

New York Law Journal  
Wednesday, August 23, 2006

OUTSIDE COUNSEL

## Copyright and the Contract Drafter

Kenneth A. Adams

It's safe to assume that those who work with contracts give nary a thought to the subject of copyright in contracts. But it raises interesting issues touching on how law firms go about drafting contracts. This article discusses those issues.

### *Copyright in Contracts?*

An initial question is whether contracts are even entitled to copyright protection. It seems that they are: 1-2 *Nimmer on Copyright* § 2.18[E] states that 'There appear to be no valid grounds why legal forms such as contracts, insurance policies, pleadings and other legal documents should not be protected under the law of copyright.'

That doesn't mean that every contract is so protected. If you copy someone else's contract verbatim, changing only the party names, dates, and similar details, a court would likely find the contract insufficiently original and creative to support a claim of copyright violation if in turn someone were to copy your contract.

But it doesn't take much to show originality and creativity. One step up from outright copying is lifting from precedent contracts and tweaking and rearranging into a new contract standard provisions of the sort that have been used, with minor variations, in countless transactions. Such a contract could plausibly be considered, for copyright purposes, to be a compilation, and as such would be entitled to copyright protection.

There are two ways to be more creative, for copyright purposes, in drafting a contract. First, you could prepare a contract that reflects a new kind of transaction, or a variation on an existing transaction. (Copyright would of course only cover expression of that innovation rather than the innovation itself.)

The second way to add creativity to a contract would be to refine its language so that it's noticeably different from traditional contract language. In this context, consider the case *American Family Life Insurance Co. of Columbus v. Assurant, Inc.* (N.D. Ga. 2006). American Family Life Insurance Co. of Columbus (better known as AFLAC) devoted significant resources to drafting supplemental insurance policies in a 'narrative' style that it thought customers would find easier to read. The defendants produced their own supplemental insurance policies, some early versions of which were verbatim copies of AFLAC's policies. AFLAC sued, claiming violation of copyright. The court held that AFLAC had a copyrightable interest in the new narrative-style policies and that the defendants had closely copied the narrative-style benefits sections of two AFLAC

policies. The court granted summary judgment and a preliminary injunction in favor of AFLAC.

This case suggests that overhauling the language of a contract so as to make it more readable than run-of-the-mill contract language would create a copyrightable interest in that new language.

### ***Who Owns the Copyright?***

So, contracts are entitled to copyright protection. The question follows, who, under U.S. law, owns the copyright in a contract that a law firm drafts for its client? This question has two parts. First, as between a law firm and the lawyer who drafts the contract, who owns the copyright?

The answer could depend on who does the drafting. 17 USC § 101 states that a ‘work made for hire’ includes ‘a work prepared by an employee within the scope of his or her employment.’ And 17 USC 201(b) states that ‘In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.’

An associate would be considered an employee of the associate’s law firm. See, for example, *Hishon v. King & Spalding*, 467 US 69, 76 (1984) (referring to ‘an associate’s status as an employee’ of respondent law firm). Consequently, the copyright in any contract drafted by an associate in his or her capacity as an associate would belong to the law firm.

By contrast, ‘Partners are not generally regarded as employees of partnerships.’ *Brown v. Flowers*, 297 F. Supp. 2d 846, 852 (M.D.N.C. 2003) (determining that a recording prepared by a partner in a two-person partnership was not a work for hire as it had not been prepared by an employee). Because 17 USC 201(a) states that ‘copyright in a work protected under this title vests initially in the author or authors of the work,’ this case suggests that a law-firm partner would retain the copyright in any contracts drafted by that partner, unless in the partnership agreement the partner grants copyright to the law firm. But whether a big-firm partner should be considered an employee is a much-debated question, at least for purposes of employment laws. See, for example, Martha Neil, ‘Who Is a Partner?’, *ABA Journal*, June 2005, at 34. Because *Brown v. Flowers* didn’t involve a law firm, it likely won’t be the last word on this subject.

One implication of all this is that any associate leaving a law firm would, strictly speaking, be violating the law firm’s copyright by taking and subsequently using copies of contracts that the associate had worked on while at the firm.

But because, as discussed below, the vast majority of contracts prepared by law firms are either outright copies that aren’t entitled to copyright protection or are contracts that derive copyright protection from their status as compilations, a law firm would likely have a hard time demonstrating breach of copyright.

And consider the situation facing a departing associate. If a first-year associate leaves a firm without taking any form contracts, he or she would likely not be any the worse for it. But if Fred, a fifth-year associate, were to show up at a new firm without a library of form contracts, he would have to either cadge forms from his new colleagues or root around for forms on the SEC's EDGAR system or elsewhere. Besides looking a little foolish, Fred would lose significant amounts of time either becoming used to the new forms, retooling them to suit his needs, or some combination of these two approaches.

Given these considerations, I suspect that as a general matter departing associates have a more expansive view of what it would be appropriate for them to take with them. I also suspect that law firms routinely turn a blind eye to departing associates' copying contracts that they worked on. After all, if a law firm were inclined to zealously protect its copyright, it would have to prevent associates from leaving with their deal bibles and velobound closing binders—an unlikely notion.

In any event, a departing associate can either go about discretely copying contracts or disclose to the law firm what he or she has in mind. The latter approach is the most-cautious, as it would ensure that the associate isn't accused of doing anything improper. But which approach an associate takes probably depends on the circumstances. At some law firms, making a formal request to copy contracts might strangle in red tape what should be a straightforward matter.

If a law firm engages in an innovative drafting initiative of the sort discussed above, it might want to establish guidelines regarding what an associate may and may not take. It might want to explore allowing associates to take, for reference purposes, copies of contracts from transactions they had worked on, but at the same time making it clear that flat-out copying of those contracts wouldn't be acceptable. And it might want to ensure that in its partnership agreement the partners grant the law firm whatever copyright they otherwise would have in contracts prepared for any transactions that the partners handle.

Note that surreptitious copying of partners' form contracts is an altogether different matter. And so is the question of how to handle a client's files when the billing lawyer leaves the firm.

### ***Law Firm or Client?***

The second part of the question is who, as between the law firm (or partner) and the client, owns the copyright?

If the contract constitutes a work for hire, under 17 USC 201(b) the client would own the copyright. But to constitute a work for hire, the law firm, in drafting the contract, would have to be acting as 'an employee within the scope of his or her employment,' as required under 17 USC § 101. (The definition of work for hire also encompasses certain works specially ordered or commissioned, but a contract drafted by a law firm wouldn't constitute such a work.)

For guidance on determining whether for copyright purposes a law firm acts as an employee with respect to its client, the case to consult is *Community for Creative Non-Violence v. Reid*, 490 US 730 (1989).

Plaintiff CCNV, a nonprofit organization, paid defendant Mr. Reid \$15,000 to create a sculpture of a modern Nativity scene. The facts showed that CCNV supervised and directed Mr. Reid in some particulars, but that in others he acted independently. The Supreme Court summarized its inquiry as follows: ‘In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party’s right to control the manner and means by which the product is accomplished.’ *Id.* at 751. The court considered a various factors, including whether the hiring party had the right to assign additional projects to the hired party. It held that because CCNV lacked such control, Mr. Reid was the copyright owner.

None of the cases that have considered the meaning of ‘employee’ for purposes of the definition of ‘work for hire’ have considered whether a legal entity such as a partnership, as opposed to an individual, can be an employee. (For an account of those cases, see 1-5 *Nimmer on Copyright* § 5.03[B][1][a].) But setting aside that issue, the level of control that a law firm exerts in performing work for clients is, if you consider the factors listed in *Community for Creative Non-Violence*, that of an independent contractor rather than an employee.

And it follows that if a law firm that drafts a contract for a client is in that capacity acting as an independent contractor, it would, under 17 USC 201(a), own the copyright in that contract.

What does this mean for law firms and their clients? If a client asks a law firm to draft a form of agreement to be used by its businesspeople, it’s unlikely that the law firm would subsequently object that such copying violates its copyright, and it’s hard to imagine how it could plausibly do so.

Here’s a more likely scenario: A client asks its law firm to draft a form of agreement for a new kind of transaction. The client ends up paying the law firm plenty for their work, and the client’s personnel spend many hours helping the lawyers grasp the technical and business nuances that have to be addressed in the agreement. Subsequently the client finds that law firm has cheerfully been selling to other clients a substantially identical form of agreement. From a copyright perspective, the law firm is at liberty to do so, and it’s unlikely that a law firm would agree to forget that it had ever worked on a given agreement. Perhaps the best that the client could hope for is that the law firm would agree not to use that form of agreement in representing the client’s competitors.

### ***Drafter as Copyright Violator***

It is standard practice for corporate lawyers to copy—from deal binders, the SEC’s EDGAR database, and elsewhere—and revise contracts drafted by others. Unless such copying constitutes ‘fair use,’ it would violate any copyright in the contract that’s been copied.

Does such copying constitute fair use? There's precious little to suggest that it does. If a law firm is able to produce for its clients contracts that are distinctive in terms of substance or language, the law firm would derive a competitive advantage that it would lose if its competitors were able to copy those contracts with impunity.

But that's not to say that corporate lawyers should stop copying from contracts they find on EDGAR or elsewhere. It's a safe assumption that the vast majority of contracts are either outright copies that aren't entitled to copyright protection or contracts that derive copyright protection from their status as compilations. Because any compilation contract would resemble countless other contracts, a law firm would likely have a hard time demonstrating breach of copyright of its compilation contract. And even if were able to do so, its damages would likely be nominal, because compiling such contracts is a relatively quick scissor-and-paste exercise. So you should feel free to copy a run-of-the-mill compilation contract, not because doing so constitutes fair use, but because the likelihood of someone knowing of that copying and having any interest in preventing it are exceedingly remote.

But what if you've invested significant resources in developing a form of contract that you plan on selling repeatedly? You might want to consider implementing a copyright protection program.

One element of any copyright protection program would be to include a copyright notice in each iteration of a given contract. A notice wouldn't be necessary—innocent copying is not a defense to copyright infringement—but it would put others on notice of your copyright and would likely dissuade copying. It would be best to place the copyright notice in the body of the contract, among the 'miscellaneous' provisions, rather than putting it in a footer, given that footers are often omitted when a contract is copied. In particular, a copyright notice that's in a footer would likely be omitted when a contract is filed on EDGAR.

Another component of a copyright protection program would be to devise electronic searches that can be relied on to retrieve copies—authorized or infringing—of your contract and little or nothing else. You'd want to run the searches periodically on EDGAR, Lexis, Westlaw, and the Internet.

I've yet to hear of anyone implementing a copyright protection program for contracts. But in many respects, contract drafting is ripe for change, and innovation could bring in its wake the need for copyright protection.

---

Kenneth A. Adams is a consultant and speaker on contract drafting at AdamsDrafting in Garden City, N.Y.