

# Copyright Lessons from the Bench—Third Circuit Analyzes Work for Hire and Assignment Requirements and Standard for Injunctive Relief

By Sarah Robertson and Sandra Edelman

When a judicial opinion refers to a “bitter feud,” a plaintiff “beset by acrimony,” and a “rock star” banker who “faced his peripeteia” (Greek for “reversal of fortune”), there is sure to be an interesting backstory to a copyright dispute. That is indeed the case in *TD Bank N.A. v. Hill*,<sup>1</sup> a recent Third Circuit decision that provides an in-depth analysis about whether the copyright in a business book manuscript co-authored by a former bank CEO is owned by his bank employer as a work for hire or by assignment—and why the distinction matters. The appellate court concludes that a letter agreement “deeming” the manuscript a work for hire, without more, could not make it so unless it meets the specific requirements of the work for hire provisions of the Copyright Act.<sup>2</sup> The court further held that rights in the work were in fact assigned by that letter agreement, even though the word “assignment” was never mentioned.<sup>3</sup>



The man at the center of the copyright dispute is Vernon W. Hill II, the founder of Commerce Bank, who led and grew the institution from 1973 until shortly before it was acquired by TD Bank in 2007 for \$8.5 billion. In 2006, Hill decided to write a book about his business philosophy. Commerce Bank supported this endeavor by hiring a collaborator to help him write the manuscript and by entering into an agreement with the Portfolio division of Penguin Books. In the publishing agreement with Portfolio, Commerce Bank was defined as the “Author,” and it represented and warranted that it was the exclusive owner of all rights in the manuscript. Hill signed an accompanying letter agreement with Portfolio in which he agreed that “the Author [i.e., Commerce Bank] will, in all respects, faithfully perform and fulfill all obligations of the Agreement.”<sup>4</sup> Hill also guaranteed that the “Work is a work made for hire within the meaning of the United States Copyright Law and that the Author is the owner of Copyright in the Work and has full power and authority to enter into the Agreement.”<sup>5</sup>

Hill’s manuscript was finished in 2007, but then the relationship between Hill and Commerce Bank “soured,” Hill was terminated, and TD Bank acquired Commerce Bank shortly after.<sup>6</sup> The manuscript was never published and, by 2008 Commerce Bank terminated its publishing

agreement with Portfolio. Several years later, Hill decided to co-author another book about the founding of a bank in the UK, which was published in November 2012, and which made use of certain parts of the 2007 unpublished manuscript. TD Bank learned about this new book published by Hill, “suddenly registered” its copyright in the 2007 manuscript and sued Hill for

copyright infringement.<sup>7</sup> Interestingly, TD Bank admitted during the litigation that, “at most, 16%” of the 2012 book infringed the 2007 unpublished manuscript and that it had no intention of ever publishing the 2007 manuscript.<sup>8</sup>

On a motion for summary judgment, the district court concluded that because the letter agreement “deem[ed] the work to be a work made for hire,” it was a work for hire, vesting the copyright in the 2007 manuscript in Commerce Bank as Hill’s employer.<sup>9</sup> Although the district court initially declined to grant injunctive relief, it did so a year later after Hill continued to promote the 2012 book and TD Bank contended that it would suffer irreparable harm if an injunction did not issue. Hill then appealed.

## Work for Hire—Back to the Basics

On appeal, the Third Circuit overturned the district court’s holding that the 2007 unpublished manuscript was a work for hire.

Revisiting the basics of what types of works can in fact constitute works for hire, which often get brushed over in written transfer documents, or conflated with the assignment concept, the appellate court laid out the work for hire provisions of Section 101 of the Copyright Act. These dictate that a work can be considered a work for hire in only one of two ways: The first is where a work is created by an employee within the scope of employment. The second is where a work is specially ordered or commissioned, but only if it falls within nine specifically enumerated categories of works (including a contribution to a collective work or part of an audiovisual work), and the parties agree to designate the work as such in a signed writing. As the court put it, these are “two mutually exclusive means,” with “the first for employees, and the second for independent contractors.”<sup>10</sup>

Applying these two statutory sub-parts to the operative facts, the Third Circuit held that the 2007 manuscript could not be deemed a specially ordered or commissioned work under the second part of the definition, because Hill was not an independent contractor and the manuscript did not fall within any of the nine statutorily prescribed categories of works. As for the first part of the definition, Hill was an employee of Commerce Bank when the manuscript was authored, but to be a work for hire the manuscript would need to have been created within the scope of his employment.

The district court had correctly recited these principles, but then went in a different direction, holding that TD Bank owned the rights to the 2007 manuscript as a work for hire merely based on the letter agreement, which had simply deemed the manuscript as such. The Third Circuit rejected this approach, holding that “a bare statement that a particular work is ‘for hire,’ says nothing about the scope of an individual’s employment and cannot suffice on its own. Had Congress intended to permit parties to ‘deem’ works by employees as ‘for hire,’ it would have so specified in [the statute], just as it did for independent contractors.”<sup>11</sup> The Third Circuit also noted that “only nine specified categories of works by independent contractors [] can be deemed ‘for hire’ through a signed writing,” of which the manuscript was not one.<sup>12</sup>

### Wrong Label—Same Outcome

The appellate court then explored whether TD Bank had acquired rights in the 2007 manuscript by assignment rather than as a work for hire, first highlighting the practical consequences between the two distinctions. In particular, a work for hire vests both authorship and ownership in an employer or principal, effectively removing any rights from the creator of the work, whether the creator is an employee or independent contractor. In contrast, in the case of an assignment, the creator of the work, as author, still “retains certain non-waivable rights to cancel the transfer after 35-40 years” and, for some types of works, certain waivable moral rights too.<sup>13</sup> Allowing parties to deem a work ‘for hire’ without meeting the statutory requirements would negate these fundamental differences between a work for hire and an assigned work, and explains why an employee’s work created outside the scope of employment cannot simply be “‘deem[ed]’ for hire.”<sup>14</sup>

However, the Third Circuit ultimately concluded that “although it affixed the wrong label,” the lower court was correct in finding that TD Bank owned the 2007 unpublished manuscript on the basis that the letter agreement operated as an assignment.<sup>15</sup> Even though the word “assignment” was not expressly used in the letter agreement, the appellate court found that Hill’s commitments in the letter agreement, including “Hill’s assurance that the manuscript ‘is a work made for hire’” (even though insufficient to render it one), along with his acknowledgment that Commerce Bank was the owner of copyright,

“denote[d] an intent to relinquish his interest in the copyright” under both the Copyright Act and New York law.<sup>16</sup> The appellate court also confirmed that an agreement “need not comply with any formalities or invoke particular language to constitute an assignment; any writing will suffice as long as ‘the assignor has, in some fashion, manifested an intention to make a present transfer of his rights to the assignee.’”<sup>17</sup>

Concluding its analysis of the ownership of the 2007 manuscript, the court stated that while the letter agreement constituted a valid assignment, the question remained whether it could also be considered a work for hire under the first part of the statutory definition because Hill wrote it as part of the scope of his duties as a bank employee. If the work was created within the scope of Hill’s employment, “the work would receive for-hire treatment and Hill would lack any right to terminate the assignment.”<sup>18</sup>

### Scope of Employment Test

Although the Third Circuit had not previously ruled on when a work falls within the scope of employment, the court in *TD Bank* stated that the opinion of the United States Supreme Court in *Cnty. for Creative Non-Violence (CCNV) v. Reid*<sup>19</sup> counsels that the terms “employee” and “scope of employment” should be construed in light of general agency principles, as elucidated in the Restatement (Second) of Agency.<sup>20</sup> Using this approach, as other sister circuits had done, the appellate court laid out the factors that should be examined to determine if a work was created within the scope of an individual’s employment: (1) whether the work is of a kind the individual is employed to perform; (2) did the work occur substantially within the individual’s authorized time and space limits; and (3) was the work actuated, at least in part, by a purpose to serve the employer.<sup>21</sup>

After articulating these factors, the *TD Bank* court provided interesting commentary on the second of the three factors, stating that “courts must consider time and spatial bounds with care” in the context of the modern workplace.<sup>22</sup> As the court explained, the factor will be “most probative for employees who work shifts or otherwise have regular hours and definite workplaces.”<sup>23</sup> However, in an “increasingly mobile work culture . . . many executives and professionals—for better or worse—lack obvious temporal or spatial boundaries for their work.”<sup>24</sup> For these types of employees, “the second factor will illuminate little, and a fact-finder cannot indulge in the fiction of a 9-to-5 workday.”<sup>25</sup> Even when an employee has ascertainable time and space boundaries, an employee could make a “unilateral decision to continue working at home or beyond normal hours” and that would have little bearing on whether the copyrighted work created outside of the physical workplace and working hours was “of the kind” that the employee was hired to create.<sup>26</sup>

Turning back to the question of whether Hill created the 2007 unpublished manuscript as a work for hire, the Third Circuit held that “unfortunately” it was without the benefit of an opinion below applying the scope of employment test because the district court had considered only the effect of the letter agreement on the question of ownership.<sup>27</sup> Accordingly, the Third Circuit remanded the fact-intensive inquiry on the scope of employment issue back to the district court. The appellate court observed that “Hill may choose to forgo this inquiry” and the parties may decide not to “open yet another chapter in this litigation.” Yet the court also cautioned that a ruling on the issue “is not academic because it would determine whether Hill or his successors may eventually terminate the assignment.”<sup>28</sup>

### Propriety of the Injunction

Finally, the court considered the propriety of the district court’s permanent injunction, which prohibited the publication, marketing, distribution or sale of Hill’s 2012 book. Even after prevailing on the merits, TD Bank still needed to establish an entitlement to injunctive relief based on a showing that: (1) it would suffer irreparable injury; (2) there was no adequate remedy available at law to remedy the injury; (3) the balance of hardships tipped in TD Bank’s favor; and (4) an injunction would not disserve the public interest.<sup>29</sup> The district court’s determination of these factors was subject to review by the Third Circuit on an abuse of discretion standard. The court also emphasized that while it would consider these four factors “holistically,” the “inability to show irreparable harm—or, relatedly, that a legal remedy would be inadequate—defeats a request for injunctive relief.”<sup>30</sup>

Before analyzing the four factors, however, the Third Circuit first needed to determine whether it was appropriate to presume irreparable injury based upon a finding of copyright infringement, in light of the Supreme Court’s decision in *eBay Inc. v. MercExchange, LLC*.<sup>31</sup> That case rejected the longstanding rule in patent cases requiring the imposition of a permanent injunction after a finding of infringement, absent “unusual” or “exceptional” circumstances.

Subsequent to *eBay*, the Third Circuit had held in *Ferring Pharms., Inc. v. Watson Pharma, Inc.*,<sup>32</sup> that the “logic” of *eBay* should be applied to trademark disputes. Yet the Circuit had not previously ruled on whether *eBay*’s elimination of a presumption of irreparable injury should be applied to copyright disputes as well. The *TD Bank* case presented that opportunity, with the court declaring: “We hold today that *eBay* abrogates our presumption of irreparable harm in copyright cases.<sup>33</sup>” Thus, irreparable injury in copyright cases “must be prove(n), not presumed.”<sup>34</sup> With this threshold principle in hand, the Third Circuit proceeded to consider whether the district court had abused its discretion in issuing a permanent injunction against the publication of Hill’s 2012 book.

On the first factor of whether irreparable injury had been demonstrated, the appellate court rejected TD Bank’s contention that continued copyright infringement necessarily constitutes irreparable harm, since “the prospect that infringement will continue merely precipitates the question whether any future infringement would irreparably injure the copyright owner.”<sup>35</sup> The district court’s further reliance on a “right to not use the copyright” as necessarily amounting to irreparable harm was also improper because that would “not only resurrect the presumption of irreparable harm, but make it irrebuttable, even where, as here, the infringement bears only a tangential relation to the copyright holder’s business.”<sup>36</sup> The appellate court accordingly held that the district court had abused its discretion in relying on Hill’s violation of the “right not to use” TD Bank’s copyright to establish irreparable harm.<sup>37</sup>

The district court also committed error in analyzing the second factor, holding that TD Bank’s injury was not quantifiable at law because Hill’s 2012 book was being distributed for free. According to the Third Circuit, since the Copyright Act permits the imposition of a reasonable royalty or statutory damages even where an accused infringer has reaped nothing from infringement, TD Bank still had an adequate remedy at law. The availability of monetary relief did not necessarily mean that such a remedy would be adequate, but TD Bank had not presented evidence of actual harm that would be caused by further publication of Hill’s 2012 book.

The district court’s analysis of the third factor—the balance of harm analysis—fared no better with the appellate court. The lower court had “relied solely on TD Bank’s ‘property interest in its copyrighted material’—in other words, the right to exclude—and dismissed any hardship that the injunction would inflict on Hill.”<sup>38</sup> The Third Circuit disagreed with this approach. Rather, “considering the interests on both sides, the balance of equities favors neither party.”<sup>39</sup> TD Bank had not submitted any evidence of actual harm, and based on TD Bank’s concessions that no more than 16% of Hill’s 2012 book infringed its copyright and that the 2016 book was non-infringing, Hill would not have needed to devote much effort to develop a non-infringing version of the 2012 book.

Evaluating the fourth factor, the Third Circuit agreed with Hill that the district court had improperly discounted the interest in enabling the public to purchase the 2012 book. The appellate court’s assessment of this factor was clear-eyed about the likely literary value of the disputed work, while at the same time offering a full-throated defense of the right of public access, particularly given TD Bank’s admission that it did not intend to publish the work itself: “Hill may perhaps not be the next prize-winning, or even best-selling business-book author. But he has a story to tell and readers eager to learn from him. This injunction deprived the American public of the ability to purchase this book from any lawful source for the

foreseeable future. At the same time, whatever spurred TD Bank to bankroll this copyright litigation, it was not a desire to protect the commercial value of the 2007 manuscript. By its own admission, TD Bank has no real intention of ever publishing or licensing the work.”<sup>40</sup>

In concluding its thoroughly reasoned opinion, the Third Circuit acknowledged that as an appellate court, “we police only the margins of a district court’s equitable discretion.”<sup>41</sup> In this case, however, “no invocation of abstract principles can obscure that TD Bank suffered no actual harm from Hill’s infringement and the Bank had adequate remedies at law.”<sup>42</sup> Accordingly, while the court affirmed the district court’s grant of summary judgment to TD Bank on the issues of copyright ownership and liability, it vacated the permanent injunction and remanded the case back to the district court for further proceedings consistent with its opinion.

### Partial Dissent

Judge Robert Cowen concurred with many of the majority’s findings, including that the District Court was mistaken in concluding that the letter agreement vested ownership of the 2007 manuscript in TD Bank by deeming it a work for hire, and also that the district court’s permanent injunction should be vacated. However, Judge Cowen disagreed with the majority’s assignment analysis for two main reasons.

First, Cowen found that TD Bank had waived the assignment issue by solely taking the position in the lower court that the 2007 manuscript was a work for hire, and by not raising or arguing as an alternate theory that Hill had assigned his rights to the manuscript, if a work for hire were not to be found. Further, Cowen noted that TD Bank had in fact affirmatively conceded during the course of written discovery that the letter was “not an assignment” but that, rather, TD Bank had been the copyright owner from “day one.”<sup>43</sup> Cowen also found that TD Bank had similarly failed “to raise or contest the issue of assignment” on appeal in the course of briefing, and only advocated in favor of an assignment during oral argument, after the Third Circuit had directed the parties to be prepared to discuss the issue.<sup>44</sup> The majority countered this holding on the basis that “where two arguments relate so closely, neither is waived or forfeited” and that TD Bank’s position of a lack of an assignment was only maintained to the extent a work for hire theory could be found.<sup>45</sup>

Even if the assignment issue had been properly before the Third Circuit, Cowen opined that the letter agreement did not meet the legal requirements for an assignment of a copyright interest, because the language of that agreement was “doubtful and ambiguous.”<sup>46</sup> In particular, Cowen contended that neither Hill’s letter agreement nor Commerce Bank’s publishing agreement stated that Hill was assigning, transferring or granting his copyright interest or that such an assignment, transfer or grant had

taken place (or was to occur in the future), which “would have dispelled doubt and ‘convey[ed] an unmistakable intent’ to effect a transfer.”<sup>47</sup> Rather, Cowen found that these documents consisted only of a guarantee and an attempt to confirm the work for hire status of the manuscript. Cowen also contended that, although “not strictly required as a matter of law,” the existence of a separate document signed directly between Hill and Commerce Bank “would also have been stronger evidence of an assignment than what we have here.”<sup>48</sup> The dissenting view thus required stronger evidence of Hill’s “unmistakable intent to effect a present transfer” even though both the majority and the dissent agreed on the legal standard for construing a copyright assignment, *i.e.*, that no special language or formalities are necessary to effect one.<sup>49</sup>

### Takeaways

The Third Circuit’s analysis and holdings help to cement basic copyright ownership principles, particularly in the corporate context, where documents providing for the transfer of rights in creative output to a corporation often simply deem a work to be a work for hire, without specifying anything more, such as the category of work involved (in the case of an independent contractor), or the scope of the employment duties within which the work falls (in the case of an employee).

The decision also highlights the importance of having a clearly expressed assignment provision in an agreement to transfer rights to an employer if it is likely a work will not be “deemed” a work for hire or if it will be unclear whether a work was created by an individual within the scope of employment.

Finally, the Third Circuit has now confirmed that irreparable injury will not be presumed from a finding of infringement in a copyright case. If a prevailing plaintiff seeks the imposition of injunctive relief, it will need to present credible evidence of actual harm that cannot be adequately compensated by monetary remedies if continued exploitation of the copyrighted work is not enjoined.

### Endnotes

1. *TD Bank N.A. v. Hill*, 928 F.3d 259 (3d Cir. 2019).
2. *Id.* at 273.
3. *Id.* at 274-75.
4. *Id.* at 266-67.
5. *Id.* at 267.
6. *Id.*
7. *Id.*
8. *Id.*
9. *Id.*
10. *TD Bank*, 928 F.3d at 272.
11. *Id.*
12. *Id.*
13. *Id.* at 273.
14. *Id.*
15. *Id.*

16. *Id.* at 275.
17. *Id.* at 274.
18. *Id.* at 276.
19. *Cmty. for Creative Non-Violence (CCNV) v. Reid*, 490 U.S. 730 (1989).
20. *TD Bank*, 928 F.3d at 276.
21. *Id.* at 276-77 (citing *Avtec Sys., Inc. v. Peiffer*, 21 F.3d 568, 571 (4th Cir. 1994)).
22. *TD Bank*, 928 F.3d at 277.
23. *Id.*
24. *Id.*
25. *Id.*
26. *Id.*
27. *Id.*
28. *Id.*
29. *TD Bank*, 928 F.3d at 278.
30. *Id.*
31. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).
32. *Ferring Pharms., Inc. v. Watson Pharms., Inc.*, 765 F.3d 205 (3d Cir. 2014).
33. *TD Bank*, 928 F.3d at 279.
34. *Id.* at 280 (quoting *Flexible Lifeline Sys. v. Precision Lift, Inc.*, 654 F.3d 989, 1000 (9th Cir. 2011)).
35. *TD Bank*, 928 F.3d at 279.
36. *Id.* at 280-81.
37. *Id.* at 282.
38. *Id.* at 283.
39. *Id.* at 284.
40. *Id.* at 285.

41. *Id.* at 286.
42. *Id.*
43. *TD Bank*, 928 F. 3d at 286-87 (Cowen, J., dissenting in part).
44. *Id.* at 287 (Cowen, J., dissenting in part).
45. *Id.* at 276 n.9.
46. *Id.* at 289 (Cowen, J., dissenting in part).
47. *Id.* (Cowen, J., dissenting in part).
48. *Id.* (Cowen, J., dissenting in part).
49. *Id.* at 291 (Cowen, J., dissenting in part).

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