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The "Work For Hire" Doctrine Almost Never Works In Software Development Contracts

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It is a common scenario in business today. A company needs software or technical documentation developed and hires an independent contractor to do the job. The company wants to own the intellectual property in the software or documentation to make sure the contractor cannot provide them to a competitor. So the company enters into a written contract with the independent contractor, carefully identifying the deliverables and declaring that they are "works for hire" – intending the copyright in the deliverables to be assigned to the company. The problem is, work for hire "magic language" is ineffective in most technology contracts and may, in fact, be detrimental to the company.

It is important to remember that, like all other authors (and absent contract language to the contrary), independent contractors own the copyright in all software and other works of authorship they create. The fact that a company pays for the work doesn't affect the independent contractor's ownership of the copyright. So if a company wants to own the copyright in the deliverables, the company must include language in the contract that alters this default rule and effectively transfers the copyright to the company.

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"The problem is, work for hire 'magic language' is ineffective in most technology contracts and may, in fact, be detrimental to the company."

As many lawyers and non-lawyers are aware, "work for hire" is a copyright doctrine that gives an employer ownership of the copyright in works of authorship prepared by an employee or, in very limited instances, an independent contractor. The doctrine operates differently depending on whether an employee or an independent contractor is involved.

Employees

If an employee creates a work within the scope of the employment, then the employer is automatically deemed to be the author of the work, and therefore the owner of the copyright. No contract or recitation that something is a work for hire is needed for this to happen. So one need not "rely" on the doctrine in the sense of making sure it is used in a contract.

Independent Contractors

When it comes to independent contrac-

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tors, three requirements must be met for deliverables to be work for hire. First, the deliverables must be specially ordered or commissioned (i.e., they cannot already exist). Second, a written contract between the company and the independent contractor must state that the deliverables are work for hire. Third, the deliverables must come within one of nine limited categories of works. This last requirement disqualifies most software and other technology deliverables created by independent contractors. The nine categories are:

- a contribution to a collective work (e.g., part of a periodical, anthology, encyclopedia, etc.);
- a part of a motion picture or other audiovisual work;
- a translation;
- a supplementary work (e.g., foreword, illustration, editorial notes, musical arrangement, test answers, bibliography, appendixes, etc.);
- a compilation (an original manner of selecting or arranging preexisting works);
- an instructional text;
- a test;
- answer material for a test; or
- an atlas.

As you look at these categories, it becomes clear that business software and technical documentation are not contemplated. Aside from some website contributions (e.g., online versions of periodicals), it would certainly require some creative lawyerly arguing to fit business software under one of these limited categories. Those arguments might be important after the fact if an existing contract relies on the work for hire doctrine without an assignment of copyright. But at the contract drafting stage, it makes no sense to rely on work for hire to obtain ownership since the doctrine is obviously designed for other types of works, especially since a simple assignment can give the hiring company ownership.

Solution: Copyright Assignment

The best approach is for the contract with the independent contractor to include an assignment of the copyright in all works developed under the contract to the company. For example:

> Independent contractor hereby assigns to company or company's designee, for no additional consideration, all independent contractor's rights, including copyrights, in all deliverables and other works prepared by the independent contractor under this agreement. Independent contractor shall, and shall cause its employees and agents to, promptly sign and deliver any documents and take any actions that company reasonably requests to establish and perfect the rights assigned to company or its designee under this provision.

Keep in mind that the assignment should be affirmative and in the present tense. Simply stating that the company "will be the owner" of the works may leave the company with nothing but an implied promise by the independent contractor to, at some point, assign the copyright to the company. If the independent contractor never provides the assignment, the company may have a breach of contract claim but it does not own the copyright.

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Alternative Approach

Many contracts take a belt-and-suspenders approach, designating the deliverables as works for hire and providing that, if they don't qualify as works for hire, they are assigned to the company. In theory, this may capture an incremental benefit because, if the deliverable were to qualify as a work for hire, the company would be deemed to be its "author" giving the company certain additional rights under copyright law (rights an assignee does not have). However, works for hire are expressly excluded from a number of these special rights.

Adding work for hire language can actually be detrimental, at least when the contract is governed by California law. Under the California Labor Code (Section 3351.5(c)), if a contract designates the independent contractor's deliverables as works for hire, then the hiring company must cover the independent contractor under its workmen's compensation insurance. Also, because certain independent contractors are used in a staff augmentation role and may be substantially controlled by the company, there is a risk of the independent contractor's claiming entitlement to employee status, and therefore, company benefits. In those cases, courts use a complex test to determine whether the claimant is in fact an employee. The test varies from state to state, but usually involves a review of facts and circumstances and the weighing of multiple factors. A claimant might argue that the inclusion of work for hire language supports the existence of an employer-employee relationship, adding one more variable to an already complex issue. On balance, in technology contracting, we recommend using an IP assignment alone without work for hire language, thus avoiding the uncertainties of trying to apply a doctrine that's almost always inapplicable.

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Conclusion

It is surprising how many software development contracts with independent contractors rely on a designation of deliverables as works for hire to give the customer ownership of copyrights in the deliverables. In fact, the work for hire doctrine rarely if ever applies to the types of deliverables prepared under these types of contracts. The best approach is to include an appropriate intellectual property assignment in the contract, assigning the deliverables from the independent contractor to the hiring company. It is this assignment that will effectively give copyright ownership to the company, not the work for hire doctrine.