

## Outside Counsel

## Expert Analysis

# ‘Marvel’ and the Importance of Careful Drafting in Transferring IP Rights

As part of day-to-day operations, companies regularly enter into intellectual property assignment or “work for hire” arrangements with employees and contractors, often pursuant to form agreements that are not tailored to the particular engagement. However, decisions such as the Southern District of New York’s recent opinion in *Marvel Worldwide Inc. v. Kirby*<sup>1</sup> highlight the importance of carefully drafting provisions governing the transfer of rights in new works of authorship.

The *Marvel* dispute began in September 2009, when the heirs of comic book artist Jack Kirby served Marvel with notices purporting to terminate Kirby’s prior assignment of his copyrights in 45 comics Marvel published between 1958 and 1963. The timing of these notices ensured they would receive Marvel’s attention. Disney had recently announced its agreement to acquire Marvel for approximately \$4 billion, and the works covered by the termination notices included popular and valuable franchises such as *The Amazing Spider-Man*, *The X-Men*, and *The Incredible Hulk*.

The resulting litigation focused on whether the works Kirby helped create were works of his authorship in which he later assigned Marvel the copyright, or “works made for hire” in which Marvel owned the copyright from the moment of creation.

### ‘Work Made for Hire’

Under the Copyright Act of 1976, an author of a copyrighted work or the author’s heirs have the inalienable right to terminate an assignment or license of the author’s copyright in the work beginning 35 years after the assignment or license (for transfers of copyright on or after Jan. 1, 1978) or 56 years from the date copyright protection initially is secured (for pre-1978 transfers of copyright).

An exception to this termination right are

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“works made for hire.” The copyright in those works initially is owned not by the author, but rather by the author’s employer or other party that commissioned the work. Under the 1976 act, an original work of authorship qualifies as a “work made for hire” if it is:

- (1) prepared by an employee within the scope of his or her employment; or
- (2) 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 instrument signed by them that the work shall be considered a work made for hire.<sup>2</sup>

However, because the comics in dispute were created before the 1976 act took effect, the *Marvel* court was required to consider whether they qualified as “works made for hire” under the 1976 act’s predecessor, the Copyright Act of 1909. Although Kirby operated as a freelance artist in creating artwork for Marvel, the 1909 act (like the 1976 act) extended the “work made for hire” concept to certain works commissioned from non-employees. In the U.S. Court of Appeals for the Second Circuit, the copyright in a work of authorship commissioned from an independent contractor presumptively qualifies as a “work made for hire” under the 1909 act if the work was created at the commissioning party’s “instance and expense.”<sup>3</sup> The *Marvel* court noted that the Second Circuit’s 1909 act jurisprudence on commissioned works

“creates an almost irrebuttable presumption that any person who paid another to create a copyrightable work was the statutory author under the work for hire doctrine.”

The *Marvel* court found the “instance” prong of the test was satisfied because the works all were created at Marvel’s direction and under its strict control. Kirby did not create the comic artwork until assigned that task by famed Marvel editor Stan Lee, who maintained complete editorial and stylistic control over all work Marvel published during the relevant period. The “expense” requirement was satisfied because Marvel paid Kirby a per-page fixed fee for all his artwork that Marvel published.

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The Kirby heirs sought to prove that Kirby and Marvel had reached a contrary agreement, arguing that a 1972 agreement assigning to Marvel “any and all right, title and interest [Kirby] may have or control” in the works Kirby created for Marvel necessarily implied that Kirby possessed a transferable copyright interest in those works. In other words, the assignment of rights in the artwork would have been unnecessary if that artwork qualified as a “work made for hire.”

However, the court found that the phrase “may have or control” (emphasis added) did not mandate the reading suggested by Kirby’s heirs. It interpreted the assignment language to be over-inclusive in Marvel’s favor, particularly in light of a later provision in the agreement where Kirby “acknowledge[d] and agree[d] that all his work on the materials, and all his work which created or related to the rights, was done as an employee for hire.” Accordingly, the court granted Marvel’s motion for summary judgment and found the Kirby works to be “works made for hire.”

## Drafting Considerations

As the *Marvel* court suggested in a footnote, its analysis of the case may have been different had the 1909 act not governed the “work made for hire” determination. Under the 1976 act currently in effect, an original work of authorship created by a non-employee qualifies as “work made for hire” only if it comes within one of the nine categories of works identified in the act and the parties agree in writing that the subject work is a “work made for hire.” If the court instead had relied on the 1976 act and found that Kirby’s works were not “works made for hire,” Kirby’s heirs would have had significant leverage to require Marvel to enter into lucrative new assignment or licensing arrangements.

Cases such as *Marvel* illustrate the importance of careful drafting when preparing provisions governing the transfer of rights in original work product developed by a company’s employees and contractors. Key considerations include:

- **Specify whether work product created by a contractor is intended to be a “work made for hire.”** Works of authorship created by a non-employee will not qualify as “works made for hire” under the 1976 act unless the author and the commissioning party have a signed writing confirming that to be the parties’ intent.

Although works created by an employee within the scope of his or her employment are automatically “works made for hire,” including the relevant language in agreements between employers and employees helps confirm the parties’ intent as to copyright ownership in the event of a dispute.

- **Assign all rights in work product that is not a “work made for hire.”** As the *Marvel* court noted, the 1976 act is “far more artist-friendly than the 1909 act... [and] substantially narrows the scope of works for hire when the work is commissioned from a [non-employee].” To ensure the commissioning party obtains all rights in work product, prudent drafters should consider using additional language that assigns to the commissioning party all of the contractor’s rights in works that do not qualify as a “work made for hire.” This is a particularly important consideration in technology contracts; software code, when created by a non-employee software developer, does not clearly come within any of the nine categories of “works made for hire” specified in the 1976 act. Further, because the “work made for hire” concept applies only to ownership of the copyright in a work, including the assignment language in contracts with employees and contractors ensures that any other applicable IP rights (such as trademark, trade secret and patent rights) also are transferred.

Of course, as *Marvel* illustrates, the “work made for hire” exception to an author’s right to terminate

a copyright assignment creates an incentive for the commissioning party to obtain the broadest possible ownership rights pursuant to a “work made for hire” arrangement, rather than via assignment. It may be appropriate to draft transfer language so that the contractor expressly assigns rights only to the extent the work does not otherwise qualify as a “work made for hire.” However, the decision to utilize both “work made for hire” and assignment language in contractor agreements should be carefully considered on a case-by-case basis to protect against unintended consequences. For example, some states may infer an employment relationship between a commissioning party and contractor if their agreement states that the contractor’s deliverables are works for hire.

- **Use the present tense.** Assignment language should be drafted to convey a present transfer of rights (“hereby assigns”), not a future promise to transfer (e.g., “will assign”). The latter formulation may result only in a breach of contract claim—but not ownership of the copyright or other IP rights—if the assigning party fails to deliver the promised assignment.

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This distinction figured prominently in a case recently decided by the U.S. Supreme Court, *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems Inc.*<sup>4</sup> In that case, a Stanford research fellow signed the university’s “Copyright and Patent Agreement,” in which he “agreed to assign” to Stanford his “right, title and interest” in any subsequently developed inventions. As part of his research activities, he began visiting the laboratories of Cetus Corp., where he signed an agreement in which he “did hereby assign” to Cetus any inventions he created as a consequence of his access to Cetus’ facilities.

The research fellow subsequently was identified as an inventor on patent applications that resulted in three patents that Stanford asserted against Roche (which had acquired Cetus). Roche contended that it did not infringe the Stanford patents because the research fellow had assigned to Cetus his rights in the inventions that were the subject of the asserted patents.

In June 2011, the U.S. Supreme Court affirmed the U.S. Court of Appeals for the Federal Circuit’s

holding that Stanford’s “agree to assign” language in its “Copyright and Patent Agreement” was merely a promise to assign—a promise that the research fellow could not keep as a result of his actual assignment of rights to Cetus.

- **Define work product sufficiently broadly.** The scope of works covered by the relevant agreement should be drafted to clearly reflect the parties’ intent. Vague language in this context can result in highly contentious disputes over valuable work product, as evidenced by the ongoing litigation between Mattel and MGA Entertainment over the ownership of the “Bratz” line of dolls.<sup>5</sup>

A central issue in *Mattel* was whether an employee’s idea for the Bratz dolls—which he pitched to MGA while still employed by Mattel—was assigned to Mattel pursuant to the invention assignment provision of his employment agreement. That agreement defined “inventions” to include “all discoveries, improvements, processes, developments, designs, knowhow, data computer programs and formulae, whether patentable or unpatentable.”

The district court found the definition of “inventions” to be sufficiently broad to clearly cover “ideas.” On appeal, the U.S. Court of Appeals for the Ninth Circuit overturned this finding and determined the employment agreement to be vague on the scope of the definition. Following remand to the district court and a jury verdict in MGA’s favor, the district court judge recently ordered Mattel to pay MGA more than \$309 million in damages, fees and other costs.

- **Identify potential concerns in corporate acquisitions.** IP and M&A lawyers must remain cognizant of the issues discussed above when conducting due diligence and drafting purchase agreements, particularly in connection with acquiring companies that commercialize music, film or similar entertainment properties. Buyer’s counsel should seek to identify any material works that have been assigned or licensed to the target company or its predecessor and review all relevant employment and contractor agreements. Further, the buyer should consider requiring the target company to disclose unasserted author termination rights and allocate risk between the parties through representations, warranties and indemnities.

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1. No. 1:10-cv-00141-CM-KNF (S.D.N.Y., July 28, 2011).
2. 17 USC §101.
3. *Dance Found. Inc. v. Martha Graham Ctr. of Contemporary Dance Inc.*, 380 F.3d 624, 634-35 (2d Cir. 2004).
4. 563 U.S. (2011).
5. *Bryant v. Mattel*, 04-09049, U.S. District Court, Central District of California (Santa Ana).