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## Who Owns Your Software?

### Software Copyright and the Work for Hire Doctrine

by Justin Daniels

Businesses all over the United States hire software developers to create software that offers a competitive advantage or cuts operating costs. Frequently both business owners and software developers enter into these agreements to develop software without addressing the issue of copyright. How does copyright law apply to these kinds of agreements, especially in cases where copyright ownership is not addressed explicitly? Who owns the software?

Think about a car repair shop owner who hires a developer to create a program that allows the shop to keep track of when its customers are due for scheduled maintenance and automatically generates a reminder email to that customer that it is time for the maintenance. The owner and the developer negotiate a \$20,000 price for producing the program, and the developer agrees to have the project ready for installation in three months time. The parties send correspondence back and forth agreeing to these basic terms but never address copyright ownership.

The developer creates the program at his home, installs it on time, and receives his \$20,000 fee. The program exceeds all expectations, customers rave about the customer service, and profits rise. The repair shop owner brags about this new service to his competitors. Several of them inquire if they might purchase the program and thoughts of a yacht and early retirement flood through the owner's head.

The shop owner is about to sign the first agreement to sell the software when he receives a letter from the software designer stating that the owner has no right to sell the software since the developer, not the shop owner, owns the copyright. The shop owner never thought about the copyright but thinks he must own it since he paid \$20,000 for the program. Only at this point do the parties contact their respective lawyers for advice on who owns the copyright.

Copyright ownership is critical, since the copyright owner will have the exclusive right to reproduce, distribute, and create a derivative work (among other rights). Under our facts, if the shop owner does not own the copyright, he does not have the right to reproduce the software to sell to others. If he did so without the software developer's permission, the developer could sue him for damages arising from copyright infringement.

The Federal law addressing this situation is entitled The Copyright Act of 1976, 17 USC 201(a). The general rule is that the author of the work owns the copyright. The Copyright Act, however, contains an important exception called the "work for hire" doctrine. If the facts establish that the "work for hire" doctrine applies, the person for whom the work was created (in this case the shop owner) would own the copyright. The "work for hire" doctrine applies when employees create works within the scope of their employment or a situation where a certain type of work is specially ordered or commissioned by which an express agreement is to be considered a work for hire [Freiburn, 2004].

In our case, the bare facts indicate that the software designer is not the shop owner's employee. As a result, the employee portion of the "work for hire" doctrine does not apply. What about the second portion of the "work for hire" doctrine? Might it apply and revive the shop owner's dreams of early retirement?

Applying the second portion of the "work for hire" doctrine requires that the facts establish the following three conditions:

1. The work must be specially ordered or commissioned. This simply means that the shop owner hired and paid the designer to create something new, as opposed to paying him for an existing work [Jassin, 2004]. That appears to be the case here: the shop owner hired the software designer to create a new software program.
2. Both parties agreed, prior to beginning the work, that the work would be considered a work for hire. In our case, the parties did not address this point at any time prior to the software designer beginning the work. [Jassin, 2004]
3. The work must fall into at least one of the following nine categories under the Copyright Act:

- a) translation;
- b) motion picture contribution or other audiovisual work;
- c) collective work contribution (magazine article);
- d) an atlas;
- e) a compilation;
- f) instructional text;
- g) a test;
- h) answer material for a test; and
- i) supplemental work such as a preface to a book.

In our case, software does not fall under any of these categories. In other words, even if the parties had agreed to designate the software as a work for hire prior to the work beginning, it would likely be invalid because software cannot be designated as work for hire since it does not fall within any of the categories listed above.

The software developer is the copyright owner. Unless the shop owner gets the developer's permission, his yacht will remain firmly anchored in the showroom, and he will be at work bright and early Monday morning.

The issue raised in my fictional story could have been avoided if the parties had sought legal advice prior to negotiating the agreement. The copyright ownership issue could have been addressed with the assistance of legal counsel in preparing the agreement.

From the shop owner's perspective, the agreement might have read that the software developer assigned his copyright ownership to the shop owner as part of the agreement. Although the developer might be reluctant to do this or might require an additional fee to give up this right, the issue is on the table up front for resolution. In most legal disputes, use the rule of thumb that employing counsel to resolve the problem raised in this article will likely cost at least three times as much as if the parties had used lawyers to raise and resolve these issues initially.

Copyright law is an area that regularly defies the mathematical logic used to create the software programs to which the law applies. When your livelihood or business revenue depends on your intellectual property ownership rights, an ounce of legal prevention averts the expenditure of three times the amount for prescribing a legal cure.

## References

[Freiburn, 2004] Freiburn, Eric S., Esq. "Get It in Writing: Software, Copyrights and Works Made for Hire." <http://www.freiburnlaw.com/articles/article11.htm> December 17, 2004.

[Jassin, 2004] Jassin, Lloyd J., Esq. "Working with Freelancers: What Every Publisher Should Know About the 'Work For Hire' Doctrine." [http://copylaw.com/new\\_articles/wfh.html](http://copylaw.com/new_articles/wfh.html), December 17, 2004.

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