

Ownership of Computer Programs and Other Copyrighted Works

In today's highly computerized world, computer software often consists of a series of interrelated programs created by a variety of individuals working together in organizations. These individuals may include analysts and programmers employed by software companies, outside independent contractors, and customers and users who work closely together to define the user requirements and specifications necessary to develop the system.

In such an environment, with many individuals participating in the conception and development of the software, questions sometimes arise over ownership of the software and its associated proprietary rights. Unless there is a written agreement between the parties defining ownership rights, the U.S. Copyright Act¹ is generally determinative of the rights of the parties, such as their ability to use, copy, enhance, distribute, and exploit the software in the marketplace.

When more than one individual contributes to the creation of a copyrightable work, two related areas of copyright law are pertinent in resolving conflicts over ownership of the work and its copyright. The first of these is the "work for hire" doctrine, recently discussed by the U.S. Supreme Court in the 1989 case *Community for Creative Non-Violence v. Reid*, 109 S.Ct. 2166 (1989). The second issue is whether a work is considered a "joint work," in which the contending parties are deemed co-owners of the work in question.

Work for Hire

An example of how a work for hire question might arise is a situation in which an independent computer programmer is paid a fee to develop a custom software system for a company. After the software has been installed and tested, the programmer decides to adapt it for more general use and sell it to others in the same industry, including perhaps the first company's competitors.

Naturally the first company objects, be-

Attorneys should give careful attention to the pertinent sections of the act as they seek to apportion the relative ownership rights of the parties

by David R. Ellis

cause it believes it owns the software as a work for hire, which includes the right to copyright the software in its own name. The critical questions then become: Who owns the software and who owns the copyright? This is crucial because only the owner of the copyright has the right to make copies, modifications and enhancements of the software, distribute it by sale or license to the public, and authorize others to do the same.²

Under ordinary circumstances, the "author" of a work under the Copyright Act is the actual creator or developer of the work.³ An author may transfer or assign any or all of his rights in the copyright by written agreement, but until he does so, he has the exclusive rights described above.⁴

However, in the case of a work for hire, the actual creator of the work is not considered the author of the work or owner of the copyright. The work for hire rule, which originally was developed by the courts but is now firmly entrenched in the copyright stat-

ute, provides for two situations in which the creator of a work is not considered to be the author.⁵

In the case of a work prepared by an employee in the scope of employee's employment, the work belongs to the employer, not the employee.⁶ In the case of an independent contractor, the law provides for nine specific categories in which a work "specially ordered or commissioned" from a contractor can be deemed a work for hire.⁷

These works are the following: a contribution to a collective work; a part of a motion picture or other audiovisual work; a translation; a supplementary work; a compilation; an instructional text; a test; answer material for a test; or an atlas.⁸ For ownership to vest in the hiring party, the contractor and hiring party must expressly agree in writing that the work is to be considered a work for hire. In that case, ownership of the copyright will belong to the commissioning party, not the actual creator of the work.

One of the significant questions that is not addressed by the copyright act, and that has been discussed by the courts in a series of recent decisions, is how broad the first part of the work for hire definition is and how narrow the second. Clearly, if a commissioned work prepared by an independent contractor is one of the nine enumerated types of works, and the contractor has signed a written contract making it a work for hire, the copyright belongs to the hiring party. Otherwise it belongs to the contractor.

A number of federal courts in different parts of the country took varying approaches in determining what constitutes an "employee" under the first part of the work for hire definition. The Second and Seventh circuits, for example, took a broad approach by holding that an independent contractor who prepares a work for another could be deemed an "employee" if he were "sufficiently supervised and directed by the hiring party," even though he would not be considered an employee under the customary

definition of the term.⁹

Other courts, including the Fifth and D.C. circuits, took a much stricter view of the statute and held that the first part of the definition could apply only to employees in the traditional agency sense of the term. One of these cases was *Easter Seal Society for Crippled Children and Adults of Louisiana, Inc. v. Playboy Enterprises*, 815 F.2d 323 (5th Cir. 1987), cert. denied, 469 U.S. 982 (1984),¹⁰ and the second was *Reid*,¹¹ decided by the D.C. Circuit in 1988. The *Reid* case was appealed to the U.S. Supreme Court, which affirmed it in June 1989, thus ending the conflict and clarifying the law.

The Community for Creative Non-Violence (CCNV) is a nonprofit group in Washington, D.C., dedicated to the welfare of homeless people. In 1985, CCNV conceived the idea of a statue of a homeless family to dramatize their plight and contracted with a sculptor named Reid to sculpt a portion of the statue.

Reid agreed to sculpt the human figures and CCNV assumed responsibility for the other parts of the statue. After Reid refused to return the completed statue and filed a certificate of copyright registration in his own name, CCNV sued, seeking return of the sculpture and a declaration of copyright ownership.

The Supreme Court agreed with the appeals court that the correct interpretation of the work for hire provision is a literal reading of the term "employee" under the statute. The Court held that the sculpture did not qualify as a work for hire, because the sculptor was an independent contractor, not an employee under traditional agency law principles. Furthermore, because a work of

an independent contractor cannot be a work for hire under the law unless the work falls within one of the nine enumerated categories and the parties expressly agree in a written instrument that the work is to be considered a work for hire, the sculpture was not a work for hire and CCNV was not the sole owner of the copyright.

In its decision, the Supreme Court did not address another issue raised by CCNV regarding ownership of the sculpture, namely the claim that CCNV was a joint or co-author of the work created by Reid. CCNV argued that because its employees had conceived the idea of the sculpture and had been involved in the development of the project, CCNV should be considered a co-owner of the copyright in the work. Instead, the Supreme Court sent the case back to the lower courts to determine whether CCNV had any ownership rights in the sculpture.

Joint Ownership

Although the question of joint authorship was not resolved in the *Reid* case, the issue has been raised and decided in other recent cases involving the development and ownership of computer software and other works. In one case, *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989),¹² decided by the Ninth Circuit Court of Appeal in California in September 1989, the court was asked to decide whether the customer of a software developer was the joint owner of a software accounting package by virtue of the contributions of its controller to the creation and development of the package.

Under the copyright act, a joint work is defined as a "work prepared by two or more authors with the intention that their contribu-

tions be merged into inseparable or interdependent parts of a unitary whole."¹³ In order for a work such as a computer program to be deemed a joint work (and thus for the authors to be considered co-owners), the contribution of each of the parties claiming to be a joint author must itself be protectable under the copyright act.

S.O.S. is a company specializing in the furnishing of computer hardware and software to companies that process payrolls, ledgers, and accounts receivable. Payday is a company that provides payroll and financial services to the entertainment industry.

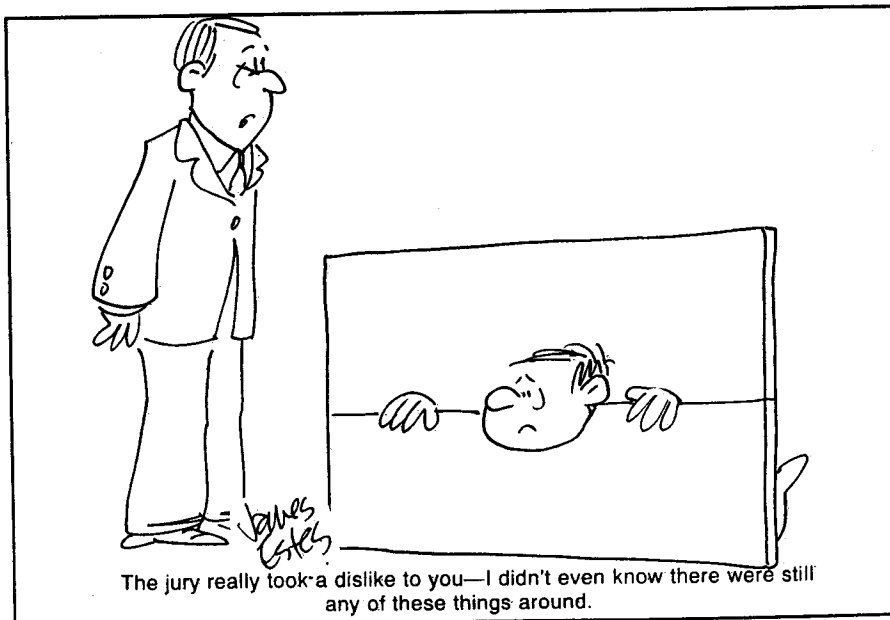
In 1983, one of Payday's representatives told S.O.S. that Payday wanted to computerize in order to attract an important client. The companies then signed a contract in which S.O.S. agreed to deliver certain computer equipment and modify and install a software system capable of meeting Payday's requirements. The software agreement specifically provided that S.O.S. retained all rights of ownership in the programs, and Payday was acquiring only a right to use them in its business.

In the course of developing the software, S.O.S. worked with Payday's controller, who acted as Payday's liaison to the programming team. She described Payday's needs to the programmers but did not participate in the coding process.

Subsequently, S.O.S.' two principal programmers left S.O.S. to form an independent consulting firm, but continued to work on the project as outside contractors to S.O.S. Later, the programmers made a proposal to Payday under which they would develop and sell to Payday a comprehensive software system capable of providing a broad array of financial services to the entertainment industry. They told Payday's controller that they needed a copy of S.O.S.' payroll program in order to convert it for the new system.

When Payday was unable to secure an authorized copy of the payroll program, the programmers went to S.O.S.' office and copied the program and several others. They then used the programs to develop their own system which Payday began using. When S.O.S. discovered that the programmers had gained unauthorized entry to its computer system and that Payday was using the pirated programs to provide service to its clients, S.O.S. sued Payday for copyright infringement, misappropriation of trade secrets, and breach of contract.

The district court denied most of S.O.S.' claims, although it did enter an award in S.O.S.' favor based on the work that S.O.S. had performed under the original contract. S.O.S. then appealed the decision to the U.S.



Court of Appeals for the Ninth Circuit.

In its decision, the appeals court was called upon to determine whether Payday had obtained any ownership rights in the software developed for it by S.O.S. Payday claimed that it was a joint owner of the copyright in the programs because its controller had contributed to the creation of the software. If Payday could show that it was a co-owner then, as a matter of course, it would have the right to engage programmers to copy, modify, and enhance the software for its own purposes.

However, the appeals court rejected Payday's argument. The court found that Payday's controller had only told the programmers what tasks the software was to perform and how to sort data. She did not do any of the coding or even understand computer language. Thus her contribution was only of unprotectable ideas, not copyrightable expression.

In its decision, the court cited a well-known computer copyright case, *Whelan Associates v. Jaslow Dental Laboratory*, 609 F.Supp. 1307 (E.D. Pa. 1985), *aff'd.*, 797

F.2d 1222 (3d Cir. 1986), *cert. denied*, 479 U.S. 1031 (1987).¹⁴ In that case, the owner of a dental laboratory hired a programmer to write software for use in his business, disclosed to the programmer the detailed operation of his business, dictated the functions to be performed by the computer, and even helped design the language and format of some of the screens that would appear on the computer's visual displays. The court, nonetheless, found that the programmer was the sole author of the software.

In *Whelan*, the court's principal focus was on the creation of the source and object code. The court said that the owner's general assistance and contributions to the programmer's fund of knowledge about the operation of his business did not make him co-author of the work.

The court analogized his contribution to that of an owner explaining to an architect the type and functions of a building the architect is to design for the owner. The resulting architectural drawings are not co-authored by the buyer, no matter how detailed the ideas and limitations expressed by the owner.¹⁵

The appeals court thus found that Payday's controller had done nothing more than describe the sort of programs Payday wanted S.O.S. to write and had only supplied mere direction and ideas. The court ruled that she had not contributed to the requisite copyrightable expression to the programs and thus was no more of an author of the programs than was the supplier of the disks on which the programs were stored. The court thus found that Payday was not a joint author of the work and reversed the district court's decision in favor of Payday.

Joint Ownership Among Developers

Another case in which the ownership of the copyright in a computer program was in dispute was *Ashton-Tate v. Ross*, 1 CCH Computer Cases ¶46,231 (N.D. Cal. 1989). In the case, the court was asked to decide whether an independent programmer was a joint owner of a computer spreadsheet program marketed by Ashton-Tate, a large nationally known computer software company.

Ross and another independent programmer had begun working on the development of a new spreadsheet program in 1984. They discussed a number of concepts for the program but did not write program code together or sign a formal written agreement. At one meeting, Ross gave the other programmer a one-page handwritten list of user commands he felt the program should contain. However, problems arose in the

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development of the system, and ultimately the other programmer went to work for Ashton-Tate.

While at Ashton-Tate, the programmer used some of the ideas from the project that he and Ross had worked on to develop a new spreadsheet program. When the program was released in 1988, Ross demanded compensation from Ashton-Tate based on what he claimed was his contribution to the program. Among other things, Ross claimed that he was a joint author of the program because the list of user commands he had furnished to the other programmer were used to develop the final list of commands for Ashton-Tate's spreadsheet program.

In his decision, the judge ruled against Ross, holding that he was not a joint owner of the program. Since copyright law does not protect ideas, but only the expression of ideas in a fixed tangible form, Ross claimed that his list of user commands represented expression of ideas sufficient to merit copyright protection. The judge, however, was not persuaded.

The judge felt that the list prepared by Ross contained many common commands that were already available in other software programs and that there was nothing innovative or novel about Ross's proposed list. The list itself did not contain any program code, and Ross did not contribute to the implementation of his suggested commands, such as by writing source code. Accordingly, the judge ruled that Ross's list fell short of the threshold separating ideas from expression, and, therefore, was an unprotectable idea under the copyright law. As a result, Ross could not be considered a joint author of the program or co-owner of the work.

In light of these cases, particularly the Supreme Court's decision in *Reid*, Congress has become interested in the subject of ownership of copyrighted works as determined by the work for hire and joint ownership rules. One bill, introduced in the Senate in 1989,¹⁶ would amend the rules relating to work for hire by limiting the first part of the statutory definition to "formal salaried employees" rather than using the agency test of employment approved by the Supreme Court. This would tend to narrow the rule as it relates to employees.

With regard to independent contractors, the bill would also restrict the work for hire doctrine by applying the rule in favor of hiring parties only to those instances in which the individual author has signed a work for hire agreement before commencement of the work and in which the agreement specifies a particular work rather than all or a series of works created by the author. The

bill would thus provide greater benefits to independent programmers and free-lance authors such as writers and photographers whose works now are often deemed works for hire on the basis of a blanket agreement entered into after the project is underway or even completed.

The proposed bill would also amend the definition of joint works by requiring that each contribution of an author be original and, for commissioned works, that each of the parties agree in writing, before commencement of the work, that the work shall be considered a joint work. Like the changes in the work for hire definition, this amendment would be to the benefit of free-lance authors who are sometimes asked to sign over their rights after they have already made a substantial contribution to the development of a software package or other copyrightable work. To date, hearings have been held on the bill, but no action has been taken that would lead to enactment in the near future.

Conclusion

Determining the ownership of creative works protected by copyright is of great importance to the authors who create the works, such as software developers, writers and artists, and also to others, usually larger organizations, who provide financing to fund the creations. Authors, hiring parties, and attorneys should give careful attention to the pertinent sections of the copyright act, particularly the work for hire and joint works provisions, as they seek to apportion the relative ownership rights of the parties by means of carefully drawn agreements that will define the rights of the participants in the resulting creative endeavors. □

¹ 17 U.S.C. §101 *et seq.*

² 17 U.S.C. §106. Ownership of a particular copy of a work, such as a computer program, is distinct from ownership of the underlying copyright in the work, which carries with it the exclusive rights provided in §106. The owner of a copy of the software has the right to use it, but not necessarily the right to make copies, modify, and enhance it, or distribute it to others unless authorized by the copyright owner.

³ 17 U.S.C. §201(a).

⁴ 17 U.S.C. §201(d).

⁵ 17 U.S.C. §101. Actually, the term used in this definition section of the copyright act is "work made for hire," but most commentators refer to the doctrine by its shorter form "work for hire."

⁶ *Id.* subsection (1).

⁷ *Id.* subsection (2).

⁸ *Id.*

⁹ *Aldon Accessories Ltd. v. Spiegel, Inc.*, 738 F.2d 548 (2d Cir. 1984), *cert. denied*, 469 U.S. 982 (1984); *Evans Newton, Inc. v. Chicago Systems Software*, 793 F.2d 889 (7th Cir. 1986), *cert. denied*, 479 U.S. 949 (1986). To the same effect, see *Brunswick Beacon, Inc. v. Schock-Hopchas*

Publishing Co., 810 F.2d 410 (4th Cir. 1987).

¹⁰ The case was a lawsuit brought by the Easter Seal Society against Playboy Enterprises and others for misappropriating certain video footage of a parade staged for a telethon and later incorporated by the defendants into an adult film entitled "Candy the Stripper." In a footnote, the judge drolly remarked that "this most delightful of case names" was seriously rivaled only by *United States v. Eleven* and a Quarter Dozen Packages of Articles Labeled in Part Mrs. Moffat's Shoo Fly Powders for Drunkenness (condemnation proceeding under the Food, Drug and Cosmetic Act) and *United States ex rel Mayo v. Satan and his Staff* (leave to proceed in forma pauperis denied in view of questions of personal jurisdiction over the defendants).

¹¹ 846 F.2d 1485 (D.C. Cir. 1988).

¹² Another case, *Dumas v. Gomerman*, 865 F.2d 1093 (9th Cir. 1989), took even a narrower view, applying the work for hire rule only to formal salaried employees.

¹³ 17 U.S.C. §101.

¹⁴ For a discussion of this case, see D. ELLIS, *A COMPUTER LAW PRIMER*, Ch. 23 (1986).

¹⁵ See, e.g., *Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Construction Co.*, 542 F.Supp 252 (D. Neb. 1982). *Cf.* also *Olan Mills v. Eckerle Drug of Texas*, 1989 CCH Copyrt. L. Dec. 11 ¶26,420 (N.D. Tex. 1989), holding that the subject of a portrait by a professional photographer is not a joint author of the photograph. See also P. GOLDSTEIN, *COPYRIGHT*, §4.2.1.2 (1989).

¹⁶ S.1253, introduced by Sen. Thad Cochran (La.).

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This column is submitted on behalf of the Computer Law Committee, George D. Conwell, Jr., chairman.

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