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# Grasping derivative works, copyrights

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Who really owns the content of your website? Does your business use third parties to provide you with creative content such as photographs or text for your website or promotional and marketing materials?

Just because you paid for it does not mean you own it.

The copyright law requires more.

Specifically, there are legal words of art that must be used in order to properly convey or transfer the ownership in the works from an independent contractor to you as a website owner.

What if the creative content includes photographs or images of your products or text describing your business's services? Again, just because you paid for the creative content does not mean you own it.

In a recent decision from the 7th U.S. Circuit Court of Appeals, the court had occasion to comment on the separate copyright rights inherent in derivative works.

In *Schrock d/b/a Dan Schrock Photography v. Learning Curve International Inc.* (2009), a licensee (Learning Curve International) of a set of popular children's toy characters (Thomas & Friends) engaged a photographer (Schrock) to take pictures of the toys for promotional materials. After Learning Curve stopped giving him work, Schrock registered his photos for copyright protection and sued Learning Curve for infringement, based on the licensee's continuing use of Schrock's photographs.

There was no question that Schrock had the authority to create the photographs and that the photographs were derivative works.

However, the question before the court was whether the photographer had the authority to own and register the copyrights in the derivative work.

The district court held that Schrock had authority to create the photographs, but not to own and register the copyrights.

The 7th Circuit disagreed, reversing the district court, and held that Schrock owned the copyright rights in the derivative works as a separate legal right and that it was okay for him to have registered his rights with the U.S. Copyright Office.

The copyright in a derivative work "extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work." 17 U.S.C. §103(b).

The 7th Circuit then set forth the following general principles: "(1) the originality requirement for derivative works is not more demanding than the originality requirement for other works; and (2) the key inquiry is whether there is sufficient nontrivial expressive variation in the derivative work to make it distinguishable from the underlying work in some meaningful way."

Applying those principles, the court held: "However narrow that copyright might be, it at least protects against the kind of outright copying [by Learning Curve] that occurred here."

The 7th Circuit panel also took the opportunity in Schrock to clarify an earlier case, *Gracen v. Bradford Exchange* (7th Cir. 1983), which, it said, had been misapplied, and stated that there exists no heightened standard of originality for copyright in a derivative work.

The 7th U.S. Circuit Court of Appeals in Schrock refers to the court's 2003 decision in *Bucklew v. Hawkins, Ash, Baptie & Co., LLP* (7th Cir. 2003), in which it held that "the only 'originality' required for [a] new work to be copyrightable . is enough expressive variation from public domain or other existing works to enable the new work to be readily distinguished from its predecessors."

Upon reaching the conclusion that Schrock, by operation of law, owns the copyright rights in the derivative work, the court went on to note that the parties may alter this general rule by contract.

However, based on the record before the court, the panel could not determine whether or not the parties altered this general rule, and remanded the matter to the district court to sort out the evidence concerning any contractual liability.

The written agreement between the parties provides an opportunity to address the ownership rights, if any, in any derivative works. These rights, like other risk allocations in a contract, are the subject of negotiations.

However, when the agreement is silent on these issues, then a third party (that is, a judge or arbitrator) may decide these issues for the parties.

The bottom line is that whenever you are involved in a transaction concerning intellectual property rights like copyright, trade secret or trademark rights, it is best to seek, in advance, the advice of someone experienced in advising on these transactions and properly address the allocation of intellectual property legal rights in an appropriate agreement between the parties.