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Drafting “Work For Hire” Agreements After Community for Creative Non-Violence v. Reid

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Abstract

When the United States Supreme Court, in *Community for Creative Non-Violence v. Reid*, resolved a split in the circuit courts regarding the definition of “work for hire” and the definition of “employee” under the Copyright Act, the Court put to rest many of the legal issues involving work for hire.

Protection of Artists

Drafting "Work For Hire" Agreements After *Community for Creative Non-Violence v. Reid*

Jean S. Perwin*

When the United States Supreme Court, in *Community for Creative Non-Violence v. Reid*,¹ resolved a split in the circuit courts regarding the definition of "work for hire"² and the definition of "employee"³ under the Copyright Act, the Court put to rest many of the legal issues involving work for hire. For those of us who have to advise clients, on both sides of the negotiating table, on the best way to protect copyright rights, however, *Reid* is just the beginning.

This article will look at the practical effects of the *Reid* decision. For example, what does the decision mean for free-lance artists? What

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1. 109 S. Ct 2166 (1989).

2. § 17 U.S.C. § 101 (1988) defines a "work for hire" as:

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audio-visual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work is a work prepared for publication as a secondary adjunct to a work by another author for the 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, and an "instrumental text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

3. The copyright Act contains no definition of the term "employee" or "scope of employment." 1 M. NIMMER, *NIMMER ON COPYRIGHT*, § 5.03[B][1].

will agreements with independent contractors look like in the face of the new Supreme Court requirements in work for hire situations? What will *Reid*'s impact be on joint works, on works created before the decision and on other copyrights issues?

The *Reid* Decision

The facts in *Reid* provide a typical scenario where work is commissioned pursuant to oral agreements with no discussion of copyright ownership or rights. The Community for Creative Non-Violence (hereinafter CCNV) conceived the idea of a modern nativity sculpture of three homeless people huddled on a street-side steam grate placed on a pedestal. James Reid, a Baltimore sculptor, agreed to sculpt the three human figures; CCNV agreed to make the steam grate and pedestal. A budget and timetable were agreed to and the sculpture was made and exhibited. A dispute over ownership ensued later, with each party filing a certificate of copyright registration. CCNV sued Reid seeking a determination of copyright ownership and the return of the sculpture.⁴

The district court found that the sculpture was a work for hire and awarded the copyright and the sculpture to CCNV.⁵ The District of Columbia Court of Appeals reversed, finding no work for hire, and the Supreme Court upheld this decision.⁶

Implications of *Reid*

The ramifications of the *Reid* decision for the practitioner are difficult to assess. Definitive drafting guidelines were not set forth in the opinion. However, several things are clear. The Court has created a strong presumption in favor of copyright ownership in the creator of free-lance art work.⁷ It now appears, as a practical matter, that in the absence of a written agreement, only the traditional, salaried employer-employee relationship will suffice to create an undisputed work for hire copyright in created work. Even with the new presumption, written agreements will have to be drafted carefully to clearly reflect copyright ownership. It also seems clear that joint authorship will replace work for hire in many disputed situations.

4. *Reid*, 109 S. Ct. at 2167.

5. 652 F. Supp. 1453 (D.C. Cir. 1987), *rev'd* 846 F.2d 1485 (1988).

6. 846 F.2d 1485 (D.C. Cir.), *cert. granted*, 109 S. Ct. 362 (1988).

7. *Reid*, 109 S. Ct. at 2178.

The critical element in the determination of whether an employer was an author for purposes of copyright was whether the work was created at the "insistence and expense" of the employer and whether the employer had the right to "direct and supervise" the manner in which the work was to be performed.¹⁴ Applying this test, the *Murray* court concluded that an employment relationship existed and that work for hire applied.¹⁵

Since *Murray*, the 1976 Copyright Act was enacted, and some significant changes in the work for hire provisions were made.¹⁶ Under the 1909 Act, the definition of "employer" and "work for hire" in then Section 62 of the Act was left to the courts.¹⁷ Section 101 of the 1976 Act contains a two-part definition of work for hire, defining it first as work prepared by an employee within the scope of his or her employment and, second, as specially ordered or commissioned works within nine enumerated categories if there is a writing between the parties.¹⁸

The Four Interpretations of "Employment"

With the 1976 Act changes, the definition of "employment," which was not defined in the 1976 Copyright Act, was interpreted in four major ways by the various circuit courts. The first interpretation involved the "right-to-control" test which remained the law in Florida and the Eleventh Circuit after *Murray*. Under this test, if the hiring party retains the right to control the art work—to have final approval or disapproval—the work created for that party will be considered work for hire under Section 101 and the hiring party will own the copyright.¹⁹

The second interpretation of employment was the "actual-control" test, as espoused by the Second Circuit in *Aldon Accessories Ltd. v.*

(9th Cir. 1965); *Yardley v. Houghton Mifflin Co.*, 108 F.2d 28 (2d Cir. 1939), *cert. denied*, 309 U.S. 686 (1940).

14. See, e.g., *Bourne*, 457 F.2d at 1213; *Brattleboro Publishing Co. v. Winmill Publishing Corp.*, 369 F.2d 565 (2d Cir. 1966).

15. 566 F.2d at 1311.

16. See 17 U.S.C. § 101(1)-(2) (1988).

17. Section 62 of the 1909 Copyright Act, 17 U.S.C. § 26 (1988) reads the "word 'author' shall include an employer in the case of works made for hire."

18. 17 U.S.C. § 101 (a)-(b) (1988).

19. See, e.g., *Peregrine v. Lauren Corp.*, 601 F. Supp. 828 (D. Colo. 1988); *Clarkstown v. Reeder*, 566 F. Supp. 137 (S.D.N.Y. 1983).

*Spiegel, Inc.*²⁰ This interpretation required that the hiring party exercise actual control over the art created. This created a standard more favorable to employers than to free-lancers and was adopted by other circuits.²¹ In *Aldon Accessories*, the plaintiff had hired artists to create porcelain statuettes. The plaintiff was involved in every detail of all sketches, models and prototypes. Thus, the actual control exercised by the plaintiff over the design process was enormous and undisputed.

The third interpretation of the definition of employment was made in *Dumas v. Gommerman*²² by the Ninth Circuit. Under this view, the one most favorable to free-lancers and independent contractors, only formal salaried employees would meet the definition of employees under Section 101. Although this view was not adopted by the *Reid* court, it may ultimately prove to be the only work for hire where copyright will be owned by someone other than the person who created the work.

The fourth view, and the one finally adopted by the Supreme Court, is the view that the determination of whether a hiring party is an employer for purposes of Section 101 should be made by applying traditional agency law principles, only one of which may be the right to control or the exercise of actual control.²³ The determination of whether the creator of a commissioned work is an employee or an independent contractor will now require the application of a more complex standard.

Relying heavily on the legislative history of the 1976 Copyright Act revisions, the Supreme Court concluded that the right to control the art work was only one of the factors to be taken into account when determining whether a hired party is an employee or an independent contractor.²⁴ The other factors listed by the Court are 1) the skill required, 2) the source of the instrumentalities and tools, 3) the location of the work, 4) the duration of the relationship between the parties, 5) whether the hiring party has the right to assign additional projects to the hired party, 6) the extent of the hired party's discretion over when and how long to work, 7) the method of payment, 8) the hired party's

20. 738 F.2d 548 (2nd Cir.), cert. denied, 469 U.S. 982 (1984).

21. See, e.g., *Brunswick Beacon, Inc. v. Schock-Hopchas Publishing Co.*, 810 F.2d 410 (4th Cir. 1987).

22. 865 F.2d 1093 (9th Cir. 1989).

23. The Fifth Circuit enunciated this view in *Easter Seal Society v. Playboy Enterprises*, 815 F.2d 323 (5th Cir.), rehearing en banc denied, 820 F.2d 1223 (5th Cir. 1987) cert. denied, 108 S. Ct. 1280 (1988).

24. 109 S. Ct. 2166 (1989).

role in hiring and paying assistants, 9) whether the work is part of the regular business of the hiring party, 10) whether the hiring party is in business, 11) the provision of employee benefits, and 12) the tax treatment of the hiring party.²⁵ The Court emphasized that no one of these factors is determinative.²⁶

The New Work For Hire Agreements

It is these factors enumerated above which will most affect the drafting of work for hire agreements in the future. These agreements in Florida, and elsewhere, should change in the following ways:

1) The clarity of the delineation between employees and independent contractors will become much more important. For example, few existing contracts spell out the duration of a free-lance relationship, where the work will be performed, or whether additional projects will be assigned by the hiring party to the free-lancer. Now, many of them will.

2) Copyright assignment provisions will become a staple of both employment contracts and independent contractor contracts. For employers and hiring parties this may well be the only way to fully protect themselves against claims of free-lance independent contractors of copyright rights in the created work. Free-lance independent contractors will need to be very careful in the negotiations of copyright rights in their work in the face of full assignment clauses.

The effect of *Reid* on visual artists and their contracts will occur in two primary areas—first, in the area of specially commissioned fine art or sculpture as in *Reid* and, second, in the free-lance graphic design business.

In the case of specially commissioned art work, the best way to protect the rights of the artist has been with a two-step contractual agreement—one contract for the initial design and one for the actual execution of the piece. Examples of contracts for commissioned work appear on page 468-69. Since these contracts were drafted for the benefit of the artist, they make it clear that copyright ownership in commissioned work remains with the artist. It is also clear in these contracts that artistic discretion remains with the artist. The contracts do not provide for things like the source of the pens, paints and brushes, the location of the work, or the duration of the relationship. It would

25. *Id.* at 2178.

26. *Id.* at 2179.

improve the strength of the artists' case in a dispute if the contracts did include subterms.

It is not in the specially commissioned work, though, that the bulk of the foreseeable problems will be found. Fine art commissions which do not have written agreements will at least have the benefit of being analogous to the *Reid* situation. The presumption of copyright ownership will now be with the artist. Those that do have written contracts will hopefully have well-drafted ones. As a result of *Reid*, free-lance graphic designers and artists who contract regularly with large organizations are the ones who will see the most changes in the contracts they sign.

The contract which appears on page 470 is a common free-lance agreement used by artists who are hired to create art for a specific purpose—advertising, magazine covers, signs, etc.. The contract makes it very clear which rights are being transferred and which are being reserved. But this contract was drafted for the benefit of the artist. The contracts drafted for the benefit of art-buying organizations will likely contain copyright assignment clauses, at worst, and joint authorship agreements, at best.

The changes in these contracts after *Reid* should make it clear that the artist is an independent contractor, that discretionary decisions will remain with the artist and that there is no joint authorship intended with the project.

The following additional clauses should be added to these contracts:

It is agreed that the copyright in (the work) belongs to artist and that this (the work) is not for hire. The parties do not intend that (the work) be a work of joint authorship. Artist is an independent contractor.

Except as otherwise noted, all work under this agreement will be performed at artist's place of business, using artist's materials. Artist will make all determinations regarding when and how long work will be done on (the work).

Joint Works

The joint authorship issue will become more significant now that work for hire will be difficult to obtain.

In *Reid*, the Supreme Court remanded the case back to the district court for a determination of whether the parties prepared the

sculpture with the requisite intent for it to be considered a joint work under Section 101.²⁷

Under Section 101 of the 1976 Copyright Act, a "joint work" is a work prepared by two or more authors with the intention that their contributions be merged into inseparable or "interdependent parts of a unitary whole." The typical joint work copyright holder is the person who wrote the music to a song to which someone else wrote the lyrics. Both authors hold a copyright in the song.

The cases involving joint work do not yet deal with work which has been commissioned. When the district court in *Reid* makes its decision, it will be easier to predict the direction of court-made law in this area. From a purely practical standpoint, because joint authors have full use of their copyright—i.e., they can license, sell, contract their copyright subject only to an accounting by the joint owner—an employer concerned about protection from claims of a work for hire creator would be well protected with a joint work copyright. From the artist's viewpoint, while a joint work copyright is not as good as sole ownership, it is vastly better than nothing. Nothing is often what an artist in a work for hire or commissioned work situation or commissioned work ends up with. With the Supreme Court's imprimatur of approval on the possibility of using joint works in these situations, such use will most certainly become more common in the future with some significant positive effects for artists.

Existing Works

There is one area the Supreme Court failed to address in *Reid* that will certainly produce lawsuits in the future. The Copyright Act of 1976 took effect on January 1, 1978. The Supreme Court's decision in *Reid* was rendered on June 5, 1989, but it was not explicitly made retroactive. What happens to work for hire created between 1978 and 1989? Which law applies? Is it the various circuit court decisions making four different results in different states, or is it the *Reid* decision? Many creators of commissioned work could be entitled to enormous amounts of lost royalties if *Reid* were applied retroactively to their situations. One of them, no doubt, will ask the courts for an answer.

27. *Reid*, 109 S. Ct at 2180.

Conclusion

The practical effects of *Community for Creative Non-Violence v. Reid* are not easily determined. The presumption of copyright ownership has shifted from the hiring party to the creator of the work. For free-lance artists and artists commissioned to create fine art, this is a welcome change in the law. The written agreements between free-lancers and art-buying organizations will change with the organizations making sure that their copyright interests are protected with assignment clauses and joint work clauses. Small changes to the existing free-lance contracts drafted for the benefit of artists should suffice to protect their independent contractor status. The marketplace will, of course, continue to dictate the terms of those agreements, but *Reid* promises an improved legal position for free-lance artists in Florida and elsewhere.

ARTWORK COMMISSION AGREEMENT

On this _____ day of _____, 19_____, _____ (Collector) has selected the design and given the final approval for _____ (Artist) to proceed with the creation of this Work of Art:

Title: _____
 Materials: _____
 Approximate size upon completion: _____
 Price: _____
 Description of the Art Work: _____
 Scope of the Artist's work: _____

1. PROGRESS SCHEDULE AND PAYMENTS

(A) Collector agrees to pay to Artist one-third ($\frac{1}{3}$) of the price of the Work (\$_____) at this time or within ten (10) days.

(B) Collector agrees to pay an additional one-third ($\frac{1}{3}$) of the cost of the Work (\$_____) when the Work is approximately two-thirds ($\frac{2}{3}$) completed. Documentation of the progress of the Work may be made by photographs of the Work or by the personal inspection of the Collector at the discretion of the Artist.

(C) Upon nearing completion of the Work, the Artist will give the Collector five (5) days advance notice of specific date of delivery so that Collector will be ready to receive the Work, make the final payment (\$_____), and sign a Purchase and Sales Agreement. Sales tax will be paid at this time (\$_____).

(D) It is understood and agreed that it may not be possible to recreate the Work exactly as depicted in the design, and the Artist shall be bound to use his best aesthetic judgment to create the Work according to the style and intent of the design. The Artist is free to make design modifications as the Work progresses.

2. FINAL DELIVERY

(A) The parties agree that final delivery of the Work will be made on or about _____. The Artist will make every effort to honor and meet this deadline. It is agreed, however, that this delivery date is an estimate only and that Artist shall not be responsible for any general, special or consequential damages for failing to deliver by this date. The Artist will immediately notify Collector of any delay occurring or anticipated.

(B) In the event the Artist is unable to finish the Work within sixty (60) days of the estimate delivery date, or is unable to produce the Work for any reason, the Artist shall be liable for no special general or consequential damages, but the Artist shall return all payments received. The Artist shall retain all rights to the concept, design and the Work itself.

3. DELAYED PAYMENTS

(A) In the event Collector fails to make the progress payments when due, interest at the rate of three fourths percent ($\frac{3}{4}\%$) per month shall be assessed against the unpaid balance due. In addition, the Artist has the right to retain all previous payments plus all rights to the Work until full payment is made. It is understood that delay of any payment may proportionately extend the time required to complete the Work.

4. TERMINATION OF AGREEMENT

If Collector does not find the Work as it progresses fulfilling his expectations or needs and therefore wishes to terminate the agreement, Collector shall immediately notify the Artist of the termination. The Artist shall thereupon be entitled to retain all payments which Artist has received or was entitled to receive pursuant to this agreement prior to such notification. Further, the Artist shall retain all rights to the concept, design and Work itself, including the right to complete, exhibit and sell the Work.

5. TRANSFER OF WORK OF ART

It is hereby stated and acknowledged that Artist retains all rights and title to the Work until final payment has been received and the Purchase and Sale Agreement has been duly completed and signed by the parties.

6. ATTORNEY'S FEES

In any proceeding to enforce any part of this contract, the aggrieved party shall be entitled to reasonable attorney's fees in addition to any available remedy.

IN WITNESS WHEREOF, the parties have hereunto set their hands:

By _____ By _____
 (Artist) (Collector)

COMMISSION AGREEMENT FOR DESIGN OF ARTWORK

The Collector _____ residing at _____
acknowledges sufficient familiarity with the style and quality of the work of the Artist
_____ residing at _____ the parties have
made and entered into this Agreement on this _____ day of _____, 19____.

1. DESCRIPTION. The Artist in consideration of the covenants and agreements herein contained, agrees to design _____ (hereinafter "Work") for an approximate production budget of between \$ _____ and \$ _____. The Work is described as follows:
 - (a) Approximate size of finished work: _____
 - (b) Material and construction: _____
 - (c) Scope of the Artist's work: _____
2. DESIGN AGREEMENT. The receipt of good and valuable consideration of \$ _____ on this day for the design work to be provided by Artist after signing of this Agreement is hereby mutually acknowledged.
 - (a) Artist agrees to provide reasonable study sketch or maquette of the Work to the Collector on or about _____ (date). Upon receipt of design, the Collector shall notify Artist within ten (10) days of any proposed changes in design.
 - (b) Artist will provide a maximum of _____ designs or revisions for this Work. Additional designs or revisions shall cost an additional design fee of \$ _____ per hour.
 - (c) If Collector decides to *not* proceed with creation of the Work, all designs must be returned to Artist, Artist shall retain the design fee, and this Agreement shall be terminated.
 - (d) If Collector determines to proceed with creation of the Work pursuant to a selected design, the ARTWORK COMMISSION AGREEMENT must be completed and signed by both parties, and the first one-third progress payment will be paid at that time.
3. COSTS. Collector is responsible for all expenses including but not limited to airfare and ground transportation, room and board, film and developing costs, shipping, insurance and delivery charges. Artist will supply an itemized expense sheet including receipts.
4. COPYRIGHT. It is agreed that all designs are instruments of service and shall remain in the possession of and the property of the Artist, and thereby Artist retains the exclusive right to use and create Works according to the designs. Collector agrees to make no public display or commercial use of the designs, or any copy or facsimile thereof, without the Artist's consent. It is agreed that if consent is granted for commercial use, the Artist shall be entitled to a minimum of ten percent (10%) of any and all consideration paid or exchanged for such commercial use.

IN WITNESS WHEREOF the parties have hereunto set their hands:

By _____ By _____
(Artist) (Collector)

ARTIST/INDEPENDENT CONTRACTOR AGREEMENT

TO _____ DATE _____

DESCRIPTION OF ASSIGNMENT _____

DELIVERY DATE _____ FEE _____

BUYER SHALL REIMBURSE ARTIST FOR THE FOLLOWING EXPENSES:

THE BUYER PURCHASES THE FOLLOWING EXCLUSIVE RIGHTS OF USAGE:

Title or Product _____

Category of Use _____

Medium of Use _____

Edition (of book) _____

Geographic Area _____

Time Period _____

Artist reserves any usage rights not expressly transferred. Any usage beyond that granted to buyer herein shall require the payment of a mutually agreed upon additional fee, subject to all terms below.

TERMS:

1. TIME FOR PAYMENT. All invoices shall be paid within thirty (30) days of receipt.

2. CHANGES. Buyer shall make additional payments for changes requested in original assignment. However, no additional payment shall be made for changes required to conform to the original assignment description. The Buyer shall offer the Artist first opportunity to make any changes.

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3. **EXPENSES.** Buyer shall reimburse Artist for all expenses arising from this assignment, including but not limited to all those listed above, and the payment of any sales taxes due on this assignment. Buyer's approval shall be obtained for any increases in fees or expenses that exceed the original estimate by 10% or more.

4. **CANCELLATION.** In the event of cancellation of this assignment, ownership of all copyrights and the original artwork shall be retained by the Artist, and a cancellation fee for work completed, based on the contract price and expenses already incurred, shall be paid by the Buyer.

5. **OWNERSHIP OF ARTWORK.** The Artist retains ownership of all original artwork, whether preliminary or final, and the Buyer shall return such artwork within thirty (30) days of use.

6. **CREDIT LINES.** Credit line shall be in the form:

© _____ 19__

The Buyer shall give Artist and any other creators a credit line with any editorial usage.

7. **RELEASES.** Buyer shall indemnify Artist against all claims and expenses, including reasonable attorney's fees, due to uses for which no release was requested in writing or for uses which exceed authority granted by a release.

8. **MODIFICATIONS.** Modification of the Agreement must be written, except that the invoice may include, and Buyer shall pay, fees or expenses that were orally authorized in order to progress promptly with the work.

ARTIST'S SIGNATURE _____

COMPANY NAME _____

AUTHORIZED SIGNATURE _____

NAME AND TITLE _____