

**THIRTEENTH ANNUAL  
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**PRE-EMPTIVE LOSS PREVENTION -- HAS THE SURETY  
SECURED THE INTELLECTUAL PROPERTY RIGHTS  
REQUIRED FOR PERFORMANCE?**

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## I. Introduction

In the era of design/build construction projects, a particularly perplexing problem has arisen for sureties at the intersection of construction and intellectual property (“IP”) law. Consider the following hypothetical: a surety has issued a performance bond for the design and construction of a plaza. A design/build contractor has completed the architectural plans and associated design work for the project, and has begun construction. Halfway into construction, the contractor defaults. The surety, bound by the terms of its agreement with the owner, hires a second contractor to finish the project using the plans produced by the first contractor, its principal. The first contractor, extremely incensed, now claims ownership of the plans it originally produced, and demands a hefty licensing fee from the surety. Even worse, the first contractor threatens a copyright infringement action should the surety allow construction to continue using the plans.

The purpose of this article, therefore, is to explore the potential rights that design/build contractors may have in the architectural works they create, and the concomitant problems that sureties may face when required to complete construction projects using such works. Additionally, this article will suggest a strategy for sureties to consider in order to ensure that they have adequately secured all intellectual property rights necessary for performance.

## II. Intellectual Property Rights in Architectural Works

Before investigating the potential rights and liabilities of sureties with regard to building plans, drawings, and designs, it is helpful to briefly discuss IP law in general, and in particular, the IP protections that apply to architectural works.

### A. Intellectual Property Law

As a threshold matter, IP law can be thought of as comprising four main areas: patents, trademarks, copyrights, and trade secrets. Each of these areas afford separate and distinct protections, and provide intangible assets that may be owned by individuals or organizations. The distinctions between patents, copyrights, trademarks, and trade secrets are discussed below.

Patents protect new and useful inventions, and grant to an inventor the exclusive right to make, use, and sell an invention anywhere within the United States.<sup>1</sup> Patent protection may be available for any new and useful process, machine, manufacture, composition of matter, or any new and useful improvement thereof.<sup>2</sup> In order to obtain a patent, an application is prepared and filed with the United States Patent and Trademark Office (“USPTO”). When the USPTO has determined that the application meets the statutory requirements for patentability<sup>3</sup>,

<sup>1</sup> See generally 35 U.S.C. § 1, et seq.

<sup>2</sup> Id.

<sup>3</sup> An invention must be novel (*i.e.*, no single prior art reference, such as a patent, discloses each element of the claimed invention), non-obvious (*i.e.*, the invention would not have been obvious to one of ordinary

a patent can ultimately issue. A patent may be infringed by an individual or entity that makes, uses, or sells an invention claimed in a patent without the authorization of the patentee or owner.<sup>4</sup>

Copyrights subsist in original works of authorship, such as writings, musical works, recordings, computer programs, and architectural works, and grant to an author or assignor the exclusive right to reproduce a work, prepare derivative works, and distribute copies of the work.<sup>5</sup> Copyrights automatically attach when a work is fixed in a tangible medium of expression, such as on paper, audio tape, computer disk, or other media.<sup>6</sup> Further, a work may be registered with the U.S. Copyright Office. Registration allows the owner of the work to enjoy potential additional benefits, such as the possibility of recovering statutory damages.<sup>7</sup>

Trademarks protect marks that identify the source of goods or services used in commerce.<sup>8</sup> Examples of trademarks include ORACLE<sup>®</sup> for database and software applications, owned by Oracle, Inc., and EBAY<sup>®</sup> for Internet auction services, owned by Ebay, Inc. Trademark rights are obtained by using a mark in commerce, or by filing an intent-to-use application with the USPTO followed by subsequent use of the mark. A trademark owner can prevent another person or entity from using any mark that creates a likelihood of confusion with the registered mark.

Trade secrets are the province of state law, and can be defined as “any formula, pattern, device, or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.”<sup>9</sup> By their very definition, trade secrets require that they be secret; that is, matters “of public

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skill in the art at the time the invention was made), and possess some utility, in order for a patent to issue on the invention. See 35 U.S.C. §§ 101-103. Further, the patent must provide an adequate written description of the invention that discloses the best mode of the invention and enables one of ordinary skill in the art to practice same without undue experimentation. See 35 U.S.C. § 112.

<sup>4</sup> See generally 35 U.S.C. § 271, et seq.

<sup>5</sup> See 17 U.S.C. §§ 102, 106.

<sup>6</sup> See 17 U.S.C. § 102(a).

<sup>7</sup> A copyright owner asserting a claim of infringement may be entitled to either actual damages and lost profits, or statutory damages. Statutory damages in the amount of \$750 to \$30,000 may be awarded for each act of infringement. See 17 U.S.C. § 504. In cases of innocent (unknowing) infringement, statutory damages may be reduced to a sum not less than \$200. Id. For cases of willful infringement, statutory damages may be increased to \$150,000 for each act of infringement. Id.

<sup>8</sup> See generally 15 U.S.C. § 1051, et seq.

<sup>9</sup> Milgram, Milgram on Trade Secrets, § 2.01 (Matthew Bender & Co. 1993) (citing Rest. Torts § 757, comment (b) (1939)).

knowledge cannot be appropriated by one as his secret.”<sup>10</sup> Formulas for certain soft drinks serve as common examples of trade secrets.

## B. Copyright Protection for Architectural Works

Copyright law is the prime source of intellectual property protection for architectural works. Indeed, architectural works, including the designs of buildings, plans, and drawings, in many cases, constitute copyrightable subject matter.<sup>11</sup> As such, the owner of a copyright to a building design, plan, or drawing has the exclusive right to reproduce the design, prepare derivative works, and distribute copies of the work.<sup>12</sup> Such rights extend not only to the overall form of the design, but also to “the arrangement and composition of spaces and elements in the design,” not including “individual standard features” (such as the position of doors, columns, beams, or other building elements that are structurally or functionally required).<sup>13</sup> Structures whose design or placement are dictated by utilitarian considerations, such as bridges, cloverleaves, dams, and walkways, are not protectable under copyright law.<sup>14</sup> Further, copyright protection is excluded for the designs of buildings “where the plans or drawings of the building were published before December 1, 1990 [the effective date of the Architectural Works Copyright Protection Act],” or where the buildings “were constructed or otherwise published before December 1, 1990.”<sup>15</sup> However, given the generally low threshold of creativity required for copyright protection<sup>16</sup>, it appears that most designs created by architects and design/build firms will fall within the realm of copyrightable subject matter.<sup>17</sup>

When a design/build contractor creates architectural plans for a building or other structure, copyrights may attach immediately upon reduction of the plans to a tangible medium of expression, provided that the designs cover subject matter that is not excluded from copyright protection. Further, such plans and drawings may be registered by the author with the Copyright Office.

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<sup>10</sup> Id.

<sup>11</sup> See 17 U.S.C. § 102(a)(8).

<sup>12</sup> See generally 17 U.S.C. § 106.

<sup>13</sup> Nimmer, Nimmer on Copyright, § 2.20 (citing H.R. Rep. No. 101-735, 101<sup>st</sup> Cong., 2d Sess. 18 (1990)).

<sup>14</sup> See Circular 41 -- Copyright Claims in Architectural Works, U.S. Copyright Office (June 1999).

<sup>15</sup> Id.

<sup>16</sup> See Feist Publications, Inc. v. Rural Te. Service Co., 499 U.S. 340, 345 (1991) (“The requisite level of creativity [for copyright protection] is extremely low; even a slight amount will suffice.”)

<sup>17</sup> See, e.g., Danielson, Inc., v. Winchester-Conant Properties, Inc., 186 F. Supp. 2d 1, 10 (D. Ma. 2002) (“choices regarding the shape, arrangement, and location” of buildings, open spaces, parking, and sidewalks held to constitute copyrighted subject matter, even though individual shapes may not.)

### C. Ownership of Copyrights in Architectural Works

Initial ownership of a copyright is granted to an “author or authors of a work.”<sup>18</sup> If an architectural work is created as a work for hire, ownership of the work may vest with the author’s employer or the commissioning party. Further, if the copyright is effectively assigned, ownership may vest with the assignee. Thus, ownership of a copyright in an architectural work is a critical issue in determining the potential rights and liabilities of sureties.

The work for hire doctrine of copyright law requires a two-part analysis and provides that, in certain circumstances, even though a work created by an author is not the subject of a contract or other writing evidencing an assignment, ownership of the work may nonetheless vest with an employer or the commissioner of the work. In such cases, an “employer or other person for whom the work was prepared is considered the author... and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.”<sup>19</sup> Ownership of the copyrighted work may be established if either prong of the work for hire doctrine, discussed below, is proven.

The first prong of the work for hire doctrine provides that a work may be owned by an employer, even in the absence of an express written agreement, if the work is prepared by an employee within the scope of his or her employment.<sup>20</sup> Thus, if a traditional employer-employee relationship exists, and the work is created within the scope of employment (*i.e.*, for a work-related purpose), the employer owns the work. For example, copyrights to a work created by an architect or engineer during his or her employment with a consulting firm would be owned by the firm, provided that the works were created within the scope of the employment. If this first prong of the work for hire doctrine is met, analysis of the second prong would not be necessary.

However, if the copyrighted work was not created by an employee during the scope of his or her employment, the second prong of the work for hire doctrine may apply. According to this prong, a work may be considered a work for hire if it is specially ordered or commissioned, falls within one of nine categories of works protected by statute, and is the subject of a written instrument expressly designating the work as a work for hire.<sup>21</sup> Independent contractors may be subject to this prong of the work for hire doctrine, because in such instances, the work is considered “a specially ordered or commissioned work.”<sup>22</sup>

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<sup>18</sup> See 17 U.S.C. § 201(a).

<sup>19</sup> 17 U.S.C. § 201(b).

<sup>20</sup> See 17 U.S.C. § 101.

<sup>21</sup> The nine categories of specially ordered or commissioned works subject to the work for hire doctrine are: (1) contributions to collective works; (2) motion pictures or other audiovisual works; (3) translations; (4) supplementary works; (5) compilations; (6) instructional texts; (7) tests; (8) answer material for tests; and (9) atlases. Id.

<sup>22</sup> Circular 9 – Works Made for Hire Under the 1976 Copyright Act, U.S. Copyright Office (December, 2000).

The above discussion provides a framework for analyzing the potential ownership rights of sureties to works created by defaulting design/build contractors who are later replaced by the surety in order to complete the job. As will be seen in the next section, absent express contractual provisions granting ownership of works created by defaulting design/build firms, both the surety and project owner will be hard-pressed to argue ownership of such works when faced with the threat of a copyright infringement action.

### III. Ownership Rights of the Surety

In certain limited circumstances, sureties may be considered the owners of architectural works, and copyrights underlying such works, created by defaulting design/build contractors. As will be discussed in depth below, express contractual assignments provide the strongest argument for establishing a surety's ownership of architectural works. Arguments involving claims of ownership pursuant to implied assignments may also provide the surety with some recourse. Reliance on the work-for-hire doctrine of copyright law, in addition the surety's subrogation rights in the event of a default, however, appear to provide the weakest arguments in support of a surety's claim of copyright ownership.

#### A. Express Assignments

As a threshold matter, the presence of express contractual language granting to a surety ownership of all copyrights in designs created by a design/build contractor provides the surety with the strongest possible rights. Because copyright to any work, including an architectural work, is considered a property right, such right may be "transferred in whole or in part by any means of conveyance or by operation of law."<sup>23</sup> Further, in order for a valid transfer of copyrights to occur, a "note or memorandum of the transfer" must be in writing and signed by the owner of the rights conveyed.<sup>24</sup> A written assignment of copyright to a work, however, operates only to transfer the copyright to the work, and does not grant ownership of the material object embodying the work.<sup>25</sup> Thus, it is advisable that any contract expressly granting copyright ownership to architectural works should also include a provision granting ownership of the drawings, documents, plans, etc.

The existence of express assignment provisions in the performance bond, bond application, or general indemnity agreement executed by the design/build contractor will serve to strengthen a surety's claim of ownership of the plans and drawings in the event of the principal's default. As discussed in section IV below, the surety should review its bond forms to ensure that adequate assignment provisions are in place. The issue of copyright ownership may well depend upon the enforceability of such provisions. Further, if express assignment provisions do not exist in the surety's current bonds, indemnity agreements, and/or bond application forms, then revisions should be considered.

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<sup>23</sup> 17 U.S.C. § 201(d)(1).

<sup>24</sup> 17 U.S.C. § 204(a).

<sup>25</sup> See 17 U.S.C. § 202.

## B. Implied Assignments

In the event that the surety is faced with a defaulted design/build contractor, and there exists no express contractual assignment of all copyrights to drawings and plans created by the contractor, the surety may be able to argue that the copyrights were impliedly assigned by the contractor. Without the right to prepare derivative works (*i.e.*, the building itself) from the plans, the surety may be unable to meet its performance bond obligations. In arguing such a position, however, the surety must be mindful that “a sale or transfer of ownership of a material object embodying a copyrighted work cannot in and of itself constitute a transfer of the ownership in such a copyright.”<sup>26</sup>

As a threshold matter, even though a written instrument “may lack the terms ‘transfer’ and ‘copyright,’ it may still suffice to evidence ... mutual intent to transfer the copyright interest.”<sup>27</sup> For example, courts have held that an agreement to sell negatives to photographs operated as an effective assignment of copyrights to the photographs, even though the contract for sale lacked the specific terms “assign” and “copyright.”<sup>28</sup> Further, a letter to a company president granting ownership in copyrighted fabric screens, in conjunction with paid invoices for the screens, was held to be a sufficient transfer of both the screens and the copyright thereto.<sup>29</sup>

In John G. Danielson, Inc. v. Winchester-Conant Properties, Inc., the Court confronted the issue of whether a contract assigning only specific copies of architectural drawings and plans was sufficient to assign the copyright underlying such plans.<sup>30</sup> In that case, the plaintiff, an architectural firm, retained the firm of Tellalian Associates to provide drawings and plans for condominium units. The plaintiff alleged that the defendant, a real estate developer, took plaintiff’s drawings, “removed the logos [of the plaintiff] by erasing them or cutting them out,” and began construction using the drawings, thereby infringing plaintiff’s copyrights.<sup>31</sup> The defendants, in response, asserted that plaintiff did not have standing to sue because it did not own the drawings. Specifically, the defendants asserted that the original contract entered into between Tellalian Associates was insufficient to transfer ownership of the copyrights underlying the drawings, because it failed to mention the word “copyright.”<sup>32</sup> The court held that the plaintiff had standing to sue, because even though the contract lacked words expressly assigning copyright to the drawings, the contract nonetheless evidenced a “mutual intent to

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<sup>26</sup> Saxon v. Blann, 968 F.2d 676,681 (8<sup>th</sup> Cir. 1992).

<sup>27</sup> Nimmer, § 10.03[a][2].

<sup>28</sup> Schiller & Schmidt, Inc. v. Nordisco Corp., 969 F.2d 410 (7<sup>th</sup> Cir. 1992).

<sup>29</sup> Kenbrooke Fabrics, Inc. v. Soho Fashions, Inc., 690 F. Supp. 298 (S.D.N.Y. 1988).

<sup>30</sup> See John G. Danielson, Inc. v. Winchester-Conant Properties, Inc., 186 F. Supp. 2d 1 (D. Mass. 2002).

<sup>31</sup> Id. at 8.

<sup>32</sup> Id. at 11.

transfer the copyright interest.”<sup>33</sup> Additionally, the court noted that “the combination of the sweeping language of ownership granted to Danielson along with the reference to publication [of the drawings] suggests that Danielson became the owner not only of the physical plans, *but also of the copyrights embedded within them...*”<sup>34</sup>

The logic of Danielson can be applied to argue that a surety becomes the owner of not only all drawings and plans created by design/build firms in the event of a default, but also all copyrights underlying the drawings and plans. In making such an argument, the surety may point to the assignment provisions of the general indemnity agreement, and argue that although such provisions may lack the specific term “copyright,” they sufficiently evidence a mutual intent to assign all copyrights underlying project designs and drawings in the event of a default. Indeed, the language already present in many indemnity agreements may be sufficient to evidence such mutual intent, but language conveying an express assignment of the copyright would provide an even stronger argument in support of the surety’s ownership.

### C. Works Made for Hire

As mentioned earlier, the work for hire doctrine requires a two-pronged analysis that, absent an express assignment of copyright in an author’s work, defines the circumstances under which an employer or commissioner may be considered the owner of an author’s work. Proof of either prong is sufficient to establish ownership rights to the author’s work. However, analysis of both prongs, in addition to a brief review of pertinent case law in the architectural context, reveals that the work for hire doctrine is not likely to provide the surety with a strong argument to establish ownership of architectural works created by design/build firms.

According to the first prong of the doctrine, if a traditional employer/employee relationship exists between the author/employee and the party requesting the work, the employer will be considered the owner of any copyrights to works created during the scope of the employment.<sup>35</sup> The issue of whether an author is an employee is governed by the general common law of agency.<sup>36</sup> Because most design/build firms are retained for specific projects, and the general principles of agency do not appear to apply, it seems that such firms will not

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<sup>33</sup> Id.

<sup>34</sup> Id. at 12.

<sup>35</sup> See 17 U.S.C. § 201(b).

<sup>36</sup> See Community for Creative Non-Violence v. Reid, 490 U.S. 730 (1989) (citing the following factors as relevant in determining whether an author is considered an employee of a party asserting work-for-hire ownership of a copyrighted work: (1) level of skill required in creating the work; (2) source of instrumentalities and tools; (3) location of the work; (4) duration of the relationship between the parties; (4) whether the hiring party has the right to assign additional projects to the hired party; (5) the extent of the hired party’s discretion over when and how long to work; (6) the method of payment; (7) the hired party’s role in hiring and paying assistants; (8) whether the work is part of the regular business of the hiring party; (9) whether the hiring party is in the same business; (10) the provision of employee benefits; and (11) the tax treatment of the hired party) (citing Rest. 2d. of Agency, § 220(2)).

qualify for employee status.<sup>37</sup> Accordingly, it does not appear that the first prong will help the surety in arguing “work for hire ownership” of a design/build contractor’s architectural works.

The criteria in the second prong of the work-for-hire test appear to be equally difficult to satisfy in establishing a surety’s ownership of copyrights to architectural works. Most design/build firms will be considered independent contractors within the second prong of the work for hire doctrine. Indeed, since most design/build firms are commissioned for specific construction projects, such firms will be considered independent contractors.<sup>38</sup> However, this second prong of the work for hire doctrine requires that the commissioned work fall within one of nine categories of works specifically covered by the statute. Those works include: (1) contributions to collective works; (2) motion pictures or other audiovisual works; (3) translations; (4) supplementary works; (5) compilations; (6) instructional texts; (7) tests; (8) answer material for tests; and (9) atlases.<sup>39</sup> If a work does not fall within one of these categories, “then even if it has been prepared by one person upon the special order or commission of another,” it will not qualify as a work made for hire.<sup>40</sup>

Architectural works have been interpreted by the Courts **not** to fall within one of the nine categories of specially commissioned works listed above. For example, in Richard J. Zitz, Inc., v. Periera, the court was faced with the issue of whether an architect’s drawings fit within one of the nine statutory categories of specially commissioned works.<sup>41</sup> The plaintiff, a home builder, constructed single family homes in Watermill, New York.<sup>42</sup> In order to obtain a permit to construct one of the homes, the plaintiff retained a licensed consulting firm to prepare and stamp drawings for submission. The defendant, a painter who had worked with plaintiff on many occasions, and the plaintiff entered into negotiations to have plaintiff construct the home for defendant.<sup>43</sup> The defendant subsequently purchased another property, and constructed a home which plaintiff alleged infringed the architectural drawings prepared by the consulting

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<sup>37</sup> No case appears to discuss whether employee status has ever been granted to design/build firms for purposes of analyzing the work-for-hire doctrine. However, several cases have refused to grant employee status to architectural and engineering firms. See, e.g., Richard J. Zitz, Inc. v. Periera, 2000 U.S. App. Lexis 22418 (Fed. Cir. 2000) (holding that consulting firm hired by architect to provide final plans for townhouse project did not qualify as an “employee” so as to grant work-for-hire ownership of the plans); see also Bryce & Palazolla Architects & Assoc. v. A.M.E. Group, et al., 865 F. Supp. 401 (E.D. MI. 1994) (holding that plaintiff architectural firm had standing to sue for copyright infringement of architectural plans because plaintiff not considered an employee and works were not considered made for hire).

<sup>38</sup> The cases cited in footnote 20, *supra*, held that both architectural firms were considered independent contractors. By analogy, design/build firms, which supply substantially similar services as architectural firms, will also be considered independent contractors.

<sup>39</sup> See 17 U.S.C. § 101.

<sup>40</sup> Nimmer, Nimmer on Copyright, § 5.03[b][2][a] (2000).

<sup>41</sup> Richard J. Zitz, Inc. v. Periera, 2000 U.S. App. Lexis 22418 (2d. Cir. 2000).

<sup>42</sup> Id. at 2.

<sup>43</sup> Id. at 4.

firm. The Court held that the plaintiff did not own the copyright to the drawings, because the consulting firm was neither an employee of the plaintiff, nor were the drawings one of the specially commissioned types of works within the second prong of the work-for-hire doctrine. The court explicitly held that the “drafting of architectural blueprints does not fit into any of the above nine categories of ‘specially ordered’ work.”<sup>44</sup> Accordingly, it was held that the plaintiff did not have standing to sue for copyright infringement, because it did not own the drawings.

In order for a work to be considered a work for hire under the second prong of the work-for-hire doctrine, it is generally required that there exist a separate writing explicitly identifying the work as a work for hire. Indeed, as the copyright statutes clearly provide, in addition to the requirement that work must fall within one of the nine statutory categories of specially commissioned works, the parties involved must also “expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.”<sup>45</sup> Absent such an express agreement, the commissioning party will be hard-pressed to argue that the work is considered a work for hire. For example, in Bryce Palazzola Architects and Assoc., Inc. v. The A.M.E. Group, et al., the Court refused to accord work for hire status to architectural drawings prepared by the plaintiff.<sup>46</sup> In that case, the plaintiff, an architectural firm, had prepared drawings and plans for residential dwellings owned by Executive Square Homes Corporation.<sup>47</sup> The plaintiff alleged that the defendants, a homeowner and a contractor, infringed its copyrights to the plans by constructing a residential home that was nearly identical in appearance.<sup>48</sup> The defendants asserted, in response, that the plaintiff did not own the copyrights underlying the plans. Rather, according to the defendants, because the architect was an independent contractor hired by Executive Squares Homes to develop the plans, the plans were considered works for hire that were owned by Executive Squares.<sup>49</sup> The court ruled in plaintiff’s favor, holding that the plans were not made for hire and that the copyrights thereto rightfully were owned by the plaintiff. Specifically, the Court stated that the defendants had “failed to produce any written instrument signed by Plaintiff and Executive Square expressly stating that the drawings constituted a work made for hire.”<sup>50</sup>

It therefore appears that neither of the prongs of the work for hire doctrine of copyright are sufficient to confer ownership of copyrights in architectural works to sureties in the event of a default by a design/build contractor. As discussed above, most design/build firms will not be considered employees, and even though they may be considered independent contractors,

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<sup>44</sup> Id. at 13.

<sup>45</sup> 17 U.S.C. § 101.

<sup>46</sup> Bryce & Palazzola Architects & Assoc., Inc. v. The A.M.E. Group, Inc., et al., 865 F. Supp. 401 (E.D. Mi. 1994).

<sup>47</sup> Id. at 403.

<sup>48</sup> Id.

<sup>49</sup> Id. at 404.

<sup>50</sup> Id.

architectural works are not considered one of the specially commissioned works that are granted work for hire status.<sup>51</sup>

#### IV. Potential Strategy for Sureties

In view of the above discussion, the time is ripe for sureties to review all boilerplate contract language in their bond forms and indemnity agreements with design/build firms, to ensure that copyright ownership issues are adequately addressed. Indeed, the doctrine of copyright assignment, particularly express assignment, provides the surety with the strongest argument in support of a claim of ownership to the copyrights underlying a defaulting principal's drawings. The time taken to review the surety's standard agreements, and to include necessary assignment language, may indeed provide the surety with valuable rights in the event of default by a design/build contractor.

The assignment provisions of the surety's indemnity agreement should be carefully reviewed to ensure that all copyrights to a design/build contractor's plans and drawings are expressly assigned to the surety in the event of a default. Some sureties mistakenly believe that an express assignment of the contractor's plans and drawings is sufficient to grant to the surety the right to use such items. As was discussed earlier, this generally is not the case, as a written assignment of a work operates only to transfer the work itself, and does not grant ownership of copyrights underlying the work.<sup>52</sup> A surety may therefore wish to insert language into the assignment clause of its indemnity agreement to provide that copyrights to all drawings, plans, and other architectural works created by the contractor, in addition to the drawings, plans, and works themselves, are expressly assigned to the surety in the event of default by the contractor. An example of assignment language that a surety may wish to include in its indemnity agreement appears at Exhibit "A" annexed hereto.

A surety may also consider including a licensing provision in its agreements with the contractor, so that the surety is granted either an exclusive or non-exclusive license to reproduce and use the contractor's plans as a condition of the surety's bonding the principal. The terms of such a license may be limited, for example, so that the surety is only granted the right to use such drawings for purposes of completing the job at issue. The terms of such licenses, of course, will be dictated by the results of negotiation between the surety and the bonded principal, but at the bare minimum, the surety should secure the right to use the principal's drawings to finish the project in the event of default. Further, concomitant with such licensing and/or assignment provisions, the surety may also wish to include a representation or warranty by the principal that *it* has the necessary rights to the project plans and drawings (*i.e.*, if the principal subcontracts design work out to an architectural firm, that firm may retain

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<sup>51</sup> Other cases not discussed above have also refused to accord work-for-hire status to architectural drawings and plans. See Nimmer at § 5.03[B][2][a] (citing May v. Morganelli-Heumann & Assocs., 618 F.2d 1363 (9<sup>th</sup> Cir. 1980) (architectural drawings not considered within one of the nine categories of specially commissioned works); see also Meltzer v. Zoller, 520 F. Supp. 847 (D.N.J. 1981) (holding same); Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Constr. Co., 542 F. Supp. 252 (D. Neb. 1982) (holding same); Joseph J. Legat Architects v. U. S. Dev. Corp., 625 F. Supp. 293, 297 (N.D. Ill. 1985) (holding same)).

<sup>52</sup> See 17 U.S.C. § 202.

copyrights to the plans and drawings it creates), and has the power to license or assign same to the surety.

## **V. Conclusion**

The intersection of copyright law and surety law raises interesting and potentially valuable issues for the surety. Sureties should not assume that, since the assignment provisions of boilerplate general indemnity agreements often grant the surety ownership of project drawings and plans, the surety is automatically afforded the right to use such items to complete the project. Sureties should be cognizant of the arcane and complex copyright law issues associated with architectural plans and drawings. They should take the time to review and update boilerplate agreements to ensure that intellectual property rights to these items are secured. The time taken now may, indeed, save the surety from potentially expensive copyright litigation in the future.

## EXHIBIT A

### Sample of existing assignment language of an Indemnity Agreement:

#### ASSIGNMENT

The Principal, the Indemnitors hereby consenting, will assign, transfer and set over, and does hereby assign, transfer and set over to the Surety, as collateral, to secure the obligations in any and all of the paragraphs of this Agreement and any other indebtedness and liabilities of the Principal to the Surety, whether heretofore or hereafter, incurred, the assignment in the case of each contract to become effective as of the date of the bond covering such contract, but only in the event of (1) any abandonment, forfeiture or breach of any contracts referred to in the Bonds or of any breach of any said Bonds; or (2) of any breach of the provisions of any of the paragraphs of this Agreement; or (3) of a default in discharging such other indebtedness or liabilities when due; or (4) of any assignment by the Principal for the benefit of creditors, or of the appointment, or of any application for the appointment, of a receiver or trustee for the Principal whether insolvent or not; or (5) of any proceeding which deprives the Principal of the use of any of the machinery, equipment, plant, tools, or material referred to in section (b) of this paragraph; or (6) of the Principal's dying, absconding, disappearing, incompetency, being convicted of a felony, or imprisoned if the Principal be an individual: (a) All the rights of the Principal in, and growing in any manner out of, all contracts referred to in the Bonds, or in, or growing in any manner out of the Bonds; (b) All the rights, title and interest of the Principal in and to all machinery, equipment, plants, and materials which are now, or may hereafter be, about or upon the site or sites of any and all of the contractual work referred to in the Bonds or elsewhere, or in transportation to any and all of said sites; (c) All the rights, title and interest of the Principal in and to all subcontracts let or to be let in connection with any and all contracts referred to in the Bonds, and in and to all surety bonds supporting such subcontracts; (d) All actions, causes of actions, claims and demands whatsoever which the Principal may have or acquire against any subcontractor, laborer or materialman, or any person furnishing or agreeing to furnish or supply labor, material, supplies, machinery, tools or other equipment in connection with or on account of any and all contracts referred to in the Bonds; and against any surety or sureties of any subcontractor, laborer, or materialman; (e) Any and all percentages retained and any and all sums that may be due or hereafter become due on account of any and all contracts referred to in the Bonds and all other contracts whether bonded or not in which the Principal has an interest.

Revised assignment language of an Indemnity Agreement:

ASSIGNMENT

The Principal, the Indemnitors hereby consenting, will assign, transfer and set over, and does hereby assign, transfer and set over to the Surety, as collateral, to secure the obligations in any and all of the paragraphs of this Agreement and any other indebtedness and liabilities of the Principal to the Surety, whether heretofore or hereafter, incurred, the assignment in the case of each contract to become effective as of the date of the bond covering such contract, but only in the event of (1) any abandonment, forfeiture or breach of any contracts referred to in the Bonds or of any breach of any said Bonds; or (2) of any breach of the provisions of any of the paragraphs of this Agreement; or (3) of a default in discharging such other indebtedness or liabilities when due; or (4) of any assignment by the Principal for the benefit of creditors, or of the appointment, or of any application for the appointment, of a receiver or trustee for the Principal whether insolvent or not; or (5) of any proceeding which deprives the Principal of the use of any of the machinery, equipment, plant, tools, or material referred to in section (b) of this paragraph; or (6) of the Principal's dying, absconding, disappearing, incompetency, being convicted of a felony, or imprisoned if the Principal be an individual: (a) All the rights of the Principal in, and growing in any manner out of, all contracts referred to in the Bonds, or in, or growing in any manner out of the Bonds; (b) All the rights, title and interest of the Principal in and to all machinery, equipment, plants, drawings, plans, designs, architectural works, documents, specifications, models, and materials which are now, or may hereafter be, about or upon the site or sites of any and all of the contractual work referred to in the Bonds or elsewhere, or in transportation to any and all of said sites; (c) All the rights, title and interest of the Principal in and to all subcontracts let or to be let in connection with any and all contracts referred to in the Bonds, and in and to all surety bonds supporting such subcontracts; (d) All actions, causes of actions, claims and demands whatsoever which the Principal may have or acquire against any subcontractor, laborer or materialman, or any person furnishing or agreeing to furnish or supply labor, material, supplies, machinery, tools or other equipment in connection with or on account of any and all contracts referred to in the Bonds; and against any surety or sureties of any subcontractor, laborer, or materialman; (e) Any and all percentages retained and any and all sums that may be due or hereafter become due on account of any and all contracts referred to in the Bonds and all other contracts whether bonded or not in which the Principal has an interest; (f) All of the rights, title and interest of the Principal in and to all copyrights or any other forms of intellectual property, which now, or may hereafter, relate to any and all of the contractual work referred to in the Bonds or elsewhere, or which are now, or may hereafter be, embodied in any drawings, plans, designs, architectural works, documents, specifications, models or other materials referred to in section (b) of this paragraph.