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## Sounds Like a Broken Record

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For proprietors of copyright interests, the "author's" right to terminate an assignment under §203 of the Copyright Act of 1976 (the Copyright Act) has created a hotbed of uncertainty with respect to whether or not certain works constitute works for hire to which the right of termination does not apply. Under the Copyright Act, the status of obscure categories of commissioned works, such as atlases (yes, atlases), instructional texts, tests and answer materials for tests, as works for hire is clear.<sup>1</sup> As 2013 approaches, however, and with it, the first-time application of the termination provisions of the Copyright Act, no one is commenting on the potential boon for the "atlas" industry or tensions swirling around the status of those who prepare "answer material for a test."

Rather, the focus of interested observers has been on the cool kids in the class: rock stars like the Eagles, Billy Joel and Funkadelic, among others.<sup>2</sup> Indeed the shortcomings of the Copyright Act in its present form are perhaps best illustrated by the notorious omission of "sound recordings" from the list of commissioned works that may constitute a work for hire.<sup>3</sup> The sex appeal of the music industry, however, has exposed the issues and consequences of the exercise of termination rights and the importance of whether certain independently commissioned works qualify as works for hire. The implications of Congress' short-sighted definition of a "work made for hire," however, stand to be more far reaching; assuredly sound recordings are not the only type of works for hire not specifically enumerated in §101 of the Copyright Act that would likely qualify as works made for hire.

Although Congress' express purpose in overhauling the Copyright Act of 1909 (the 1909 Act) was to enhance the "predictability and certainty of copyright ownership," when it comes to works for hire, Congress muddied otherwise clear waters.<sup>4</sup> The lack of statutory recognition that works other than those that are not specifically enumerated in the Copyright Act's definition can be "works made for hire" based on facts surrounding their creation, invites uncertainty. With this uncertainty comes the potential for costly litigation, significant appellate practice and the risk of inconsistent (and therefore, unfair) results as the issue either wends its way towards the U.S. Supreme Court or the legislature intervenes. Congress should intervene.

Under the 1909 Act, courts applied long-standing, common-law principles to determine whether or not a work was made for hire, namely, whether a work was created at the "instance and expense" of the hiring party.<sup>5</sup> And while the analyses used by courts were fact-sensitive, the outcomes were more predictable than those anticipated by application of the Copyright Act's definition of "work made for hire" to categories of works not specifically enumerated therein. It made no sense for Congress to enumerate categories of works qualifying as works for hire without a general provision to cover works that do not fall within the enumerated categories but factually qualify as works for hire. Congress' failure to do so leaves copyright owners with little choice but to attempt "shoe-horn" works into one of the more abstract enumerated categories, which in many instances may not be the most natural fit.<sup>6</sup>

Some would say, if it ain't broke, don't fix it. This author tends to agree. But, having upset the apple cart with short-sighted legislation, Congress should act now to head off the potential for chaos that it created. Congress can act swiftly to avoid these ills: Add a category to the definition "work made for hire" to include works commissioned at the hiring party's instance, risk and expense.

## The Instance and Expense Test

One of the most recent cases in this jurisdiction addressing the right of an author (or if deceased, his or her heirs) to terminate an assignment of copyright under §203 of the Copyright Act is [Marvel Worldwide v. Kirby](#).<sup>7</sup> There, Judge Colleen McMahon held that iconic comic strips prepared by artist Jack Kirby for Marvel Comics, including "Spiderman," the "Incredible Hulk," the "Avengers" and the "Fantastic Four," were "works for hire" under the 1909 Act. Therefore, the works were incapable of statutory termination and recapture by Kirby's heirs.<sup>8</sup>

The analysis in *Marvel* was straightforward. The comic strips were published between 1958 and 1963, and therefore the question was whether the subject works were "works" made for hire under the 1909 Act.<sup>9</sup> Under the 1909 Act, the term "author" refers to "an employer in the case of works made for hire."<sup>10</sup> "Under this definition, an 'employer' who hires another to create a copyrightable work is the 'author' of the work for purposes of the statute, absent an agreement to the contrary."<sup>11</sup>

The *Marvel* court recognized that other courts addressing the issue of what constitutes a work for hire under the 1909 Act have interpreted the term "employer" broadly, encompassing works created outside the traditional employer-employee relationship.<sup>12</sup> Thus, the rule developed such that works commissioned from independent contractors constitute works for hire where the hiring party had the right to control and supervise the artist's work.<sup>13</sup> The U.S. Court of Appeals for the Second Circuit itself adopted the instance and expense test, under which "[t]he copyright belongs to the person at whose 'instance and expense' [a given] work was created."<sup>14</sup> "[A] work is made at the hiring party's 'instance and expense' when the employer induced the creation of the work and has the right to direct and supervise the manner in which the work is carried out."<sup>15</sup>

Applying these principles, the *Marvel* court concluded that Kirby's comics constituted works for hire belonging to Marvel and granted Marvel summary judgment dismissing Kirby's heirs' claims. The court acknowledged a June 1972 agreement, whereby Kirby assigned to Marvel any and all right, title and interest (including specifically any statutory or common law copyrights) that Kirby "may have or control" in any of the works Kirby created for Marvel.<sup>16</sup> The assignment contained an acknowledgement that Kirby had created the works "as an employee for hire" of the owners of Marvel.<sup>17</sup> The court did not treat the statement that Kirby had created the works as an employee for hire as determinative; rather, it applied the "instance and expense" test.<sup>18</sup>

Specifically, the court held that Marvel induced the creation of the works prepared by Kirby because:

- (1) Marvel had the power to supervise the creation of the comic books it published from conception to publication and frequently exercised the power to have artists revise or edit their work before publication;
- (2) Marvel gave the artist general contours of a story, an outline of the plot, a description of the hero and suggestions for how the story should look, leaving it for the artists to draw; and
- (3) Marvel paid Kirby a sum certain for his work and did not pay royalties.<sup>19</sup>

Although the *Marvel* case currently is on appeal to the Second Circuit, it is not because any party contends the court applied the wrong legal analysis, but because Kirby's heirs believe the district court erred in concluding that they had failed to raise a genuine issue of material fact regarding Kirby's status. It is true that analysis was

primarily based on the court's interpretation of the facts and that reasonable minds can differ on the question of how the facts should be interpreted. The factors considered under the interest and expense test, however, are well established and give guidance to parties structuring their relationships and in that sense allows parties to predict outcomes with a reasonable degree of certainty.

## **Congressional Overhaul of 1909 Act**

The Copyright Act (of 1976) effective Jan. 1, 1978, reflects Congress' massive overhaul of the 1909 Act over the course of some 20 years.<sup>20</sup> No doubt Congress vastly improved 1909 Act in many respects—dispensing with the cumbersome formalities required to obtain in copyright protection, creating a unitary term of copyright and even giving authors the right to terminate assignments of copyright interests after 35 years. But defining "works for hire" was not an improvement. Specifically, §101 of the Copyright Act provides that:

A "work made for hire" is—

(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 [1] 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 as [9] 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.<sup>21</sup>

Thus, the Copyright Act recognizes two distinct ways for a work to be considered a work for hire: (1) as a work prepared in the scope of an employment relationship; or (2) if the parties expressly agree in writing and the work falls into one of the nine categories enumerated in the definition. But Congress' definition of "works made for hire" and what it did truly is perplexing.

Similar to the 1909 Act, "[i]n the case of a work made for hire," under the Copyright Act, it is not the creator of the work who is deemed to be the author, but rather, the author is "the employer or other person for whom the work was prepared."<sup>22</sup> Designating a creation as a "work for hire," then, has a significant impact on those who created the work and those for whom the work had been created. Striking a balance, the Copyright Act provides authors and their heirs with the ability to effect termination of a grant of a copyright "executed by the author on or after January 1, 1978...during a period of five years beginning at the end of thirty-five years from the date of execution of the grant."<sup>23</sup> The scheme is intended to give authors of works the ability to recapture their assigned copyrights or even to possibly make a better deal. But Congress' enumeration of only a few categories of works that qualify as works for hire, and are therefore exempt from termination, did no favors for proprietors of the copyright interest in works not specifically enumerated in §101.

There's no telling why Congress did what it did, because in defining "works made for hire," its intent seemed to be to identify works typically created at the hiring party's "instance and expense." In connection with Congress' revision of the 1909 Act, representatives of the book publishing community proposed a draft bill in 1964. The proposed bill maintained the application of the work for hire doctrine as applied to "employees," and proposed extending the doctrine to include commissioned works "if the parties so agree in writing."<sup>24</sup> In response to objections from authors' representatives, the parties reached "a historic compromise" embodied in a 1965 joint submission to Congress and the Copyright Office.<sup>25</sup>

The 1965 revision bill retained language referring to "a work prepared by an employee within the scope of his employment" as a work made for hire.

However, in exchange for concessions from publishers on provisions relating to the termination of transfer rights...authors consented to a subsection which classified four categories of commissioned works as works for hire if the parties expressly so agreed in writing: works for use "as a contribution to a collective work, as part of a motion picture, as a translation, or as supplementary work."<sup>26</sup>

The parties agreed to include these specific categories as works for hire, because although they were not prepared in the scope of a traditional employment relationship, such works typically are prepared "at the instance, direction and risk of a publisher or producer."<sup>27</sup> Thus, the "historic compromise" recognized values similar to those expressed by the instance and expense test that would seem to be consistent with the contracting parties' expectations and sense of fairness and risk of loss.

Eleven years later, the revision bill of 1965 was enacted "in the same form and nearly the same terms" as §101 of the Copyright Act of 1976, with additional categories of commissioned works added as a result of further compromise.<sup>28</sup> The categories added were: compilations; instructional texts; tests; answer materials for tests and atlases.

But the result is at odds with the seeming intention because other works that would likely qualify as works for hire under the interest and expense test, such as sound recordings, were left off the statutory list and some works identified as works for hire may not necessarily qualify under the interest and expense test. It is at least conceivable that not every atlas was commissioned; someone could create an atlas as a hobby and then shop it to atlas sellers. Congress' seemingly bizarre characterizations may just be the result of the parties that were lobbying at the time.<sup>29</sup> These additional categories seem to favor the book publishing industry more than any other.

For a brief moment in 1999, the Intellectual Property and Communications Omnibus Reform Act added "sound recordings" to the Copyright Acts' enumerated list of works for hire.<sup>30</sup> In response to the ensuing "firestorm of criticism," the Corrections Act of 2000 just as swiftly struck the category of "sound recordings" from the Copyright Act.<sup>31</sup> "Wishing to avoid any imputation that the repeal itself connoted a substantive choice of policy," Congress included in the statute itself a disclaimer that these two separately enacted public acts should not be afforded any "legal significance"—apparently the legislative way of indicating "just forget we said that."<sup>32</sup>

## **The Problem**

Now, 35 years after its enactment, the Copyright Act's termination provisions have come to the fore. Its implications for copyright proprietors are no longer an abstract concept of no "legal significance," but a reality of mounting importance. Those who have commissioned works to be prepared at their own risk and expense that do not fall squarely within one of the categories listed in the statute (i.e., sound recordings) will be forced to try to squeeze themselves into an enumerated category or have their rights unfairly terminated. For some, that very well could work. With respect to sound recordings, for example, the discussion has centered around whether they qualify as a "contribution to a collective work."<sup>33</sup> Predictably, artists and labels have disagreed on likely outcomes.<sup>34</sup> Assuredly in any scenario, however, this determination will have to be resolved by the courts after a "massive excavation into the circumstances."<sup>35</sup> In client-relation terms, this translates to litigation and costly discovery, not only for those who have commissioned works but also for those who would wish to challenge whether a work qualifies as a work for hire. In essence, with termination rights under §203 becoming effective for the first time, courts will be starting from scratch so that it will be some significant time before artists and labels know where they stand, leaving confusion in its wake.

The danger of undertaking to enumerate specific categories of works as works for hire has a limiting effect in the absence of a more general provision that recognizes that works falling outside the specifically enumerated

categories can still be works for hire if prepared at the instance, direction and risk of a hiring party. The failure to include a general provision is also short sighted insofar as future categories of work, not existing at the time of the revision bill, may not be deemed works for hire, notwithstanding that they were created at the expense of the commissioner.

The issue facing the recording industry then embodies one of the difficulties and limitations of the Copyright Act in its current form—that even those who seek to protect commissioned works as works for hire by agreement in writing before the creation of such work may not be entitled to such protection. As has been recognized in at least one case decided under the 1909 Act applying the "instance and expense" test, recordings created under the guise of a traditional recording contract most assuredly would qualify as works for hire, even in the absence of "work for hire" language.<sup>36</sup> In reaching this determination the court rejected the argument that "sound recordings" should not be considered work for hire because they were "not traditional commissioned works" because this argument "elevates form over substance."<sup>37</sup>

The goal of the Copyright Act's termination provisions—"to relieve authors of the consequences of ill-advised and unremunerative grants that had been made before the author had a fair opportunity to appreciate the true value of his work product"<sup>38</sup>—are undoubtedly noble. This sense of fairness, however, does not necessarily carry through to Congress' failure to include a provision in the Copyright Act's definition of a work for hire so as to recognize works created the hiring party's "instance and expense."

Indeed, it is not just major corporations such as record labels that stand to be impacted by the Copyright Act's present shortcoming, but start-up companies, young entrepreneurs and, in some instances, struggling artists themselves who have truly sought to commission a work for creation at their own risk and expense. Consider the case of an independent musician who tours or initiates a fundraising campaign via Kickstarter.com or simply waits tables to save money to record a studio album with no outside contribution from a record label or otherwise, an increasingly frequent scenario in today's DIY-oriented music industry. Under the present formulation of the Copyright Act, such independent artists could stand to lose the copyright interest in their own commissioned recordings. If the recordings are not works for hire, then the session musicians, engineers and/or recording studio that the independent artist paid to help create the recordings may terminate their effective assignment of rights to the artist in 35 years. That works a great disadvantage to the self-funded musicians.

Further highlighting the problems created by a lack of statutory clarity, if on either side of this transaction, the so-called grantor or grantee is uncertain as to whether the work at issue qualifies as a work for hire (i.e., whether or not it may be considered a so-called "contribution to a collective work"), this may impact their ability to negotiate with each other. To rescind a grant of a copyright interest, a grantor must serve the grantee or his successor in interest with a notice of termination at least two years, and no more than 10 years before the termination may take effect.<sup>39</sup> The Copyright Act's legislative history provides that nothing prevents the parties to a transfer or license executed after 1978 from voluntarily agreeing at any time to terminate an existing grant and negotiating a new one, thereby causing another 35-year period to start running.<sup>40</sup>

Crediting this legislative history, it would seem that Congress has authorized authors to revoke or cancel a grant or license at any time and to re-grant such rights to the transferee.<sup>41</sup> If, however, the parties to the transaction are not certain of their rights, negotiations may be unproductive and contentious and lead to a stalemate rather than effective re-negotiation and compromise. By failing to provide clarity in the definition of a work for hire that reflects the realities of practice, Congress stands to arguably undercut its own safety mechanism.

## **The Solution**

With the forecast of widespread litigation looming, undoubtedly Congress should seek to reconvene representatives of the interested parties together for a hearing. Indeed some have called for legislative reform

already.<sup>42</sup> While the current embodiment of the statute concedes that its prior addition and deletion of "sound recordings" to the Copyright Act shall not be afforded any "legal significance," it is at least a nod to some unfinished business.

In achieving legislative reform, undoubtedly compromise will be in order. Fittingly so, the end result of a statutory revision shouldn't necessarily be the addition of "sound recordings" per se as a recognized category of specially commissioned work made for hire. That solution is highly unlikely to ever receive unanimous support.<sup>43</sup> Rather, Congress should consider the inclusion of a category similar to the standard used under the 1909 Act, which recognizes the circumstances in which one who has paid for a work and completely borne the risk of its failure is entitled to keep their investment. At some point, this may offer broader and others narrower protection than under the Copyright Act's present formulation—but it does seek to allocate risk and investment fairly, which the present statute fails to do with respect to myriad works.

Imperative to such a categorical addition would be the requirement of a heightened standard of consent at the time the work was commissioned so as to eliminate the massive difficulties of proof that will inevitably snarl termination cases in the Copyright Act's current form. Crucial as well is the continued recognition of the rights of artists to be fairly compensated for their work and, where the circumstances surrounding the creation of a work warrants, to be free from the perpetual inequity of an initial unfair bargain.

Naturally a hearing and legislative resolution that fairly achieves all of these ends will be time consuming and costly. Nonetheless, it promises to solve a recognized problem at a macroscopic level—an efficiency over punting the issue to district and circuit courts in individual cases at the risk of divergent outcomes. The advance of the potential watershed year of 2013 brings with it an opportunity for Congress to bring clarity to the terms of the Copyright Act, which after all was its paramount goal in enacting the present act.<sup>44</sup> Congress should take advantage of this opportunity lest those affected continue to sound like a broken record in an age where, at least in theory, we claim to have advanced beyond.

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## Endnotes:

1. See 17 U.S.C. §101.
2. Larry Rohter, "Record Industry Braces for Artists' Battles Over Song Rights," *The New York Times*, Aug. 15, 2011, available at <http://www.nytimes.com/2011/08/16/arts/music/springsteen-and-others-soon-eligible-to-recover-song-rights.html>.
3. Neil J. Rosini, Michael I. Rudell, "[Attempted Termination of Sound Recording Rights](#)," *New York Law Journal*, Oct. 28, 2011, available at <http://fwrv.com/articles/100865--attempted-termination-of-sound-recording-rights.html>.
4. See [Community for Creative Non-Violence v. Reid](#), 490 U.S. 730, 744, 109 S. Ct. 2166, 2175, 104 C. Ed. 2d 811 (1989).
5. [Marvel Worldwide v. Kirby](#), 777 F. Supp. 2d 720, 738 (S.D.N.Y. 2011) 738 (citing [Martha Graham Sch. and Dance Found. v. Martha Graham Ctr. of Contemporary Dance](#), 380 F.3d 624, 634-35 (2d Cir. 2004)).
6. See Nimmer on Copyright §5.03(B)(2)(a).
7. [Marvel](#), 777 F. Supp. 2d 720 (S.D.N.Y. 2011).
8. *Id.* at 726.

9. Id. at 737. Artists who granted rights in their works before the effective date of the Copyright Act (Jan. 1, 1978) can avail themselves of the termination right granted by §304 of the Copyright Act, but the question whether the work is one that was made for hire is governed by the 1909 Act.
10. Id. (citing 17 U.S.C. §26 (1909) (repealed); [Playboy Enters. v. Dumas](#), 53 F.3d 549, 554 (2d Cir. 1995)).
11. Id.
12. See id.
13. See id. at 737-38 (citing Nimmer on Copyright §5.03(B)(1)(a)(i)).
14. Id. at 738 (citing *Martha Graham Sch. and Dance Found. v. Martha Graham Ctr. of Contemporary Dance*, 380 F.3d 624, 634-35 (2d Cir. 2004)).
15. Id. citing *Martha Graham*, 380 F.3d at 635; *Playboy*, 53 F.3d at 554.
16. Id. at 744.
17. Id.
18. Id. at 738-47.
19. Id. at 738-43.
20. *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 744, 109 S. Ct. 2166, 2175, 104 C. Ed. 2d 811 (1989).
21. 17 U.S.C. §101.
22. 17 U.S.C. §201(b).
23. Id. §203(a), (a)(3).
24. *Community*, 490 U.S. at 745 (quoting S. 3008, H. R. 11947, H. R. 12354, 88th Cong., 2d Sess., §54 (1964), reproduced in 1964 Revision Bill with Discussions and Comments, 89th Cong., 1st Sess., Copyright Law Revision, pt. 5, p. 31 (H. R. Judiciary Comm. Print 1965)).
25. Id.
26. Id. (quoting S. 1006, H. R. 4347, H. R. 5680, H. R. 6835, 89th Cong., 1st Sess., §101 (1965)).
27. Id. (quoting Supplementary Report of the Register of Copyrights on the General Revision of the U. S. Copyright Law: 1965 Revision Bill, 89th Cong., 1st Sess., Copyright Law Revision, pt. 6, pp. 67 (H. R. Judiciary Comm. Print 1965)).
28. Id.
29. Indeed at the time the 1965 revision bill was first introduced, "sound recordings" were not a recognized category of copyrightable work. Nimmer on Copyright §5.03(B)(2)(a)(ii) n.121.2. Sound recording were afforded copyright protection in 1972. Id. §2.10(A)(1).
30. Id. §5.03(B)(2)(a).
31. Id.
32. Id.

33. Id. The Copyright Act defines "collective work" as "a work, such as a periodical issue, anthology, or encyclopedia, in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective whole." 17 U.S.C. §101.
34. Nimmer on Copyright §5.03(B)(2)(a).
35. Id.
36. *Fifty-Six Hope Rd. Music Ltd. v. UMG Recordings*, No. 08 CIV. 6143 (DLC), 2010 U.S. Dist. LEXIS 94500 (S.D.N.Y. 2010).
37. Id. at \*28.
38. *Mills Music v. Snyder*, 469 U.S. 153, 173 (1985) (citing H. R. Rep. No. 94-1476, at 124).
39. 17 U.S.C. §203(a)(4).
40. H.R. Rep. No. 94-1476, at 127
41. Peter S. Menell and David Nimmer, "Pooh-Poohing Copyright Law's 'Inalienable' Termination Rights," 35, 44-46 (Berkley Program in Law and Economics, Working Paper Series, 2010), available at <http://escholarship.org/uc/item/9h8845nh#page-5>.
42. Larry Rohter, "Legislator Calls for Clarifying Copyright Law," *The New York Times*, Aug. 28, 2011, available at <http://www.nytimes.com/2011/08/29/arts/music/representative-john-conyers-wants-copyright-law-revision.html?pagewanted=all>.
43. Larry Rohter, "Don Henley Urges Artists to Know Their Rights," <http://artsbeat.blogs.nytimes.com/2011/08/16/don-henley-urges-artists-to-know-their-rights/>.
44. See *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 744, 109 S. Ct. 2166, 2175, 104 C. Ed. 2d 811 (1989).