Hastings Communications and Entertainment Law Journal

Volume 12 | Number 3 Article 9

1-1-1990

Poetic Justice: Work Made for Hire Laws Invite State Regulation of Parties to Copyright Contracts

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Poetic Justice: California "Work Made For Hire" Laws Invite State Regulation of Parties to Copyright Contracts†

by
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Introduction

The U.S. Supreme Court's recent decision in *Community for Creative Non-Violence v. Reid*[1] encourages publishers, advertising agencies, movie studios and other users of copyrightable works to utilize written "Work Made For Hire" ("WMFH") contracts[2] to obtain exclusive copyrights in works created by employees. In California, however, a copyright purchaser using written WMFH contracts may be subject to a host of statutory requirements and labor regulations. Under certain circumstances, these little-known California WMFH labor laws may coalesce with other state labor regulations, forming an intricate and invisible regulatory web, springing a costly trap on unwary users/buyers of copyrightable works.

For example, copyright purchasers may be required to pay certain statutorily imposed employee benefits including state Unemployment,[3] Workers' Compensation[4] and Disability Insurance Fund[5] contributions. Additional WMFH laws could impose state employment regulations on WMFH copyright purchasers, obligating such buyers to pay all wages

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1. Community for Creative Non-Violence v. Reid, 109 S. Ct. 2166 (1989). The Court affirmed the Third Circuit decision that a specially ordered or commissioned work created by a freelance sculptor is not a work made for hire and that common law agency principles determine whether the creator of the work is an employee.

2. As used herein, "WMFH contracts" refers only to written agreements conveying all rights in works defined in 17 U.S.C. § 101(1) or (2) (1988). This Essay does not address the effect, if any, the following California statutes may have on parties using written contracts conveying rights in works that do not fall within 17 U.S.C. § 101(1) or (2).

3. CAL. UNEMP. INS. CODE § 976 (West 1986).

4. CAL. LAB. CODE §§ 3351.5(c), 3600-3605, 3700-3709.5 (West 1989).

5. CAL. UNEMP. INS. CODE § 986 (West 1986).

and other compensation due a WMFH employee promptly upon termination of employment.[6] Moreover, violations of these provisions may subject the purchaser to sanctions including waiting time penalties,[7] automatic insurance assessments,[8] attorneys' fees, and the costs of enforcing these financial obligations.[9] In disputes with large companies over unpaid wages, attorneys representing artist/employee clients who are outgunned by corporate legal departments can make artful use of California's WMFH statutes to achieve a sort of "poetic justice" for WMFH artists/employees.

This Essay will review the federal copyright law provisions affecting "works made for hire." The interplay between these provisions and the relevant California WMFH statutes, including possible statutory duties and liabilities, will then be discussed. The Essay concludes with some suggestions to practitioners representing clients selling or buying "works made for hire."

I
U.S. Copyright Law: Works Made for Hire

The 1989 decisions of the U.S. Supreme Court in *Community for Creative Non-Violence v. Reid*[10] and the Ninth Circuit in *Dumas v. Gommerman*[11] alerted prudent buyers of copyrightable works to two significant provisions of U.S. copyright law that affect "works made for hire." The 1976 Copyright Act provides two alternative definitions of WMFH.[12] First, the Act provides that a "work made for hire" is a "work prepared by an employee within the scope of his or her employment."[13] Second, the Act includes in the definition of WMFH "a work specially ordered or commissioned" for use in one of nine specified categories of literary and audiovisual works "*if the parties expressly agree in a written instrument signed by them* that the work shall be considered a work made for hire."[14]

6. CAL. LAB. CODE § 203 (West 1989).
7. *Id.* §§ 203, 256.
8. CAL. UNEMP. INS. CODE §§ 987, 1026, 1112 (West 1986 & Supp. 1989).
9. CAL. LAB. CODE § 218.5 (West 1989).
10. 109 S. Ct. 2166 (1989).
11. 865 F.2d 1093 (9th Cir. 1989).
12. 17 U.S.C. § 101(1), (2) (1988).
13. *Id.* § 101(1).
14. 17 U.S.C. § 101(2) provides:

A "work made for hire" is . . .

(2) a work specially 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*

The legal effect of these sections is that the employer or purchaser is deemed the "author" of the work from the moment of its creation.[15] As the WMFH author, the employer/purchaser obtains all exclusive rights of copyright ownership including the right to copy, distribute, publish, perform, and display the work as well as the right to prepare derivative works based on the original.[16]

Reid delineates the common law agency principles determining whether an employer in a given situation is entitled to ownership of copyrights in works created by "employees" under the Copyright Act, absent a written contract of employment. This discussion, however, deals only with creators and purchasers of copyrightable works using written WMFH contracts.[17]

The California WMFH statutes described herein require first, that the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire, and second, that the ordering or commissioning party obtain ownership of all rights comprised in the copyright of the work. Examples of potential victims that may become ensnared in California's WMFH legislative tangle include:

- Publishers and advertising agencies retaining the services of graphic artists, illustrators, filmmakers, photographers, recording artists, and producers;
- Non-profit organizations commissioning sculptors or muralists;
- Architects with part-time associates or who subcontract with interior and textile designers;
- Businesses and computer companies employing software designers, programmers, or consultants;
- Television and motion picture studios and production companies using non-union writers, animators, editors, or directors;
- Record producers and music publishers using non-salaried arrangers, musicians, composers, or songwriters.

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instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer materials for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities. (emphasis added.)

15. *Id.* § 201(b).

16. *Id.* § 106.

17. *See supra* note 2.

II
California "Work Made for Hire" Laws

Section 686 of the California Unemployment Insurance Code specifically defines "employer" as:

> any person contracting for the creation of a specially ordered or commissioned work of authorship when the parties expressly agree in a written instrument signed by them that the work shall be considered a work for hire, as defined in section 101 of the Copyright Act, and the ordering or commissioning party obtains ownership of all the rights comprised in the copyright of the work. The ordering or commissioning party shall be the employer of the author of the work for the purposes of this part.[18]

Likewise, California Unemployment Insurance Code section 621(d) defines "employee" with reference to section 686.[19] Applicable provisions of the California Labor Code also contain an expanded definition of employee to include persons entering into written agreements to produce works made for hire.[20]

Under these definitions, additional benefits may be owed to salaried creators of copyrightable works. However, even freelance, independent contractor artists creating works under section 101(2) of the Copyright Act are deemed employees entitled to full employment benefits if a WMFH contract is used.[21] The ordering or commissioning party/copyright buyer is deemed an employer.[22] As a result, many unsuspecting buyers of copyrightable works who unwittingly use written WMFH agreements—and the authors, artists and creators with whom they contract—may now fall into these statutory definitions of employer and employee, inviting the regulation, scrutiny, and enforcement of the California Labor Commissioner and Employment Development Department.

Particularly, with respect to the nine enumerated categories of works specified in section 101(2) of the Copyright Act,[23] the classifica-

18. CAL. UNEMP. INS. CODE § 686 (West 1986).

19. "Employee means . . . (d) Any individual who is an employee pursuant to section [686]." *Id.* § 621(d).

20. "Employee" includes:

> (c) Any person while *engaged by contract* for the creation of a specially ordered or commissioned work of authorship in which *the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire,* as defined in Section 101 of Title 17 of the United States Code, and the ordering or commissioning party obtains ownership of all the rights comprised in the copyright in the work.

CAL. LAB. CODE § 3351.5(c) (West 1989) (emphasis added).

21. *See supra* notes 12-14 and accompanying text.

22. *Id.*

23. *See supra* note 14 and accompanying text.

tions may impose an extensive array of employment regulations in situations which the parties intend to be merely buy/sell transactions: advertising agencies or book and magazine publishers purchasing illustrations, photographs, or graphic designs; businesses and non-profit organizations commissioning sculptures or murals; motion picture and production companies ordering screenplays or teleplays; and music publishers signing term publishing deals.

The following is a summary of the statutory duties and liabilities which may apply under these definitions. If enforced by the Labor Commissioner, Employment Development Department and state courts, these regulations may be expensive surprises for unwary employers, and an unexpected benefit to WMFH employees.

A. Workers' Compensation Insurance

In some situations, employers using WMFH contracts may be obligated to maintain workers' compensation insurance covering WMFH employees.[24] This obligation would derive from the fact that traditional employers are liable to salaried employees for injuries suffered in the course and scope of their employment, even if such injuries were not the employer's fault.[25] Since WMFH employers are not automatically exempt from this liability, it follows that such employers may be obligated to obtain workers' compensation insurance covering WMFH employees and may further be subject to a myriad of other workers' compensation regulations.

For example, if a part-time graphic artist, illustrator, or photographer is hired by an advertising agency under a written contract containing a WMFH clause and is injured in the course of employment (such as an auto accident when driving at the agency's request to pick up supplies), the advertising agency could be liable to the artist for injuries sustained, even if the accident was another driver's fault.[26] A WMFH employer who fails to obtain workers' compensation insurance may be subject to attachment of property to secure payment of any judgment ultimately obtained by the injured employee,[27] or the imposition of a lien against the business for claims paid to the injured employee by the Uninsured Employer Fund.[28]

24. CAL. LAB. CODE §§ 3351.5(c), 3600-3605, 3700-3709.5 (West 1989).

25. *Id.* §§ 3600-3605.

26. *See id.* § 3600(a)(1-9). *But see id.* § 3600(b).

27. *Id.* § 3707.

28. *Id.* § 3720.

B. Unemployment Insurance Fund Contributions and Deductions; Disability Insurance Fund Deductions

The California Unemployment Insurance Code requires employers to contribute to the California Unemployment Insurance Fund based on the amount of wages[29] an employee is paid.[30] The employer must also deduct state Disability Insurance Fund withholdings from the employee's compensation.[31] An employer who fails to deduct the appropriate amount may be charged that amount plus penalties by the Employment Development Department.[32] Whether these contributions apply to section 686 WMFH employers using WMFH contracts, regardless of the amount of wages paid[33] or duration of employment,[34] is not specified in the statute and has not been decided in any published California appellate court or Labor Commission decision.

C. Waiting Time Penalties

By far, the most interesting applications of the California WMFH laws are Labor Code provisions allowing the Labor Commissioner to impose penalties against an employer who willfully fails to pay any wages of a discharged or resigning employee.[35] So-called waiting time penalties may be assessed in an amount equal to the employee's daily wage, with the penalty continuing from the due date thereof at the same rate until paid or until an action therefor is commenced.[36] The penalty can continue to accrue at most for thirty days.[37] Thus, suppose a copyright buyer, using a WMFH contract, deliberately and willfully fails to pay wages due the employee for thirty days beyond the time the employee resigns or is terminated. Applying Labor Code section 3351.5(c), if the employee is compensated at the rate of $100 per day, the employer could be liable for up to $3,000 in penalties as well as attorneys' fees and costs.

Employees may collect these penalties by administrative remedy through the Labor Commissioner's enforcement,[38] under the authority of the District Attorney of any county or prosecuting attorney of any city

29. CAL. UNEMP. INS. CODE §§ 926, 931 (West 1986 & Supp. 1989).
30. *Id.* § 976.
31. *Id.* § 986.
32. *Id.* §§ 987, 1026, 1112.
33. *Id.* § 930.
34. *Id.* § 1032.5.
35. CAL. LAB. CODE §§ 203, 256 (West 1989).
36. *Id.* § 203. Employees who secrete or absent themselves to avoid receiving payment, or who refuse to receive the payment when fully tendered to them, are not entitled to any waiting time penalties for the avoidance period. *Id.*
37. *Id.*
38. *Id.* § 256.

where the employee's claim arises,[39] or by utilizing the employee's express statutory right to sue the employer directly in civil court.[40] In the event of a civil suit which is not brought by the Labor Commissioner, the court is expressly empowered to award reasonable attorneys' fees and costs to the prevailing party if such fees and costs are requested upon initiation of the action.[41]

Officials at the California Labor Commissioner's office opined that further evidence establishing an actual "employment" relationship, beyond a mere WMFH contract, may be required to compel the Labor Commissioner's prosecution and enforcement of these waiting time penalty provisions.[42] Thus, WMFH employers who use written WMFH contracts, as defined in section 101(1) of the Copyright Act and under the general common law agency principles discussed in *Reid*, are more likely to be subject to the Labor Commissioner's jurisdiction and enforcement than are ordering or commissioning WMFH employers, defined under section 101(2) of the Copyright Act, who may not satisfy the common law tests delineated in *Reid*.[43]

No appellate cases specifically decide the extent to which the California WMFH "employee" and "employer" definitions trigger the Labor Commissioner's or Employment Development Department's jurisdiction. Nor do any decisions establish the extent to which California employee benefit statutes will be enforced by state courts. In a telephone interview, the California Labor Commissioner's office in Hollywood revealed disagreement and uncertainty regarding the applicability and enforcement of these rules.[44] However, even if the Labor Commissioner declines to impose waiting time penalties, an unpaid employee has statutory recourse either through city or county prosecuting attorneys, or by civil suit.[45]

Questions remain concerning the extent to which the possible benefits to employees from these laws may be coextensive with, or preempted

39. *Id.* § 218.

40. *Id.*

41. *Id.* § 218.5.

42. Telephone interview with Deputy Labor Commissioner Rupp of the California Labor Commissioner's Office, Hollywood, California (Feb. 14, 1990) [hereinafter Rupp Interview].

43. The "works made for hire" definition for specially ordered or commissioned works in 17 U.S.C. § 101(2) applies in many situations involving the creation of works by artists working outside the traditional employment setting, where the ordering or commissioning party may not fit into any of the definitions of "employer" in California Labor Code §§ 350, 1132.2, 1413, 2650, 3300, 3850, 6304 or 9006. Deputy Labor Commissioner Rupp expressed uncertainty as to whether the Labor Commissioner would bring an enforcement action against such a WMFH employer solely on the basis of the definition of employer in California Unemployment Insurance Code § 686. Rupp Interview, *supra* note 42.

44. Rupp Interview, *supra* note 42.

45. CAL. LAB. CODE § 218 (West 1989).

by, guild and union collective bargaining agreements.[46] Nonetheless, through these statutes, creators such as pictorial and graphic artists who were historically without recourse to effective union arbitration procedures or collective bargaining agreements may obtain administrative and judicial remedies not otherwise available.[47]

III
Practical Application

Attorneys representing copyright users/buyers purchasing works under sections 101(1) or 101(2) of the Copyright Act, who wish to avoid a potential minefield of employment regulations, should advise their clients to purchase copyrights by written assignment rather than by using written WMFH contracts. Such assignments should be in writing and should not use language which is even remotely similar to the treacherous work made for hire invocation. However, at the end of thirty-five years, the assignor will have the right to terminate the transfer and reacquire the copyright.[48]

Attorneys representing writers, creators, and artists wishing to secure the benefits and protections of WMFH statutes should insist upon written WMFH contracts conveying all rights of copyright ownership as listed in the Copyright Act, and should expressly enumerate the payments, benefits, contributions and other entitlements which WMFH artists/employees expect to receive through their employment. In any such agreement, the WMFH employer should further acknowledge an understanding of the consequences of WMFH agreements under California law, and agree to pay all employee benefits thereunder whether or not such benefits are expressly stated in the WMFH employment contract.

In practice, the mere threat of Labor Commission regulation and sanctions may provide powerful leverage to assist writers, artists, and other WMFH employees in settling disputes over unpaid wages. Further, notwithstanding the Labor Commissioner's apparent uncertainty regarding their enforcement, the statutes may be persuasive authority in negotiating settlements, in fixing liquidated damages, and in asserting claims for attorneys' fees and costs.

46. *See, e.g.*, Writers Guild of America 1985, 1988 Theatrical and Television Basic Agreement, art. 35 (state employment laws apply to WGA members); art. 17 (Pension and Welfare Fund); art. 12(A)(3) (election to arbitrate waives right to sue); and Const. and Bylaws of Writers Guild of America, West, Inc., art. VIII(B)(4) (strike fund) (Agreement available from author).

47. *See supra* notes 24 (workers' compensation insurance), 29-30 (unemployment insurance), 31 (disability insurance), 35-40 (waiting time penalties).

48. 17 U.S.C. § 203(a)(3) (1989).