

PUBLICATION

Are You Sure You Own the Copyrights in Your Code?

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Ownership of your intellectual property is one of the threshold issues for investors; yet it is often overlooked by companies seeking investment capital. In the context of software programs, although it is generally assumed that all copyrights in the code are owned by the company as "works made for hire," it may not be true – even if the code is written by an employee.

A copyright is a property right to an original work of authorship fixed in a tangible medium. The copyright is separate from the work itself, which means that simply because you own a computer on which code is written does not mean that you own the code. The copyright is created at the moment the work is fixed in a tangible medium and is owned by the author (i.e. the person who created the work) unless it constitutes a "work made for hire" or is transferred through a written assignment. Under the Copyright Act, ownership of a work made for hire vests in the person or entity for whom the work was prepared. A work is considered to be a work made for hire if it is (1) a work prepared by an employee within the scope of his or her employment; or (2) a work ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as 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. Accordingly, ownership of a work made for hire requires a three-part analysis.

First, it must be determined whether the purported author is (1) an employee or (2) an independent contractor. Whether an author is an employee is determined by:

1. the hiring party's right to control the manner and means by which the product is accomplished;
2. the skill required;
3. the source of the instrumentalities and tools;
4. the location of the work;
5. the duration of the relationship between the parties;
6. whether the hiring party has the right to assign additional projects to the hired party;
7. the extent of the hired party's discretion over when and how long to work;
8. the method of payment;
9. the hired party's role in hiring and paying assistants;
10. whether the work is part of the regular business of the hiring party;
11. whether the hiring party is in business;
12. the provision of employee benefits; and
13. the tax treatment of the hired party.

No single fact is determinative; the factors must be considered as a whole.

Second, if the author of the work meets the criteria of an employee, the creation of the work must be within the scope of the employee's employment. A determination of whether actions are within the scope of employment is based on three factors:

14. whether the work was of the type the employee was hired to perform;

15. whether the creation of the work in question occurred substantially within the authorized time and space limits of the employee's job; and
16. whether the employee was actuated, at least in part, by a purpose to serve the employer's purpose. If the employee was acting within her/his scope of employment in creating the work, the employer owns the copyright in the work.

Third, if the factors weigh against employee status, the work must fall within the limited types of works that automatically vest ownership in the person or entity that commissioned the work. Computer programs are not one of the types of works that automatically vest ownership. The Copyright Act defines a "computer program" as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result." Accordingly, an independent contractor who writes a computer program owns the code unless otherwise agreed in writing.

Ownership of works made for hire is particularly relevant to companies that hire software programmers. If the company hires a freelance programmer, it is important to obtain the written assignment with the express language stating that the copyrights in the code and any accompanying documents are assigned to the company. Conversely, if any employee authors a code, it is important to make sure that the employee created the code within the scope of his or her employment. Employers may want to obtain additional protection by requiring all employees to enter into written agreements that assign ownership to the company to avoid future ownership disputes. These steps will ensure that ownership of your copyrighted works is not an issue when you approach investors.