possessed by USDC. The court used this expertise disparity between the parties to find that USDC did not "supervise" or "control" Legat in the preparation of its documents and therefore that Legat retained the copyright.<sup>72</sup>

In a case involving software, *Evans Newton, Inc. v. Chicago Systems Software*,<sup>73</sup> the court reviewed a work made for hire determination by looking for actual control by the commissioning party. Plaintiff, Evans Newton, Inc. ("ENI"), wanted to market a management program compatible with programmable microcomputers. To meet this objective, an ENI employee wrote a systems specification, flow diagrams, and other descriptive items for the software. ENI then contracted with defendant, Chicago Systems Software ("CSS"), to provide the necessary custom programming services. CSS provided the program and a user's manual.

In April, 1980, CSS began to market its own program, which included a user's manual substantially similar to the one CSS created for ENI. In June, 1980, ENI applied for and received a copyright registration for the user's manual associated with the copyrighted program, stating that the manual was a work made for hire. Meanwhile, since CSS also was selling the manual, ENI sued for infringement. The lower court ruled that ENI's manual was a "work made for hire" whose copyright had been infringed by CSS.<sup>74</sup>

On appeal, the court considered whether the work created by CSS was a work made for hire within the meaning of the 1976 Act. Initially, the court noted that since there was no written agreement designating the work as work made for hire, the second branch of the definition of work made for hire did not apply.<sup>75</sup> Therefore, the court concluded that CSS must be found to be an employee of ENI under the first prong of the definition for its work to be considered a work made for hire.<sup>76</sup>

The court next examined the relationship between ENI and CSS to determine if CSS could be considered an "employee" within the meaning of the 1976 Act. The court, citing *Aldon*, noted that creators who were not regular employees of a commissioning

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71. *Id.*

72. *Id.*

73. 793 F.2d 889 (7th Cir.), cert. denied, 107 S. Ct. 434 (1987).

74. *Id.* at 893.

75. *Id.*

76. *Id.*

party could be subject to the work made for hire doctrine if they worked under the close supervision of the commissioning party.<sup>77</sup> The court framed the issue as whether CSS was "so controlled and supervised in the creation of the particular work" that it could be considered an employee of ENI.<sup>78</sup> The court affirmed the lower court's judgment that an employee of ENI "supervised and directed" the work of CSS and, further, "that CSS merely used their programming skills to produce the work according to ENI's specifications."<sup>79</sup> In so holding, the court established that ENI owned the copyright in the manual.

Several aspects of the ENI decision are noteworthy, and disturbing. Although the court purports to require actual control, it did not discuss the level of supervision exercised by ENI over the work of CSS. The court simply accepted the trial judge's determination that ENI "supervised and directed the work."<sup>80</sup> Further, the ENI court did not discuss the expertise disparity between the commissioning party and the software developer.<sup>81</sup> Instead, the court noted that the employees of ENI "wrote the system bid guidelines with programming specifications. This included flow diagrams and prepared numbering and coding systems. [ENI] also developed sample printouts and reports . . . ."<sup>82</sup> The detailed material provided by ENI apparently influenced the court's determination that ENI provided the creative work necessary for the software and that ENI supervised and directed the work.

In another software case, *Hudson v. Good Rush Messenger Service*,<sup>83</sup> a federal district court followed the Aldon "actual control" test in a dispute involving the ownership of source code created by Hudson for the defendants. The court found that Hudson had agreed to furnish only the object code to the defendants.<sup>84</sup> Although the defendants urged that the source code also belonged to them, as a work made for hire, the court, without describing the actual supervision, found the plaintiff was not "so controlled and supervised . . . that an employer-employee relationship existed."<sup>85</sup>

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77. *Id.* at 894.

78. *Id.* (quoting *Aldon*, 738 F.2d at 552).

79. *Evans Newton*, 793 F.2d at 894.

80. *Id.*

81. ENI was "[i]n need of a computer programmer" and "CSS possessed the necessary programming skills to provide ENI the computer coding necessary to run the ENI [program] . . . ." *Id.* at 891. See also *supra* notes 66-72 and accompanying text (discussing *Legat*).

82. *Evans Newton*, 793 F.2d at 891.

83. 1987 COPYRIGHT L. REP. (CCH) ¶ 26,089 (S.D.N.Y. April 16, 1987).

84. *Id.*

85. *Id.* (quoting *Aldon*, 738 F.2d at 552).

In *Brunswick Beacon, Inc. v. Schock-Hopchas Publishing Co.*,<sup>86</sup> the court cited *Aldon* for the proposition that detailed supervision could lead to "an employee of one [being] regarded as an employee of another."<sup>87</sup> An advertisement had been prepared by employees of the plaintiff's newspaper, the *Beacon*, at the request of an advertiser. Defendants, publishers of a rival newspaper, copied and ran the advertisements with the permission of the actual advertisers. The issue at trial was whether the *Beacon* had the right to copyright the advertisements or whether the advertiser could claim such right under the work made for hire doctrine.

The court noted that the advertisements could qualify as work made for hire only if the *Beacon* could be considered an employee of the advertisers for copyright purposes.<sup>88</sup> Although the court believed that the meanings of the terms "employee" and "scope of employment" are "to be derived from the general law of agency,"<sup>89</sup> the court looked at the control exercised. The court found nothing to suggest that the *Beacon* employees who had prepared the advertisements could be considered employees of the advertisers.<sup>90</sup> The court stated that "[w]ithout doubt" the advertisers informed the *Beacon* and its employees of its requirements for its advertisement.<sup>91</sup> However, most significantly, there was no suggestion that the advertisers supervised the *Beacon* employees or "directed the manner of the work's completion."<sup>92</sup> Therefore, the court found no employer/employee relationship and, consequently, no work made for hire.<sup>93</sup>

#### D. Agency Test

The fourth approach for interpreting the work made for hire doctrine uses agency law to determine the existence of an employer/employee relationship. If an independent contractor would be deemed a servant under agency law, the contractor is considered an employee and the copyright belongs to the commissioning party.<sup>94</sup>

After extensive review of the work made for hire provisions in the 1976 Act and after evaluation of court holdings under the Act, the Fifth Circuit, in *Easter Seal*, adopted an agency approach to

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86. 810 F.2d 410 (4th Cir. 1987).

87. *Id.* at 413.

88. *Id.*

89. *Id.* See also *infra* notes 94-112 and accompanying text (discussing use of the agency law test).

90. *Brunswick Beacon*, 810 F.2d at 413.

91. *Id.*

92. *Id.*

93. *Id.* at 413-14.

94. *Easter Seal*, 815 F.2d at 329.

determine the employer/employee relationship. The plaintiff, Easter Seal Society ("ESS"), contracted with a local public television station, WYES, to videotape a parade and the accompanying musical sessions. On the day of production, an ESS employee made a number of suggestions concerning desired scenes and camera locations. The actual parade and musical sessions were arranged by WYES. Despite ESS's suggestions, the control exercised by ESS was unclear. The tapes were edited into a brief segment for a National Easter Seal Telethon. No mention of copyright was made in the contract between ESS and the television station.

Sometime later, the footage was used in an "adult" film produced by Playboy. After participants in the original film notified ESS, ESS sued Playboy, alleging copyright infringement. On cross motions for summary judgment, the lower court ruled that ESS was not the copyright holder since the television station was not an "employee" within the meaning of the work made for hire doctrine of the 1976 Act.<sup>95</sup> It further held that the copyright in the original video tapes belonged to the television station.<sup>96</sup>

The *Easter Seal* court believed that one important change in the 1976 Act was the alteration of the work made for hire doctrine. The 1976 Act removed the 1909 Act's presumption that the commissioning party always is the "author" of the work.<sup>97</sup> The work made for hire presumption remains only for an employer, and the first prong of the work made for hire definition applies only to those organizations or individuals who can be considered to be employees of the commissioning party.<sup>98</sup> The court further recognized that a major difficulty in the application of the law was the definition of the term "employee." The court stated that the interpretation should be made using agency law.<sup>99</sup> Therefore, if work is done by an employee or an independent contractor who is a servant under agency law, the commissioning party is the statutory author and copyright holder.<sup>100</sup>

The *Easter Seal* court found textual support in the 1976 Act for this approach. The statute describes work made for hire, in part, as work created "within the scope of . . . employment."<sup>101</sup> These words are "a term of art in agency law."<sup>102</sup> The court noted that the definition of a servant in the Restatement of Agency is

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95. *Id.* at 325.

96. *Id.*

97. *Id.* at 328 n.8.

98. *Id.* at 329.

99. *Id.* at 334-35.

100. *Id.* at 329.

101. 17 U.S.C. § 101 (1982) (first half of the definition of work made for hire).

102. *Easter Seal*, 815 F.2d at 335.

as follows:

1. A servant is a person employed to perform services in the affairs of another and who with respect to the physical conduct in the performance of the services is subject to the other's control or right to control.
2. In determining whether one acting for another is a servant or an independent contractor, the following matters of fact, among others, are considered:
  - (a) the extent of the control which, by the agreement, the master may exercise over the details of the work;
  - (b) whether or not the one employed is engaged in a distinct occupation or business;
  - (c) the kind of occupation with reference to whether, in the locality, the work is usually done under the direction of the employer or by a specialist without supervision;
  - (d) the skill required in the particular occupation;
  - (e) whether the employer or workman supplies the instrumentalities, tools, and the place of work for the person doing the work;
  - (f) the length of time for which the person is employed;
  - (g) the method of payment, whether by the time or by the job;
  - (h) whether or not the work is [a] part of the regular business of the employer;
  - (i) whether or not the parties believe they are creating the relation of master and servant; and
  - (j) whether the principal is or is not in business.<sup>103</sup>

These factors can be used to determine whether the creator is an employee or an independent contractor. The *Easter Seal* court affirmed the lower court's ruling, finding that the television station could not be considered an employee.<sup>104</sup> However, these agency factors were not considered explicitly by the court.

A software case, better known for its holding on the scope of copyright protection, used several of these factors in determining that no employer/employee relationship existed. In *Whelan Associates v. Jaslow Dental Laboratory*,<sup>105</sup> the court examined the working relationship between Jaslow, an owner of a dental laboratory, and Whelan, the software designer with whom Jas-

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103. *Id.* at 335 n.20 (quoting RESTATEMENT (SECOND) OF AGENCY § 220 (1958)).

104. *Easter Seal*, 815 F.2d at 337.

105. 609 F. Supp. 1307 (D. Pa. 1985), *aff'd on other grounds*, 797 F.2d 1222 (3d Cir. 1986), *cert. denied*, 107 S. Ct. 877 (1987) (Third Circuit holds that the "look and feel" of software is copyrightable).

low contracted to develop a computer program for various business operations of his laboratory. Jaslow provided the general details concerning the functions to be included in the software design, the description of the work to be done, a schedule for completion of the software development, and charges for services to be rendered. Whelan conferred extensively with Jaslow concerning the operation of Jaslow's business. During this process, Whelan learned about receiving, processing and delivering orders, invoicing, billing, inventory control, and other details concerning the operation of Jaslow Dental Laboratory. Also, Whelan researched methods of operations of other dental laboratories to obtain additional information that would allow her to create the software.

After both parties had marketed the Whelan software for several years, Jaslow decided that it was the sole owner of the software and that Whelan had no rights to market it. Whelan, however, disagreed. After Jaslow continued to advertise and market software he had developed that consisted substantially of the program code developed by Whelan, Whelan sued Jaslow for copyright infringement.

The court decided it would use a two-step approach to determine the work made for hire issue: first, the court would determine whether Whelan was an employee of Jaslow; and second, if Whelan were not an employee, the court would determine whether the work created came under the nine statutory categories that could render the software a work made for hire.<sup>106</sup> Without explicitly using agency analysis, the court looked to agency-like factors in concluding that Whelan was not an employee of Jaslow.<sup>107</sup> It stated that under the 1976 Act the work made for hire doctrine applied to independent contractors only in "certain limited circumstances defined by the Act."<sup>108</sup> Since the court could not find the limited circumstances, it concluded that the work made for hire doctrine did not apply and the copyright registered by Whelan was valid.<sup>109</sup>

In determining that Whelan was not an employee of Jaslow, a number of factors influenced the court. These factors could be used to determine whether an agency relationship existed. First, the court noted the expertise disparity between the parties. Jaslow had "no experience or formal training in computers or in computer programming and systems design" and had been unsuccessful in the past in developing a computer program that

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106. *Id.* at 1319.

107. *Cf. Brunswick Beacon*, 810 F.2d at 413 (stating that agency law should be applied but applying the "actual control" test instead); see also *supra* text accompanying notes 88-93.

108. *Whelan*, 609 F. Supp. at 1319.

109. *Id.*



would be useful in his business.<sup>110</sup> Second, Whelan designed the system and supervised its creation.<sup>111</sup> Although the court noted that Whelan conferred extensively with Jaslow and learned a great deal about the operation of Jaslow Dental Laboratory, the information was not determinative of copyright ownership. The court found that Jaslow:

[D]id little more than explain the operations of the dental laboratory business and define the information he wanted to be able to obtain from the computer. . . . Such general assistance and contributions to the fund of knowledge of the author did not make Rand Jaslow a creator of any original work, nor even the co-author.<sup>112</sup>

Therefore, the court concluded that the work made for hire doctrine did not apply.

## VI. ANALYSIS AND COMPARISONS

The case law presents a wide range of interpretations of the work made for hire provisions of the 1976 Act. Although courts have attempted to provide a method for parties to determine whether they are in an employer/employee relationship, the result has been confusion.<sup>113</sup> A commissioning party can be deemed to be an employer if it actually supervises and is involved

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110. *Id.* at 1309. This expertise disparity is reflected in three of the agency factors. See *supra* text accompanying note 103. Factor (b) considers whether "the one employed is engaged in a distinct occupation or business." Factor (h) considers whether "the work is part of the regular business of the employer." In *Whelan*, "Jaslow was in the business of operating a successful dental laboratory." But, "[t]he main business of Whelan Associates is designing and marketing custom computer applications." *Whelan*, 609 F. Supp. at 1309. Factor (d) is a consideration of "the skill required in the particular occupation." Jaslow's inability to develop the program and need to hire Whelan demonstrates the skill required. This expertise disparity also was a consideration used by the *Legat* court. See *supra* notes 66-72 and accompanying text. However, the expertise disparity was ignored by the *Evans Newton* court. See *supra* notes 80-82 and accompanying text.

111. *Whelan*, 609 F. Supp. at 1310. Factor (a) in the agency determination considers "the extent of the control which, by the agreement, the master may exercise over the details of the work." See *supra* text accompanying note 103.

112. *Whelan*, 609 F. Supp. at 1318. Under this analysis, Jaslow probably would not be considered to exercise actual control, either.

113. The true culprit in the confusion may be Congress, which failed to define "employee" in either the 1909 or 1976 Acts. See Note, *Commissioned Works as Works Made For Hire Under the 1976 Copyright Act: Misinterpretation and Injustice*, 135 U. PA. L. REV. 1281, 1313 (1987) [hereinafter *Commissioned Works*]. The latest attempt by Congress to clarify the work made for hire doctrine is Senate Bill 1223, introduced last year. It would impose an actual employee test, defining an "employee" as one receiving government employee benefits and having taxes withheld. The bill also would leave only one category, motion pictures, in which a work by a non-employee could be a work made for hire. Otherwise, unless an independent contractor expressly assigns the copyright to the commissioning party, the contractor would retain the copyright. See S. 1223, 100th Cong., 1st Sess., 133 CONG. REC. S6736-39 (daily ed. May 19, 1987). See also *Commissioned Works* at 1307.

in great detail in the day to day activity of the software development.<sup>114</sup> A commissioning party also can be designated an employer despite the fact that it does not supervise the day to day activities of the software developer, if the commissioning party provides detail concerning the work to be created pursuant to its contract with the creator.<sup>115</sup> These diverse standards create uncertainty for both the commissioning party, which expects to own the copyright in the work, and for the software developer, who does not expect to surrender these rights. Applying these tests to the hypotheticals leads to widely different results in any contest for copyright ownership.

### A. Actual Employee Test

A major problem with the actual employee approach is its inflexibility. If a creator is labeled an employee of a commissioning party, the copyright in the work created will reside in the commissioning party. If the creator is not an employee, the copyright automatically will not belong to the commissioning party. This inflexibility does not account for the situation where a commissioning party is the creative force behind the software development.

Analyzing the INH/ISoft dispute under the "actual employee" test is a simple matter. The copyright resides in ISoft, since ISoft is not an employee of INH. Even POPS, with its more extensive involvement in the design process, would not obtain the copyright under this test, since ISoft is not an employee of POPS.

Due to its inflexibility, the "actual employee" test draws an arbitrary line that depends on labels rather than substance.<sup>116</sup> As a result, the test may provide certainty at the expense of reality if the work made for hire determination bears little resemblance to the actual relationship between the parties.

### B. Right to Control Test

A major problem with the "right to control" test is its similarity to the work made for hire doctrine under the 1909 Act. Because almost all commissioning parties have, at the very least, some indicia of the right to exercise control over the software developers, the threshold to determine copyright ownership is too low. In fact, the threshold is so minimal that it effectively creates a presumption that the commissioning party owns the copyright. This is the

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114. See, e.g., Aldon; *Iris*.

115. See, e.g., *Peregrine; Community for Creative Non-Violence*.

116. For example, a party commissioning a work could have a more substantial relationship with an independent contractor in a long-term, interactive association, than an employer in a decentralized corporation could have with an employee in a distant division.

presumption that existed under the 1909 Act. Thus, the test is inconsistent with Congress's intent in the 1976 Act to provide a more restricted definition of the term "work made for hire."<sup>117</sup>

Under either hypothetical, an application of the "right to control" test will give copyright ownership to the commissioning party. Whether or not INH or POPS actually exercised their powers, both had the right to direct the work done by ISoft. The power of INH is apparent in the specifications and program reviews. In addition, INH was the motivating factor for the creation of the work. Therefore, the software would qualify as a work made for hire. If INH had the right to control ISoft, then POPS certainly would have as well, since POPS had even greater control over ISoft than INH did.

The outcome of the disputes may depend on the factors used by the courts under the "right to control" test. Some courts have found the right to approve to be an indicia of employer status.<sup>118</sup> This seems to create a hopeless situation for the software developer if approval is a critical factor. Given the time and expense of software development, any commissioning party would be foolhardy not to include a right to approve in its contract.

Although the "right to approve" may be given a more limited meaning, this would create new problems. Frequently, software is accepted by a commissioning party after the software passes agreed-upon objective tests. Thus, approval is dictated by the contract terms regarding the acceptance testing. Courts might not find that an objective test constitutes the right of approval, since no discretion is involved. Thus, if final payment is predicated only on the software passing an objective test, the commissioning party would not have the right of approval and, consequently, would be less likely to receive the copyright. Therefore, commissioning parties would be reluctant to use only objective standards to judge software performance. However, software developers would not agree to a subjective test that would allow the commissioning party to reject the software for reasons unrelated to quality.

### C. Actual Control Test

The major problem with the "actual control" test is that it is inconsistent with the language of the statute. The work made for hire provisions make no mention of an actual control require-

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117. *Easter Seal*, 815 F.2d at 331 ("[W]e cannot avoid the impression that Congress meant somehow to tighten up the 'work for hire' doctrine under the 1976 Act . . . . We are convinced that Congress meant to alter the status of commissioned works . . . ."); see also *supra* notes 18-23 and accompanying text (discussing legislative history).

118. See *Community for Creative Non-Violence*, 652 F. Supp. at 1456 (CCNV did not make its final payment until satisfied with the work); cf. *Legat*, 625 F. Supp. at 298 (the right to approve was not sufficient for the court to find actual control).

ment. The two-part definition applies to works prepared by an employee and works specially ordered or commissioned.<sup>119</sup> "There is simply no way to milk the 'actual control' test of *Aldon Accessories* from the language of the statute."<sup>120</sup>

In addition, *Aldon* and its progeny do not provide consistent guidance for the resolution of the disputes between INH and ISoft and between POPS and ISoft. If actual control must be exercised to find that a commissioning party is the copyright holder, as was required in *Aldon* and *Beacon*, ISoft probably would have little trouble convincing a court that INH did not exert actual control over ISoft. While INH did assemble a detailed specification for the needed software, it did not supervise the work conducted by ISoft. POPS, on the other hand, with its more extensive management of ISoft employees and input, may have exerted actual control.

The outcome of the disputes would depend on the factors that the court deems relevant in determining actual control. The *Iris* court found that control existed if modifications and suggestions were incorporated into the final work and if the commissioning party had to approve the final design.<sup>121</sup> Under this standard, both INH and POPS would hold the copyright since they exercised this type of control.

If an "expertise disparity" is considered most relevant to determine the exercise of control, a court will consider whether the commissioning party possesses the requisite expertise to exercise control.<sup>122</sup> INH will lose a contest for copyright ownership in the developed software under this standard. INH contracted with ISoft specifically because of ISoft's expertise in software development. An expertise disparity clearly exists between the parties. POPS, however, with its in-house developers, does have some expertise. It uses ISoft because it lacks the staff to develop the software on time. Expertise disparity might not be a significant factor in a copyright ownership contest between POPS and ISoft. Nonetheless, factoring in the disparity in expertise unfairly favors the software developer if it is a decisive factor. Often, the commissioning party contracts with a software developer *because* the former lacks the expertise to create the code necessary to satisfy its requirements. A decision using this as a significant factor nearly always would give rise to a finding of no employer/employee relationship. This would be unsatisfactory to commissioning parties.

The factors emphasized by the *Evans Newton* court would

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119. 17 U.S.C. § 101 (1982).

120. *Easter Seal*, 815 F.2d at 334.

121. *Iris*, 621 F. Supp at 920.

122. See, e.g., *Legat*; *Whelan*.

favor INH. Since INH created the specification that gave rise to the software and ISoft "merely used" its programming skills to create the needed software, a court following this analysis probably would rule that the software was made for hire and therefore the property of INH. However, if INH created only general specifications, then a court might rule that ISoft did more than just use its programming skills, since it had to create some of the specifications. Since POPS provided more extensive supervision, its software probably would be considered work made for hire.

Besides the inconsistencies, the application of the "actual control" test presents several other difficulties. First, work made for hire status turns on one aspect of the actual activities of the parties.<sup>123</sup> Therefore, in a series of continued dealings, each creative work generated by the independent contractor would have to be examined to determine if the commissioning party exhibited actual control over the creating party. The outcome of such an inquiry could lead to different results for different works, even though the parties and the general relationship between them are the same. This would make contracting very difficult.<sup>124</sup> Second, if the commissioning party were involved to the extent required by *Aldon*, it also could be considered a co-author of the work and therefore neither party would be capable of infringement against the other. Third, the "actual control" test easily can turn into a "right to control" test, thereby returning to the 1909 standard.<sup>125</sup>

Finally, the "actual control test" discourages communication between the developer and the buyer. Close communication may lead a court to determine that the commissioning party has exercised sufficient supervision and involvement in the software development to give it "actual control" or the "right to control." This result would tend to encourage software developers who wish to maintain their copyright to limit communication with their clients. In software development contracts, product quality suffers and litigation usually ensues because user requirements are either misunderstood by the software developer or poorly stated by the commissioning party. Therefore, in the long run, the lack of communication would lead to reduced product quality and increased litigation. Better communication between the parties ultimately would lead to greater satisfaction of the requirements and would increase the quality of the software and decrease the amount of litigation.

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123. See *Easter Seal*, 815 F.2d at 333.

124. *Id.*

125. *Id.* at 334.

### D. Agency Test

The agency test interpretation best fits the language of the work made for hire definition in the 1976 Act. In order to be considered a work made for hire, a work must either be: (1) prepared by an employee within the scope of his or her employment, or (2) specially ordered or commissioned and falling within the statutorily defined categories. A work is considered work made for hire under this test if the independent contractor is deemed an employee under agency law standards or if the second part of the definition of work made for hire is satisfied. Any other interpretation of the definition would be inconsistent with the language of the statute. Also, although agency law does not provide a bright line test, courts are better able to apply its principles because the principles are used in other areas of the law as well.

An agency law interpretation is not without problems. Ambiguous language remains in the statute. For instance, the phrase "other person for whom the work was prepared" is included in the same sentence as the term "employer."<sup>126</sup> This language could be read to cover more than just "employees" and to cover more than agency relationships. The *Easter Seal* court admitted that the phrase "is too broad to be easily read as [just] a reference to the narrow class of buyers who can be authors by compliance with the requirements of" the commissioned work prong of the work made for hire definition.<sup>127</sup> However, the agency approach does not confine itself to a narrow definition of "employer." In this sense, the approach encompasses the "other person for whom the work was prepared." Thus, the criticism is more effective if used against the "actual employee" test.

The agency approach easily is applied to the hypotheticals. The first question is whether ISoft can be construed to be a "servant" within the meaning of agency law. Evaluating the factors necessary to make this determination, most courts would conclude that ISoft was not a servant of INH. The details of the work, creating the software architecture and code, are managed by ISoft without the direct supervision of INH. ISoft is in a distinct business, uses its own facilities and equipment, and manages its own software developers. Additionally, considerable skill is required to develop the software. Finally, other indicia of control are lacking: payment is by the job, rather than by time, and INH and ISoft are not in the same line of business. Thus, applying agency law would not render ISoft a servant of INH, and ISoft would be the statutory copyright holder.

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126. See 17 U.S.C. § 201(b) (1982).

127. *Easter Seal*, 815 F.2d at 330.

POPS might be considered an employer of ISoft personnel. POPS provides extensive supervision and input. POPS supplies the equipment and facilities for the project and pays ISoft according to the time spent by ISoft personnel on the project. In addition, POPS's facilities will be used during the extensive testing process. However, ISoft still is engaged in a highly skilled business, and elaborate software development is not part of the regular business of POPS. Therefore, under the agency test, POPS might be the copyright holder depending on the particular facts.

By following the agency law test of *Easter Seal*, courts would signal to software developers that their rights would not be compromised simply because they received detailed information from commissioning parties. Under agency law, "control" is only one factor, so repeated exchanges of information would not be determinative. At the same time, commissioning parties would not have to worry that developers will avoid exchanges of information. A greater level of communication should ensure that the finished product satisfies the commissioning party's needs.

The agency law approach would result in a uniform and equitable determination of the existence of an employer/employee relationship. Additionally, such a determination would allow a more methodical and easily applicable approach to interpretation of the work made for hire provisions of the 1976 Act.

If the analysis under agency law fails to establish an employer/employee relationship, the court will determine whether an express agreement to treat the work as work made for hire has been executed by the parties. If an agreement has not been executed, the work is not a work made for hire, and the copyright will belong to the software developer. If, however, such an agreement exists, the court will make a final determination as to whether the work falls within the nine categories of specially ordered or commissioned work which are enumerated in the definition of work made for hire.<sup>128</sup>

Applying the *Easter Seal* standard also will provide a basic foundation on which commercial dealings between parties to software development contracts can build. Further, since corporate methods of interacting with software developers vary greatly, the approach taken by the *Easter Seal* court will reach a more consistently equitable solution to the determination of the rights of the parties. This will equalize the relationship between the parties regardless of their technical or legal sophistication.

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128. See 17 U.S.C. § 101 (1982) (second half of the work made for hire definition).

## VII. CONCLUSION

Returning to the hypotheticals, the current judicial environment would keep the parties guessing as to the outcome of the litigation in both cases. Because the parties did not sign a written work made for hire agreement,<sup>129</sup> the only issue is whether ISoft is considered an employee. If the "actual control" test is applied, an employer/employee relationship may not be found with INH but probably will be found with POPS. However, if the "right to control" test is applied, the court almost certainly will find that an employer/employee relationship exists in both hypotheticals. Under either "control" test, the use of different factors could alter the outcome. Some courts will emphasize the right to approve or disapprove, some will emphasize objective acceptance, and others will emphasize expertise disparity. The "actual employee" test applies rigidly. Courts will have no leeway to consider the facts in the disputes. ISoft would triumph merely because it is not an employee in either hypothetical.

However, if the dispute is resolved in accordance with *Easter Seal*, the result will be predictable and equitable. The court will examine the relationship between the parties using agency law to decide the employer/employee issue. Using the agency law factors, ISoft will not be considered a servant of INH but may be a servant of POPS, because of POPS's more extensive involvement and control. Therefore, ISoft will own the copyright in its dispute with INH but might not in its dispute with POPS.<sup>130</sup>

Most importantly, *Easter Seal* avoids the problem of the control approaches, which work counter to the objective of providing a closer working relationship between software developers and commissioning parties. Rather, the agency test does not focus on just one element of the relationship between the parties, and does not ignore the realities of the situation, as would occur with the "actual employee" test. In those cases where the contracting parties failed to create certainty by assigning all copyrights to one party or the other in the contract, courts may infer the reasonable expectations of the parties through the agency test approach taken by the Fifth Circuit in *Easter Seal*.

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129. Even with a written agreement, the software product is unlikely to fit within the nine categories of specially ordered or commissioned works.

130. The outcome of any particular case will depend upon the presence or absence of the factors used to determine whether the developer is a servant or an independent contractor.