



LOSS PREVENTION

Copyright Best Practices:
A Loss Prevention Guide

Written by Levine Sullivan Koch & Schulz, LLP
for AXIS Insurance

INTRODUCTION

Copyright law is no longer just the concern of media corporations. Whether small startups, or big and long-established manufacturing or services companies, businesses spend significant resources creating valuable intellectual property, which can be the life-blood of a company. No matter what the company's line of business, with the ever increasing use of interactive, multi-media websites and blogs, there are more reasons than ever for companies to be savvy about the benefits and pitfalls of copyright law. Care should be taken not only to protect the company's copyrighted property, but also to avoid infringing copyrights held by others.

This summary and best practices guide is intended as a basic primer on copyright law and as a starting point for an internal review of a company's copyright-related activities. For advice relating to specific situations, it is advisable to consult legal counsel.

THE BASICS: Copyright Defined

In the United States, copyright law is governed by a federal statute, the Copyright Act, 17 U.S.C. § 101, et seq. The Copyright Act provides protection for original works of authorship, including, among others, literary, musical, dramatic, artistic and other pictorial works and, within those broad categories, includes protection for software, web sites, ring tones, and photographs. Copyright applies to any original expressive work once that work is captured in tangible form (i.e., is drawn or written on a piece of paper, stored in a computer's memory, etc.). While copyright often is thought of with respect to literature and art, it applies with equal strength and perhaps more often to company brochures and product labels.

Copyright law does not protect ideas, procedures or processes; titles, names, short phrases or slogans (though these sometimes may be protectable under other branches of intellectual property law such as patent or trademark); works comprised entirely of common, public information (such as calendars or material taken entirely from public documents); and works that have not been fixed in a tangible form (e.g., an extemporaneous speech not written down or recorded).

The owner of a copyright in a particular work has certain exclusive rights with respect to that work; namely, the right to reproduce, prepare derivative works of, distribute copies of, perform and publicly display the work. These protections exist whether or not the work previously has been published. In addition, with respect to a limited category of visual works of art, the copyright law provides limited rights of attribution and integrity. Thus, the author of a work of visual art may have the right to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and to prevent any destruction of a work of recognized stature.

Copyright generally is recognized on an international basis. While there is no universally applicable copyright law, most countries provide copyright protection to foreign works pursuant to international copyright treaties and conventions. The United States is a signatory to the Berne Convention and the Universal Copyright Convention, which generally provide for reciprocal copyright rights within the member countries. Under the Berne Convention, for example, each signatory nation is required to give the same copyright protection to works first published in other nations as they would to works originating in the signatory nation.

COPYRIGHT OWNERSHIP: Authors

Under U.S. law, copyright protection automatically comes into existence the moment an original work of authorship is fixed in a tangible form. The copyright instantly becomes vested in the author of the work—i.e., the person who created it, for example the photographer who snapped the picture or the writer who wrote the words down. In some

instances, a work may be considered a “joint work,” in which the copyright will vest jointly in the multiple authors of the work. To be a “joint work,” the work must have been prepared by two or more authors who, prior to the work’s creation, had the intention that each of their contributions would be merged into a unitary whole.

COPYRIGHT OWNERSHIP: Works Made for Hire

The “work-made-for-hire” doctrine establishes an exception to the general rule that the copyright vests in the person who created the work. Under the doctrine, the employer of the author or a party who commissioned the author to create the work may be deemed to be “author,” and thus owner, of the copyright in the work. Whether a work is “made for hire” is determined by the relationship between the parties and the nature of the work at issue.

The work-made-for-hire doctrine applies to two classes of works: works created by employees and specially ordered or commissioned works. When a work is prepared by an employee within the scope of his or her employment, the employer generally will be deemed the owner of the copyright absent any agreement to the contrary between the parties. An “employee” in this context refers exclusively to employees in the traditional sense of a regular, salaried employment relationship and under the general common law of agency. Courts will look to the employer’s ability to control the work and the employee, as well as the status and conduct of the employer. This involves numerous factors including, (1) the hiring party’s right to control the manner and means of creation; (2) the skill required; (3) the provision of employee benefits; (4) the tax treatment of the hired party; and (5) whether the hiring party has the right to assign additional projects to the hired party. In determining whether the work falls within the “scope of employment,” courts will consider (1) whether it is the type of work in which the employer is engaged and the employee is employed to perform; (2) whether it was created substantially within authorized

work hours and space; and (3) whether the motivation was, at least in part, to serve the employer.

Copyright ownership also may be obtained in a commissioned work created by someone other than a true “employee” if two statutory conditions are met. First, the commissioned work must fall within at least one of the following enumerated categories: (1) a contribution to a collective work; (2) a part of a motion picture or other audiovisual work; (3) a translation; (4) a supplementary work; (5) a compilation; (6) an instructional text; (7) a test; (8) answer material for a test; or (8) an atlas. If the work does not fall within one of the above categories, it cannot qualify as a “work for hire” under the statute. Second, the parties must expressly agree in writing, signed by both parties, to consider the commissioned work a work made for hire. Some disagreement exists among the courts as to whether the agreement must be prepared and signed before the work is created or whether the parties may prepare the writing after creation of the work. However, even where courts have permitted the writing to be prepared after the work has been created, the signed writing must confirm a prior agreement, either explicit or implicit, that was made before the creation of the work. Thus, when commissioning creation of a work, the best practice is to have a written agreement in place before the work is created.

COPYRIGHT OWNERSHIP: Copyright Assignments

Copyrights may also be obtained, in whole or in part, through an assignment from the copyright owner. A copyright is a personal property right and, as such, is subject to laws and regulations such as those governing the transfer or inheritance of property. In general, any or all of the exclusive rights owned by the copyright holder may be transferred.

Thus, where the work at issue does not qualify as a work made for hire, a company may obtain copyright ownership through an assignment. An “assignment” is the transfer of the entire set of exclusive rights protected under copyright law. All transfers of exclu-

sive rights of copyright ownership, including assignments, must be in writing, signed by the copyright owner. Traditionally, courts do not require lengthy documents to effect the transfer of a copyright. So long as the work at issue is clearly identified, and the intent to assign the copyright is made clear, the assignment should be deemed effective. For example, a statement that “[copyright owner] hereby assigns and transfers to [your company] all rights, including the copyright, in the work known as [title] which is the subject of U.S. Copyright Registration No. [TX ___],” which is signed by the copyright owner, should be sufficient.

COPYRIGHT OWNERSHIP: Duration of Copyright Protection

Any work created on or after January 1, 1978 is protected automatically under United States copyright law for a period of the author’s life plus seventy years. The copyright in a joint work exists for a period of seventy years after the last author’s death. In the case of works made for hire, the copyright term lasts the shorter of either (1) ninety-five years from the date of publication, or (2)

one hundred twenty years from the date of creation. As a general rule, works created prior to January 1, 1978 are eligible for a period of protection up to ninety-five years from the date of publication, or in the case of an unpublished work, from the date it was registered with the copyright office.

COPYRIGHT OWNERSHIP: Copyright Notices and Registration

Under current copyright law, no formalities are required to obtain a copyright. Thus, neither the registration of the work with the U.S. Copyright Office, nor the use of a copyright notice, is necessary for copyright protection. However, there are benefits to observing the formalities. Because notice may serve both to remind the public that the work is protected by copyright and to identify the owner thereof, it is prudent to use a copyright notice. It is not necessary to register the work or otherwise obtain permission from the U.S. Copyright Office in order to use a copyright notice. The proper form of copyright notice has three elements: First, the word "Copyright," "Copr.," or the symbol, "©," followed by the year of first publication, followed by the name of the copyright owner.

In addition, although it is not necessary to register a copyright with the Copyright Office, registration provides certain benefits, such as establishing a public record of the copyright and, in some cases, providing prima facie evidence of its validity. Furthermore, a copyright must be registered before any legal action may be brought to enforce it. In addition, certain remedies may be available to a copyright

owner bringing an infringement action, such as the possibility of obtaining a court award of statutory damages or attorneys' fees, only if the copyright in the work is registered within three months of its first publication or prior to its infringement.

It likewise is not necessary to record the assignment of a copyright, but recording such a transfer with the copyright office provides similar benefits, such as establishing priorities between conflicting transfers, and may be necessary to enforce the copyright against third parties.

A copyright can be registered at any time. To register a copyright, you generally must provide the Copyright Office with a completed application form, two copies of the work and the filing fee. All three elements must be submitted in the same package. To record a document pertaining to copyright such as an assignment or license, you must submit the document containing either original signatures, or a sworn certification that the photocopy is a true and correct copy of the original signed document.

USE WITHOUT OWNERSHIP:

If a company does not own the copyright in a particular work, it generally is necessary to obtain permission from the copyright owner prior to making use of the work. Except for

certain limited statutory exceptions, using a work without first obtaining the proper authorization likely will constitute infringement.

USE WITHOUT OWNERSHIP: Copyright Licenses

The most common way companies obtain permission to use a copyrighted work is by obtaining a license from the copyright owner. Licenses can be exclusive or non-exclusive, cover all of the rights under copyright or just some of them, be perpetual or limited in time, or sliced in any way the parties to the license agreement see fit. An “exclusive license” grants the licensee the equivalent of actual ownership of the particular licensed right. A “non-exclusive license” merely grants the transferee a limited right to use the copyrighted material in a particular manner. An exclusive license differs from an assignment, discussed above, in that an exclusive license reserves some ownership rights in the grantor, whereas an assignment transfers all ownership privileges. Exclusive licenses must be in writing signed by the copyright owner or an authorized agent. Although a non-exclusive license may be oral, the better practice is to commit all licenses to writing where possible.

License agreements are subject to interpretation under state contract law. Unlike assignments, the grant of rights in a license is limited to the grant language. Thus, it is important to remember that a license to use

copyrighted material in one medium does not necessarily grant the licensee the right to use the copyrighted material in another format. While there is some split of judicial authority, courts generally construe licenses narrowly, limiting use of the copyrighted material to that which the license specifically contemplates. For example, a license to publish a work in book form does not include the digital or electronic rights to reproduce the work as an “e book,” and a license to publish a copyrighted advertisement in print does not automatically grant the licensee the right to publish the advertisement on a website. Similarly, a license to use a contributed work, such as an article, as part of a collective work, like a magazine, does not automatically include a license to reproduce that work in other forms, even in the same medium.

It is a common pitfall of companies obtaining copyright licenses to fail to include in the written agreement all of their intended or likely uses of the copyrighted work. For example, companies often obtain a license for a single intended purpose—say, a license to use a photograph in a printed company brochure—but later realize that they would like to make a different or broader use of the work—i.e., in

their annual report, online catalog, newspaper ads, etc. Making use of the photograph in any of these additional ways without obtaining the additional rights likely would constitute infringement. To avoid this problem, the company should endeavor to ensure that all copyright licenses specifically include the right to reproduce and distribute the copyrighted material in all needed medium, and for all needed purposes. It also is advisable to include a “future technologies” clause in a license to ensure that you are able to use the material in future applications, even those not contemplated at the time of licensing. Such clauses might, for example, grant the licensee the right “to exhibit, distribute, exploit, market and perform the work perpetually throughout the world by any means or methods now or hereafter known,” “by any present or future methods or means,” or by “any means now known or unknown.” Of course, the issue of what rights to obtain, and what rights the licensor is willing to grant, may come down to an economic decision, as rights holders tend to charge much more if you want all rights

in their work, than for the right to make a one-time use for a particular purpose. However, whatever package of rights ultimately is obtained, it is always prudent to ensure that uses are not made that exceed the scope of the license.

As mentioned, licenses can be exclusive or non-exclusive. However, the holder of a non-exclusive license has no standing to enforce any violations of the copyright. Infringement actions can only be brought by the copyright owner or a party that holds the specific exclusive right that has been infringed. Because exclusive licenses must be done in writing, any oral license, even if the parties orally agreed that a license would be exclusive, is deemed to be non-exclusive. Another obvious pitfall to oral licenses is that parties frequently have different recollections of precisely what types of use of the work were covered by the oral agreement. Thus, even when dealing with known vendors and long-time contributors, it always is prudent to commit any license agreement to writing.

USE WITHOUT OWNERSHIP: Determining Copyright Ownership

To obtain a license, the best method is to contact the owner directly. Sometimes, it is difficult to determine who is the owner of the copyright in an existing work. For certain types of nondramatic musical works, it may be possible to obtain a compulsory license through one of the music licensing agencies. For materials posted on the internet, websites often contain a copyright policy, a reprint permission policy or, at the very least, contact information. If it is not apparent who owns the copyright to a work, a search of filings with the Copyright Office may be helpful. Copyright registrations and documents recorded from 1978 to the present may be searched online on the Copyright Office website, <http://www.copyright.gov>. To search registrations prior to 1978, it is necessary to go in person to the Copyright Office. Alternatively, the Copyright

Office will conduct the search for a statutory fee, currently \$150 per hour, and there also are private companies that conduct copyright searches for a fee.

Once the copyright owner is identified, any permissions or licenses obtained from the owner should be committed to a signed writing. Whether or not the licensor is known to the company, it is prudent to include in any license agreement a representation and warranty by the licensor that the licensor holds sufficient rights in the copyright to grant the desired license, as well as an agreement by the licensor to indemnify the licensee for any claims that use of the licensed work by the licensee infringes the intellectual property rights of a third party.

USE WITHOUT OWNERSHIP: Fair Use

The doctrine of “fair use” may permit some uses of works that would otherwise constitute infringement. Fair use is a statutory provision that balances a copyright owner’s exclusive right to control use of his or her work against the public’s need to have that work available for publicly beneficial purposes. Under section 107 of the Copyright Act, use of someone else’s work for such purposes as commentary, criticism, news reporting, research and scholarly reports, among other things, may be considered to be a fair use, and thus non-infringing, based on a balancing of four statutorily enumerated factors: (1) the pur-

pose and character of the use, (2) the nature of the copyrighted work, (3) the amount and substantiality of the portion used, and (4) the effect of the use upon the copyright owner’s potential market.

For the first factor, uses that are of a commercial nature, or which merely act as a substitute for the original, will weigh against fair use. In contrast, uses that are “transformative,” in that they build upon the original (for example, by adding new content or analysis), or which are for educational or informational purposes, will weigh in favor of the use.

The second factor looks at two dichotomies concerning the original work: whether it is published or unpublished, and whether it is factual or fictional (or creative) in nature. Use of a published or informational work favors fair use, while use of unpublished or creative works weighs against fair use. The third factor considers how much of the underlying work has been used, and the more of the underlying work that is used, the less likely this factor will favor fair use. Finally, the last factor looks at the harm to the market for the original work caused by the use. The more that the use acts as a substitute in the market for the original and will replace sales that the owner might otherwise have made, the more this factor will weigh against fair use.

It is risky to rely on the fair use doctrine when planning prospectively, particularly in

connection with commercial uses. Whether a use is fair involves a fact-specific determination, made on a case by case basis. The fair use defense by and large is most applicable to non-profit and educational uses. Although the mere fact that a company makes use of a work for commercial purposes will not automatically disqualify the use from being fair, the commercial nature of a use generally weighs heavily against finding a fair use. For example, the Supreme Court has stated that the use “of a copyrighted work to advertise a product . . . will be entitled to less indulgence under the first factor of the fair use inquiry.” Thus, particularly where the use contemplated has a commercial nature, it is prudent to obtain the necessary rights to use a work rather than to rely on the defense of fair use.

TREATMENT OF FACTS AND IDEAS:

A fundamental tenet of copyright law is that copyright protection extends only to expression, and copyright does not protect facts or ideas. Thus, the public generally is free to use ideas or facts contained in a copyrighted work. However, the manner in which the facts are expressed is subject to copyright protec-

tion. Thus, while a copyrighted work may be used as a source of facts, including historic or scientific information and news, expression should not be copied without permission from the copyright owner unless the use qualifies as a fair use.

TREATMENT OF FACTS AND IDEAS: Expression Is Protected

“Expression” is the manner in which facts are communicated in a copyrighted work. It includes the particular combinations and sequences of words, the manner in which the reported facts are marshaled, the way that the facts are knit together to convey a particular story. For example, two people observing the same inning of a baseball game might describe the events they witness differently: the first might focus on the exploits of the defense holding the batting team to just two runs, while the other may recount the sequence of batters and the offensive strategy used to eke out the two runs. While each of the observers would be entitled to prevent the other from copying their description of the game, neither

could prevent the other from writing that in that inning, the team at bat scored two runs, and the game involved some excellent defense and a good deal of strategy. Similarly, as a matter of copyright law, while a company may include in its own writings facts about its industry’s financial performance obtained from a copyrighted report, the company cannot reproduce and distribute that protected report without obtaining a license from the copyright owner. Moreover, because copyright protection extends to the manner in which collections of facts have been selected, organized and arranged, graphic presentations of facts such as charts and graphs generally should not be copied without permission.

TREATMENT OF FACTS AND IDEAS:

Hot News

Although facts themselves are not protected by copyright law, there is a doctrine that some states continue to recognize that affords state-law protection for a narrow class of facts that constitute “hot news.” Under the “hot news” doctrine, some states protect time-sensitive information gathered at significant cost and prevent others from “free-riding” by reproducing and distributing that information while the information is still “hot”—that is, before the gatherer of the information has had an opportunity to commercially exploit the time-sensitive information. Where the doctrine is recognized, a claim for the misappropriation of hot news would apply if the following five

conditions are met: (1) the plaintiff collects information at some cost or expense, (2) the value of the information is highly time-sensitive, (3) the defendant’s use of the information constitutes free-riding on the plaintiff’s efforts, (4) the defendant’s use of the information is in direct competition with a product or service offered by the plaintiff, and (5) the ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened. While courts continue to apply the hot-news doctrine, its application has not been wide-spread.

TREATMENT OF FACTS AND IDEAS:

Idea Submission Claims

Ideas cannot be protected under copyright law. Once an idea is exposed to the public -- for example, by being described in a published work -- then anyone is free to copy or use the idea. However, in limited circumstances, the relationship between parties exchanging or conveying ideas can give rise to a claim based on the unauthorized use of the idea. An example is disclosure of an idea in a context in which it is clear that the disclosure is made based upon an understanding that the discloser would be compensated if the idea is used.

Under these circumstances, uncompensated use of the idea could give rise to claims under state common-law theories such as breach of implied contract, quasi-contract or unjust enrichment. In industries where the submission of unsolicited ideas is common, it is prudent to include “unsolicited idea policies” among a company’s procedures and web site terms of use, which may help to establish that the company is not seeking and does not intend to be bound to pay for unsolicited ideas.

INFRINGEMENT AND ENFORCEMENT:

Infringing uses of copyrighted material seemingly are everywhere, and the problem appears to have grown with the development of the Internet. As one author has noted, “[a] culture of cut-and-paste is made to order for the Net, where an almost-everything-goes attitude prevails.” Although many people erroneously believe that anything published on the Internet is freely available for use, the overwhelming majority of such content is, in fact, protected by copyright.

Copyright infringement occurs when a work has been reproduced or distributed, among other things, without the copyright owner’s permission. The primary elements that must be shown to make out a copyright infringement claim are (i) ownership of the copyrighted work and (ii) copying. Procedurally, the copyright in the infringed work must be registered as a statutory prerequisite to filing a copyright infringement lawsuit.

Companies take varying approaches to determine if their own content is being infringed on the Web—from simply conducting searches for their work to utilizing digital watermarks and sophisticated systems to track down where those watermarks show up. Several companies offer digital watermarking services for a fee, as well as automated programs to search for infringing content.

Unlike with trademarks, copyright protection generally is not lost by failing to take steps to enforce the copyright. However, owners who fail to enforce their copyrights take the risk that infringing versions of their works may spread uncontrollably across the internet. In addition, if no action is taken over a period of time against a known infringement, a later enforcement attempt may be met with a laches defense.

INFRINGEMENT AND ENFORCEMENT: Digital Millennium Copyright Act (the “DMCA”)

The Digital Millennium Copyright Act (“DMCA”) is a provision of the copyright law enacted in 1998 to provide limited protection for companies that act as “hosts” for content posted to the internet by others. With numerous forms of internet publishing, from online bulletin boards to online social networks and blogs, many internet sites are interactive and permit users of the site to post publicly-available content. One of the key provisions of the DMCA is its “takedown” notice procedure. This procedure is beneficial to copyright

owners because it establishes a mechanism for halting infringing works. It also protects internet hosts by granting immunity from liability for hosting infringing material to those hosts who adopt the specified procedures for facilitating the removal of infringing material. This protection is available to online service providers (“OSPs”)², which the DMCA defines to include both internet service providers that host web sites, as well as owners of web sites that publish user generated content. To qualify for the immunity, an OSP must adopt

certain procedures, including posting instructions on how to register a complaint, providing the identify of the person to whom such complaints should be sent, and timely removing or disabling access to any infringing content upon notification.

It is prudent for companies to become familiar with and implement the provisions of the DMCA. To the extent a company finds that its

own content is being infringed on the internet, the DMCA procedures can be useful in halting the infringement. In addition, to the extent that company web sites contain blogging features or other mechanisms that permit posting of content by site users, failure to comply with the DMCA provisions can result in loss of immunity for certain claims, and thus expose the company to unnecessary damages risk.

INFRINGEMENT AND ENFORCEMENT: Digital Millennium Copyright Act (the “DMCA”)

Many companies will benefit from an internal audit of their copyright practices. Typically this is done by investigating and cataloging the types of copyrighted material created and used by the company. Through an audit, the company can determine whether it has adequate procedures in place for acquiring sufficient permissions for all of its needed uses of others’ copyrighted material. Similarly, companies can analyze whether sufficient measures are being taken to protect its rights in copyrighted material it has created.

In addition, companies should establish appropriate copyright policies and training

programs. The company should ensure that it is complying with provisions of the DMCA so as to lessen its exposure to certain types of claims. The company’s advertising and marketing staff, along with those responsible for its internet presence, should be trained to ensure that they do not make use of material beyond what is permitted under law. As part of the process, employees should be educated about what uses the company may and may not make of material obtained by employees without licenses, such as material found on the internet.

² For purposes of the DMCA, a service provider is defined as “a provider of online services or network access, or the operator of facilities therefor.”

CONTACT INFORMATION:

For more information regarding Levine Sullivan Koch & Schulz, LLP,
please contact:

Bob PENCHINA, Esq.
Partner
Levine Sullivan Koch & Schulz, LLP
321 West 44th Street, Suite 510
New York, NY 10036

Phone: 212.850.6100
Fax: 212.850.6299

For more information regarding AXIS PRO's Loss Control Services or for
scheduling a loss control seminar, please contact:

Scott A Swift, Esq.
AVP - Claims and Loss Control Counsel
AXIS PRO
2300 Main Street, Suite 800
Kansas City, MO 64108

Phone: 816.292.7295
Toll Free: 866.282.5565
Fax: 816.471.6119

AXIS PRO

PROFESSIONAL • MEDIA • TECHNOLOGY

2300 Main Street, Suite 800
Kansas City, MO 64108

www.axisproinsurance.com



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