PROSKAUER ROSE®

Client Alert

A report for clients and friends of the firm

November 2002

Marvel Characters Inc. v. Simon: Is a "Work for Hire" Characterization Always Subject to Challenge?

Copyright lawyers have long known the value of characterizing a creator-acquirer relationship as one "for hire." Even under the predecessor 1909 Copyright Act, it was possible to defeat the expectancy of the author's heirs by treating the acquisition of rights from an author as a "work made for hire," rather than acquiring the rights by assignment. This avoided the possibility that an author could die prior to vesting of the renewal, in which case rights previously granted via "assignment" by the author could become a nullity.[1] If the rights were originally vested in the proprietor as a work for hire, the renewal went to the hiring party, not the creator. Indeed, in the case of a "work made for hire," it is the employer or commissioning party who is deemed to be the "author" of the work in the first instance.

Similarly, under the 1976 Copyright Act, there are certain inviolate rights of an author and heirs to terminate grants, exclusive or non-exclusive, in a copyright in circumstances designated by the statute.[2] These provisions were enacted to deal with the practical elimination of the renewal right by acquiring parties who insisted that the authors assign both their initial and renewal rights at the outset. Unlike the renewal right, however, the right of statutory termination is expressly inalienable and cannot be waived by agreement (although the parties entitled to that termination right can elect not to exercise it). As the 1976 Copyright Act makes clear, any agreement purporting to limit exercise of the right of termination ("an agreement to the contrary") is ineffective. However, one significant exception exists: "works made for hire" are not subject to the right of statutory termination.

As we know from recent jurisprudence in the area, the precise scope of the "work for hire" relationship varies, depending upon which U.S. copyright enactment governs (the 1909 Act governing relationships involving works created prior to January 1, 1978 was in some ways more elastic in its treatment of "for hire" works), whether the work was prepared by an employee within the meaning of common law agency principles (a standard articulated by the Supreme Court in *CCNV*[3] for works created by putative "employees" after January 1, 1978), and whether certain works can even qualify as works made for hire when they are prepared by parties outside of an employment relationship.

There nonetheless remain a considerable body of works created in relationships that probably merit "work for hire" treatment and may therefore be immune to statutory termination by the author and heirs. And, even where that characterization was "borderline," it was worth the effort for a publisher or other party acquiring rights to treat the acquisition as a work for hire, to avoid the potential statutory right of termination.

The Second Circuit's most recent pronouncement on the issue, in *Marvel Characters, Inc. v Simon*, ____F3d _____, 2002 WL 31478878 (2d Cir. November 7, 2002), indicates that a settlement agreement containing a work for hire clause may be subject to later challenge. In Simon, the creator of "Captain America" had already litigated his entitlements to the renewal term of copyright against its publisher and ultimately entered into a settlement agreement whereby he acknowledged that his efforts were done as a work made for hire. As a result of this acknowledgment, Simon would have had no right to statutorily terminate any "grant" he made to the publisher. Nonetheless, in December 1999, Simon purported to terminate under the statute, claiming that his contributions were not done as a work made for hire. In the litigation that resulted in the Second Circuit's decision, the District Court concluded that neither res judicata nor collateral estoppel barred Simon from asserting his termination rights, since the issues at stake in the prior, settled litigation, while clearly relating to the relationship he had with the publisher, did not purport to address his termination rights. The District Court nonetheless held that the unequivocal language of

[1] *See, e.g., Stewart v. Abend,* 110 S. Ct. 1750 (1990).
[2] *17 U.S.C. §§ 203, 304.*
[3] *Community for Creative Non-Violence v. Reid,* 490 U.S. 730 (1989).

the settlement agreement barred Simon from challenging the work for hire characterization and hence prevented him from exercising any right of statutory termination under the 1976 Act.

The Second Circuit reversed on the ground that the settlement agreement was, in effect, a statutorily prohibited "agreement to the contrary" and contravened the legislative intent and purpose of the statutory termination provisions. In reaching this conclusion, the Second Circuit noted that *res judicata* could not apply where the right in dispute did not even exist at the time of the settlement (as noted above, the statutory termination right was a creature of the 1976 Act and the settlement agreement was consummated ten years earlier). The court concluded that absent specific findings of fact with respect to the issue of Simon's relationship, his statutory termination claim could not be treated as an issue that was fully and fairly litigated in the prior, settled action.

By permitting a former litigant to challenge a work for hire characterization made in a previous settlement, the Second Circuit took the view that it was forcing an analysis of the actual relationship between the parties rather than the language of their agreements. Otherwise, according to that court, the termination provision would be rendered a nullity and "litigation-savvy publishers" would use their bargaining power to compel such a characterization. This, according to the Second Circuit, was precisely the reason that Congress included the "agreement to the contrary" language in the termination provisions.

The Second Circuit's reasoning probably fails when it contrasts this situation with a conventional employment relationship. Given the uncertainty whether some employment relationships will satisfy the work made for hire requirements of the *CCNV* case, discussed above, and recognizing that not all true employment relationships fit neatly within a common law agency definition in this day and age, there appears to be considerable litigation potential here, even for employees, to challenge the "for hire" status of their creative contributions.

The Second Circuit gave no shrift to Marvel's equitable estoppel argument that it would never have settled the case had it known Simon could disavow the work for hire characterization. Interestingly enough, the Second Circuit never reached the ultimate question: whether a court order can "trump" the statutory "no agreement to the contrary" language. It seems to suggest that possibility by observing that, to avoid future litigation, parties need only comply with the requirements of collateral estoppel by filing detailed fact findings. Indeed, the court suggests that when matters are in litigation, the policy concerns underlying the inviolate nature of statutory termination rights no longer exist; that is, the need to protect "ill-advised" authors from copyright and "litigation-savvy publishers."

One implication of this decision may be to invite parties to use a pretextual litigation as a means to have a court validate a work for hire agreement that would otherwise be subject to challenge. The court also did not address what impact, if any, presumptions of validity arising from a copyright registration would have in this setting. Current copyright registration forms call for the applicant to identify whether or not the work is one made "for hire." However, at the time the works at issue in the Simon case were registered, no such information was required to be supplied by the applicant. Presumably, where a work for hire statement is made in connection with registration, it would be entitled to a *prima facie* presumption of validity, as § 410 of the 1976 Act provides. But, because that merely allocates the burden of proof, it does not foreclose the possibility of litigation.

From a practical standpoint, any "work for hire" characterization, whether set forth in a certificate of registration, a contemporaneous agreement or one made after the fact, is arguably subject to challenge by the author or heirs. The Second Circuit's decision in the *Simon* case now makes it clear that a settlement agreement "concession" of work for hire status is not immune to challenge, either. This certainly raises the stakes for both sides in negotiating agreements which are premised on the notion that they will involve "termination-free" acquisitions of copyrights.

Jon A. Baumgarten
202.416.6810 - jabaumgarten@proskauer.com

William M. Hart
212.969.3095 - whart@proskauer.com