Three Important Aspects of Copyright Law Every Entrepreneur Should Understand

Copyright law has a few nuances that very often are overlooked, even by experienced entrepreneurs. Even if you know nothing else about copyright law, the following three aspects may prove to be critical in your business down the road when competitors start creeping into your space.

Independent Contractors

Every business uses independent contractors at some point, and for start-ups, independent contractors are extremely valuable when it is not realistic to bring full-time employees on board. Moreover, for such projects as brand and image creation, creation of marketing material, website design, copy writing, product packaging design, software development, etc., you want to hire the skilled experts and not handle such tasks in-house. It just makes sense.

Under U.S. Copyright Law, ownership of copyrights associated with a creative work automatically vests with the author, or creator. In an employment situation, in which an employee is working within the scope of his/her employment, the employer is actually considered to be the author, and therefore ownership vests in the employer from the start. However, an independent contractor, by definition, is not an employee. Accordingly, when an independent contractor is hired to create a creative work, ownership initially vests in the independent contractor. Therefore, if you hire a web design firm to create your website, the web design firm owns the copyrights associated with your website. If you hire a graphic designer to design your logo, your letterhead, your signage, etc., the graphic designer owns the copyrights associated with these items. Seems kind of wrong, doesn't it? You paid them to create these things, so you should own all the rights associated with them, right? Well, that's not the way the law works.

And here is what you need to know—an assignment, or transfer, of ownership in copyrights must be in writing and must be explicit as to the transfer of 'copyrights,' not just rights in general. An oral understanding or contract between the parties is not sufficient. Therefore, it is very, very important to have a written agreement in place with any independent contractor prior to the contractor commencing work for you, with the agreement setting forth that the copyrights in the creative works will be assigned to the hiring party—you! Moreover, it is important to get a written assignment upon completion of the work (e.g., "In exchange for good and valuable consideration, Joe Independent Contractor hereby assigns all rights, including all present and future copyrights, associated with the Creative Works to Start-Up, Inc."—note, please consult an experienced IP attorney and do not simply copy and paste this short sentence for your needs).

If you fail to get a written agreement in place with an independent contractor, then technically all you have is an implied license to use the creative works for whatever reason they were created for you. For example, let's assume that you hire Joe Independent Contractor to take photographs to be used on your website, and you do not have a written agreement covering the copyrights. Sure, you can use the photographs on your website, but let's assume you now want to use the photographs in some print ads or brochures. Using the photographs in this manner (making copies and distributing copies of the

photographs) is an infringement of Joe Independent Contractor's copyrights, even though you paid him to take the photographs in the first place!

What's the big deal? A professional service provider is not going to sue their clients for using photographs or other creative works in a manner for which it may not have been initially contemplated, right? Well, maybe, but maybe not. Maybe the photographer would have asked for a higher fee if the copyrights were part of the deal. Maybe the relationship turns sour down the road, and now Joe Independent Contractor can make your life hell, make you change all your marketing material, make you adopt a new logo or brand after you have spent valuable time and money building customer goodwill. Or maybe everything goes smoothly, the relationship is great, but come time to sue a competitor for copying your website, or for copying your product packaging, or for copying your software, Joe Independent Contractor has moved out of the country, and you have no idea how to find him. Guess what? You can't get into court to sue your competitor if you don't own the copyright that you are trying to sue on. A simple written agreement between the parties when everyone is happy, getting along, and on the same page is the simplest solution.

"Work Made For Hire"

Next, I see even experienced business attorneys mess this up all the time. The term "work made for hire" is a statutorily defined term that only covers (i) the situation of an employee creating within the scope of employment for an employer, and (ii) very specific types of works that I can almost guarantee you are not hiring someone to do if you are reading this article (e.g., tests, answer materials for tests, atlases, motion pictures, instructional texts, etc.), and there must be a writing identifying the work as a "work made for hire." Did you catch that last part? Even if an independent contractor is creating an atlas for a hiring party, it is only a "work made for hire" if there is a written agreement setting forth that it is a "work made for hire."

Note that I did not say, if you have a written agreement that something is a "work made for hire," then it necessarily is so even if it is not one of the obscure statutorily defined situations. Folks make this mistake all the time! They assume if they call something a "work made for hire" in an agreement, then it simply means that the hiring party will own the copyrights. This simply is not the case. A written assignment, as discussed above, is what is required for transfer of copyrights from an independent contractor to a hiring party.

Moreover, in some circumstances, calling something a "work made for hire" when in fact it is not a "work made for hire" under the U.S. Copyright Laws, is asking for trouble. For example, under California state law, defining a relationship as a "work made for hire" relationship means that the contractor is technically an employee of the hiring party. And you know what employers have to do? They have to pay for workers' compensation insurance, unemployment insurance, payroll taxes, social security taxes, etc. Ouch! That could be a costly mistake.

In short, there is hardly ever a reason to define something as a "work made for hire," so just don't do it.

Copyright Registration

In the U.S., copyrights exist out of thin air—as soon as you put pen to paper, paint on canvas, fingers on the keyboard, etc. We IP lawyer-types call this when a work becomes "fixed in a tangible medium." In

other words, you don't have copyrights associated with your mental images of a painting that you want to paint. But as soon you paint it, you have copyrights associated with it.

Copyright registration is just what it sounds like, a *registration* of a copyright. In the U.S., a copyright registration (or a final refusal by the U.S. Copyright Office to register your work, but we won't get into that here) is required in order to sue an infringing party in federal court. The copyright registration process is fairly easy and inexpensive and in most situations you can fill out your application online at the Copyright Office website (www.copyright.gov).

Most importantly what I want you to take away from this section, however, is how important it can be to apply for registration prior to someone infringing your rights. This is because, in the U.S. you are entitled to elect statutory damages if you had already applied for your registration prior to commencement of the infringing acts for which you are suing someone. These statutory damages can range from $750 to $150,000 per infringing act—that's $150,000 with four zeros and per infringing act—and therefore can be substantially more than actual damages. If you wait to register your copyright until after you discover that someone is infringing your copyrights, it's too late, and if you sue them, you can only seek actual damages and the profits of the infringing party. In most cases, these actual damages may be less than what will be required to hire an attorney and go to court. A lose-lose situation.

Therefore, for the creative works that are important to your business, take the time to register the copyrights. It's cheap, it's easy, and you don't need an attorney to do it. But first, make sure you actually own the copyrights!

This brief article only touched the surface of copyright law, but if you pay attention to the issues discussed here, you could save yourself from mucho headaches down the road and even years from now. Talk to your IP attorney if you have any questions, as this article is not legal advice and is not intended to be legal advice.

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