By Mark Litwak

Terms of Engagement: The Scope of Employment in Multimedia

A written contract is the best way to protect the hiring party

Employment relationships in companies that develop, produce, publish, and distribute multimedia programs must be structured with great care. Even drafting a simple employment contract can raise a bewildering array of issues. The multimedia employee, by manipulating computer images, may wear several hats, blurring the traditional roles of writer, director, composer, editor, costume designer, set designer, and software developer. Thus, employers need to ensure that work contracts accurately define the scope of employment.

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Multimedia developers and producers often hire others to assist them in the creation and promotion of programming, but the developers and producers no doubt want to establish their ownership rights to the final work product. A written contract is the best way to protect the hiring party by documenting the terms of the engagement and the respective rights and obligations of the parties.

While intellectual property, such as a copyright, can be jointly held, employers typically want all of an employee's work product to be owned exclusively by the employer. In some circumstances, parties who jointly author a work will be presumed to share the copyright. Moreover, an employee could claim that a creation is solely owned by the employee because it was developed outside the scope of employment. To avoid ambiguity, an employment agreement should state clearly that the employer is the owner of the rights to any work product, and the agreement should define the scope of the employment.

The United States Copyright Act provides that an employer is deemed the author of any work made-for-hire unless the parties have agreed otherwise. A work made-for-hire is defined as either 1) a work that is prepared by an employee within the scope of employment, or 2) a work that is specially ordered or commissioned from an independent contractor, with the work product falling within one of nine categories of works and the parties signing an agreement that the work is a work made-for-hire.[1] This contract must be signed before the work is created.[2] Otherwise, the copyright will vest in the individual creator when he or she fixes the work in a tangible medium.

If a multimedia producer fails to secure a signed contract from a developer before work commences, the producer will only be able to acquire the copyright to the finished work with a written assignment of these rights. To resolve any doubts as to ownership of work product, a hiring party is wise to have an assignment clause in the hiring agreement that transfers to the hiring party any rights the creator may have. An assignment clause might state:

> Employee agrees that all copyrightable works created by Employee or under Employer's direction in connection with Employer's business are "works made-for-hire" and shall be the sole and complete property of Employer and that any and all copyrights to such works shall belong to Employer. To the extent such works are not deemed to be "works made-for-hire," Employee hereby assigns all proprietary rights, including copyright, in these works to Employer without further compensation.

The clause could be modified for independent contractors by substituting the word "Employee" with "Independent Contractor," "Artist," or another appropriate description. If the hiring party wants to obtain patent, trade secret, or other rights, the clause should be expanded to encompass those forms of work product.

Production companies want to own the initial copyright to works created for them for many reasons, not least to avoid the termination and renewal provisions of the Copyright Act. When a work is made-for-hire, the hiring party is considered the author and holds the renewal rights, with no termination rights vested in anyone else. If the work is acquired by assignment (that is, the initial copyright vested in the creator of the work who later transfered his or her rights to a production company), the creator is the author and the holder of renewal and termination rights.[3] Not only does a transfer of rights not necessarily include renewal rights, it also cannot restrict the author's termination rights. Consequently, it is advantageous for the hiring party to have work done on the basis of a work-for-hire agreement rather than pay authors to transfer rights to work they created on their own.

Renewal rights exist in works created before January 1, 1978. The holder of the rights can extend the term for 75 years. Termination rights allow authors and their heirs to terminate a transfer of copyright. Any agreement purporting to restrict the author's termination right, or an agreement by the author to make a future grant, is invalid.[4] For works created after January 1, 1978, a transfer can be terminated either 35 years from the date of publication of the work, or 40 years from the date of execution of the grant of rights, whichever is earlier.[5] Thus, production companies that obtain rights to content by assignment can only be certain the rights will last for 35 years. By contrast, production companies that create product as a result of work-for-hire agreements will own the product for the full term of the copyright.

Whether the author of a work is characterized as an employee or an independent contractor is determined on the basis of a control test and several other factors. If the hiring party has the right to control the manner and means by which the product is made or the service is rendered, then the relationship is likely to be construed as employer/employee. If, however, the person hired has considerable discretion as to how the work is accomplished, such as setting work hours and providing his or her own tools, then the person is likely to be characterized as an independent contractor. Other factors to consider include the skill level of the hired party, and whether the hiring party provides employee benefits and withholds taxes.[6] Often, the issue is not clear-cut. A person can be considered an employee under an employee benefit law while characterized at the same time as an independent contractor for purposes of the work-made-for-hire statute.

The seminal case in this area of the law is the U.S. Supreme Court decision in *Community for Creative Non-Violence* v. *Reid*.[7] In that case, a nonprofit organization hired a sculptor to create a sculpture dramatizing the plight of the homeless. The sculptor orally agreed to create the work for a fixed sum, and did so in his studio. As he worked on the project he was visited occasionally by the organization's representatives. They observed the progress of his work and made suggestions, most of which were adopted by the sculptor. After delivery of the statue, both parties attempted to register the work with the copyright office, claiming the copyright as their own.

The key question for the court to resolve was whether the sculptor was an employee or an independent contractor. If he was an employee, the copyright would vest in his employer as a work made-for-hire. The court found that the sculptor's work was highly skilled and created with his own tools in his own studio. Moreover, he was hired for only two months, was paid a fixed sum, and had complete authority and discretion over hiring assistants. For these and other reasons, the court concluded that the sculptor was an independent contractor. The court then remanded the case to the district court for a factual review and to consider the possibility that the parties had prepared the work intending that their contributions be merged into inseparable or interdependent parts of a unitary whole. If this was the case, the parties would be co-owners of the copyright.[8]

The case is illustrative for multimedia employers because the sculptor was hired in a manner similar to many content creators employed by developers. Freelance graphic artists, photographers, and programmers often are asked to create content, without a written contract, based on the erroneous assumption that the copyright to the work product will vest with the developer, rather than the artist.

This assumption is contrary to the law in many other countries, including France. French copyright law does not contain a work-for-hire doctrine that vests copyright in the employer. Thus the copyright to work created for an employer may be vested in the hired party. Furthermore, France expressly recognizes the moral rights authors have in their work. These moral rights prevent others from changing the author's work (the right of integrity), or removing the author's name (the right of paternity), even if the author has sold the physical work and assigned the copyright to another.[9]

Under French law, the rights of integrity and paternity are perpetual, inheritable, inalienable, and imprescriptible.[10] Thus, the heirs of an artist could object to the use of their ancestor's work, even if that work's copyright has expired. In *Huston* v. *Turner Entertainment*,[11] the late American director John Huston was determined by a French court to be the author of the American film *The Asphalt Jungle*, although under U.S. law his employer was deemed the author.[12]

France's approach to an author's rights is shared by Spain, Portugal, Italy, Greece, Belgium, and the Netherlands. Under the laws of these countries, it can be difficult for a multimedia producer to obtain rights to component parts of a multimedia work. If a country does not have a work-for-hire doctrine, the copyright of a multimedia work would vest in the individuals who created the music, artwork, writing, photographs, and other elements incorporated in the final product. Ownership may turn on whether a multimedia work is classified as an audiovisual work, a composite work, or a computer program.[13]

Under U.S. patent law, rights to an invention generally reside in the inventor or the person who made the discovery rather than the employer. A written agreement specifying who owns the patent rights to software developed by an employee or an independent contractor is important. However, even if patent rights belong to the employee, the employer may have the right to use the invention in perpetuity without paying royalties, according to the "shop rights" doctrine.[14] The doctrine applies when an invention is created by an employee within the scope of employment.

Court have justified the shop rights doctrine on the grounds it is only fair to give an employer these rights when an invention is created on company time using company resources. At least one case has extended the shop rights doctrine to work created by independent contractors.[15] Shop rights can be expanded or restricted by express agreement of the parties, such as when an employment contract sets forth the extent of shop rights granted the employer.

Employers may use invention-assignment agreements to obtain rights to inventions created by employees or independent contractors. Since it may be difficult to determine precisely when an invention was conceived, these agreements typically transfer rights to inventions conceived or reduced to practice during the term of employment. Overbroad assignment clauses may be invalid on public policy grounds. California Labor Code Section 2870, for instance, provides that employment agreements that assign rights to an invention do not apply to inventions developed by employees on their own time without use of an employer's equipment, supplies, facilities, or trade secrets. Exceptions are made for inventions that are related to an employer's business, or anticipated research and development, and for inventions that result from work performed by an employee for the employer.

Trade Secrets

An employer will want to prevent unauthorized disclosure of important proprietary information such as customer lists, business plans, trade secrets, and other confidential information. A trade secret can be a formula, pattern, device, or compilation of information that will provide a competitive advantage for those with the secret over those without it.[16] Maintaining a trade secret requires that the secret be kept; that is, once the secret becomes known to others, it no longer is protected by law. Unlike patents and copyrights, there is no time limit on how long a trade secret can be protected, provided it remains secret. The laws protecting trade secrets prevent wrongful use or discovery by others, including acts of industrial espionage or by breaching a contract.

Employers protect trade secrets by restricting access to them. Trade secrets embodied in documents should be kept in locked file cabinets or safes. Databases that contain trade secrets must be secured so that only authorized persons will have access. Those employees allowed access to trade secrets must understand the importance of keeping the material confidential. Employers typically require employees to sign nondisclosure or confidentiality agreements, restricting dissemination of confidential company information.

Trade secret protection may fill the breach for information that may not be protectable under copyright or patent law. A developer's software may contain elements not generally known by the developer's competitors and may therefore be protected as a trade secret. Even research results that turn out to be negative can qualify as a trade secret.[17] The fact that a certain procedure does not work can be of great economic value to a competitor.

Trade secrets developed by employees within the scope of their employment typically will belong to the employer. To ensure ownership, employers should make sure that employees sign written employment agreements that define the scope of employment and assign trade secrets to the employer.

A written nondisclosure agreement can be used to prevent unauthorized disclosure of trade secrets to outside contractors. A nondisclosure agreement also is a good method for restricting information and know-how that may not be secret enough to qualify as a trade secret. The agreement should identify to the employee the information that is considered confidential and should not be disclosed to others.

Some employers attempt to protect their proprietary information with a covenant not to compete, which attempts to restrict an employee from quitting his or her current position to engage in a directly competitive enterprise against the former employer. California, among other states, refuses to enforce these restrictive covenants since they violate public policies that favor competition, employee mobility, and the right of an individual to earn a living.[18] In jurisdictions that allow covenants not to compete, many courts will restrict their reach to within a limited geographical area and time period.

Creative Guild Agreements

The guilds that represent writers, directors, and actors eagerly anticipate the development of a robust interactive-media industry that will provide additional employment for their members. These guilds are concerned, however, that the rights and levels of compensation that they have gained from years of difficult negotiations with the studios and networks do not erode. The guilds recognize that interactive programming is still a fledgling market, and the producers of this new form simply cannot afford to hire guild members on the same terms as an established studio. Moreover, the guilds realize that if hiring their members is too costly, producers will look to nonunion talent to fill their needs. Guild members will lose the opportunity to gain experience in the new medium and producers will develop a nonunion pool of talent to draw on for the future. Ultimately, producers may see little reason to become a guild signatory if most of the talent they desire is nonunion.

The Screen Actors' Guild (SAG), the American Federation of Television and Radio Artists (AFTRA), and the Writers' Guild of America (WGA) have adopted a flexible approach that imposes minimal obligations on producers who want to hire their members. These guilds are simply trying to get their foot in the door with the expectation that as the market develops they will be able to win additional benefits for their members. Each guild has developed a short, simple agreement for producers to sign.

SAG was the first guild to develop an agreement for minimum compensation rates for the interactive market. The agreement defines the medium as the production of audiovisual material for display on either a home television or a computer screen. Under the agreement, the minimum wage rate for extras is \$103 per day, and day performers receive \$522 a day for an eight-hour day, effective until June 1997. (The AFTRA day player rate is the same.) Under the SAG and AFTRA agreements, producers must contribute 12.65 percent of gross compensation to the guilds' health and pension plans. No

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residual payments are required, although SAG expressly reserves the right to bargain for payment for extended rights to distribute interactive programs. The SAG agreement also includes a most-favored-nations clause that gives a producer signatory the option of upgrading the agreement to any future SAG agreement that provides a producer with more favorable terms.

The WGA allows a production company to become a guild signatory for only one production by signing a one-page letter agreement. The agreement does not require the usual WGA minimum payments or compliance with any guild rules other than those requiring the producer to make payments to the writers' pension and health funds. These payments amount to 12.5 percent of gross compensation.

The DGA has taken a different approach to interactive programming: it aims for its members to receive both an up-front payment for their services as well as back-end participation in a venture's success. A back-end payment can be a royalty based upon the number of units sold or tied to a share of the producer's profits. The DGA believes that if it does not establish this principle for back-end payments at the beginning of the medium's development, even though sales now may be limited, a bad precedent will be set and it will be difficult for the guild to win this type of compensation later.

In October 1993, the DGA signed a first-of-its-kind agreement, a contract with Digital Pictures for production of a live-action interactive film and video games.[19] The DGA declined to disclose the terms of the deal other than to say that it included back-end compensation. The DGA subsequently adopted a tiered approach to their interactive sideletter agreement: if the budget for the live-action segment is less than $1 million, the DGA allows its members to negotiate their own deal subject only to guild shop, pension and health, and arbitration provisions. No minimum salary, residuals, or back-end payment is required. If the live-action budget is for more than $1 million, the minimal initial compensation is $44,778 for no more than 40 days of directing services. In lieu of residual payments, directors are to receive bonuses after the publisher of the interactive programs sells 150,000 units. Both tiers of the DGA sideletter are subject to negotiation.

The DGA has forbidden its members to work on interactive programming unless the producer signs a guild agreement. While the WGA wants its members to work for companies that sign the WGA letter, for now it will allow writers to work for nonsignatories under special waiver circumstances after the member and the guild have exhausted all other efforts. ■

[1] 17 U.S.C. §101. The types of works that may be works made-for-hire by special order or commission are: contribution to a collective work, 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, and an atlas. Note that the work-for-hire provisions of the 1976 Copyright Act differ from the prior copyright law, the 1909 act. The 1976 act does not operate retroactively to change the ownership of work created before the 1976 act became effective on Jan. 1, 1978. Consequently, for works created before 1978, the 1909 act needs to be consulted to determine ownership.

[2] *See* Playboy Enterprises, Inc. v. Dumas, 831 F. Supp. 295 (S.D. N.Y. 1993).

[3] Renewal rights exist in works created prior to Jan. 1, 1978. The renewal can extend the term of copyright. A work in its renewal period prior to Jan. 1, 1978, can obtain a 19-year extension. A work first eligible for renewal after Jan. 1, 1978, can obtain a 47-year renewal term. For works created prior to Jan. 1, 1978, an author or the author's heirs can terminate a transfer and recover the last 19 years of the renewal term. 17 U.S.C. §304(c). For works created after Jan. 1, 1978, an author or the author's heirs can terminate a transfer either 35 years from the date of publication of the work or 40 years from the date of execution of the grants of rights in the work, whichever is earlier. 17 U.S.C. §203(a)(3).

[4] 17 U.S.C. §203(a)(5).

[5] 17 U.S.C. §203(a)(3).

[6] *See* Community for Creative Non-Violence v. Reid, 490 U.S. 730, 109 S. Ct. 2166 (1989). For a full discussion of the distinction, *see* S. Moore, *Employee or Independent Contractor?*, LOS ANGELES LAWYER, Apr. 1995, at 20.

[7] *Id.*

[8] *See* D. PETER HARVEY, STRUCTURING EMPLOYMENT RELATIONSHIPS TO INSURE OWNERSHIP AND CONTROL OF INTELLECTUAL PROPERTY (Feb. 1995).

[9] French law provides authors with a limited right to decide when to release their works to the public (the right of divulgation), and the right to remove the works from the public arena (the right of retraction).

[10] Andre R. Bertrand, *Multimedia: Stretching the Limits of Author's Rights in Europe*, THE JOURNAL OF PROPRIETY RIGHTS, vol. 7, no. 11, at 4 (Nov. 1995).

[11] Huston v. Turner Entertainment, Cuss. ass. plen. (1991).

[12] For a full discussion of moral rights issues, *see* J. Graubart, *The Agony and the Ecstasy*, LOS ANGELES LAWYER, Apr. 1995, at 38.

[13] Under French law, the creators of audiovisual works and composite works retain moral rights in their contribution while employers are considered the authors of computer programs created by their employees. *See* Bertrand, *supra* note 10, at 2-4.

[14] *See* McClurg v. Kingsland, 41 U.S. (1 How.) 202, 11 L. Ed. 102 (1843); Gill v. United States, 160 U.S. 426, 40 L. Ed. 480 (1896); United States v. Dubilier Condenser Corp., 289 U.S. 178, 77 L. Ed. 1114 (1933).

[15] *See* McElmurry v. Arkansas Power & Light Company, 995 F. 2d 1576 (Fed. Cir. 1993).

[16] *See* RESTATEMENT OF TORTS §757, cmt. b (1939).

[17] *See* UNIF. TRADE SECRETS ACT §1 (commissioner's cmt.), 14 U.L.A. 439 (1990).

[18] BUS. & PROF. CODE §16600.

[19] David Robb, *DGA's Historic Interaction*, THE HOLLYWOOD REPORTER, Oct. 26, 1993.