

## Whose Line, Drawing Or Plan Is It Anyway?: Part 2

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In the first part of this article series, we explored the law of copyrights as it applies to an architect's work product. Now that we know whether and how architectural works can be protected by the Copyright Act, we now turn our attention to the owner-architect agreement and to the instruments of service, which are where, ideally, the parties will set forth their respective rights and obligations to one another.

The most commonly used forms of agreements between owners, architects and contractors are found in a series of forms from the American Institute of Architects. Since these documents are written by architects, the terms are generally favorable to the architect. Regardless of the form used, if the owner wants to acquire certain rights — either a license to use the instruments of service or an outright copyright assignment — they should be addressed in the agreement.



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### The Forms: Architects Retain All Copyright Rights

Section 1.1.7 of the American Institute of Architects' form 201 (which is an agreement between and owner and contractor) defines instruments of service as “representations, in any medium of expression now known or later developed, of the tangible and intangible creative work performed by the Architect and the Architect's consultants under their respective professional services agreements. Instruments of Service may include, without limitation, studies, surveys, models, sketches, drawings, specifications, and other similar materials.”



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This is a powerful and broad definition, and, accordingly, addressing who has the rights to these instruments of service is critical.

As we discussed in our previous article, the most common approach to the instruments of service is for the architect to maintain its ownership of all copyright rights in the instruments of service and for the owner to be granted a license to use them in connection with the project.

Both Section 1.5.1 of form A201 and Section 7.2 of form B101 (a form of owner-architect agreement) state: “The Architect and the Architect consultants shall be deemed the authors and owners of their respective Instruments of Service, including the Drawings and Specifications, and will retain all common law, statutory and other reserved rights, including copyrights.”

Section 7.3 of B101 states that “Upon execution of this Agreement, the Architect grants the owner a nonexclusive license to use the Architect’s Instruments of Service solely and exclusively for the purposes of constructing, using, maintaining, altering and adding to the Project, provided the Owner substantially performs its obligations, including prompt payment of all sums when due, under this Agreement.”

If the owner prefers to own the copyright in the instruments of service, the agreement must provide that the architect will assign its rights to the owner, who may then file for copyright protection.

### **What If the Parties Modify the Form Language or Use a Different Form That Does Not Definitively State the Rights of the Parties?**

The courts have addressed the concept of licenses in architectural and other creative works on many occasions where the form agreements weren’t used or where one party asserted that the agreements in place were ambiguous.

“There are two general categories of licenses: non-exclusive licenses which permit licensees to use copyrighted material and may be granted to multiple licensees; and exclusive licenses, which grant to the licensee the exclusive right – superior even to the copyright owners’ rights – to use the copyright material in a manner as specified by the license agreement.”[1] Nonexclusive licenses may be granted orally or implied from conduct.[2] However, “defendants must show that there was a meeting of the minds as determined by contract law.”[3]

In *Nelson-Salabes Inc. v. Morningside Development LLC*, the Fourth Circuit developed a nonexhaustive list of three factors to consider when analyzing the architect’s objectively manifested conduct in determining if a nonexclusive license was intended:

- (1) whether the parties were engaged in a short-term discreet transaction as opposed to an ongoing relationship;
- (2) whether the creator utilized written contracts such as the standard AIA contract, providing that copyrighted materials could only be used with the creators’ future involvement or express permission; and
- (3) whether the creator’s conduct during the creation or delivery of the copyrighted material indicated that use of the material without the creator’s involvement or consent was permissible.[4]

The Ninth Circuit, in *Effects Associates Inc. v. Cohen*, held that an implied nonexclusive license has been granted when: (1) a person (the licensee) requests the creation of the work; (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee copy and distribute the work.[5]

In *STAS Inc. v. Anthony*, the text of the agreement weighed in the owners’ favor because it stated that the owner “may use drawings, plans and specifications without restrictions” and the foregoing “is not intended to create any rights by any other party in the drawings, plans and specifications.”[6] The Virginia district court found this text to be an express nonexclusive license for the owner to use the materials the architect develops in whatever way the owner sees fit.[7] Notably, the architect stressed that the agreement between him and the owner stripped away many of the protections that the American Institute of Architects affords the architect, but the court was not sympathetic because the

architect signed the document after his counsel had allowed the protections to be removed.[8] Understandably, the existence of a valid license serves as an affirmative defense to a claim of copyright infringement.[9]

### **Termination of the Agreement in the Middle of the Project**

If the owner and architect proceed to the conclusion of the project without termination of the architect agreement, all is generally well, the owner has a new or renovated building and the architect's vision is achieved in physical form. What happens, however, when the relationship sours during the course of the project and one of the parties exercises its right to terminate the agreement? Dealing with the termination "what ifs" while drafting the agreement is critical for the owner to be able to continue its project as planned with the architect's design and also for the architect who wishes to protect its work.

Section 7.3 of B101 form covers these circumstances: (1) the architect terminates the agreement for a breach by owner; (2) the architect terminates the agreement if the owner suspends the project for more than 90 cumulative days; or (3) the owner terminates the agreement for convenience. In the case of (2) or (3), the American Institute of Architects provides that the owner has to pay a licensing fee as compensation for its continued use of the instruments of service.

One of the most common causes for termination by the architect for the owner's breach under subsection (1) is failure to pay or untimely payments. While the architect should not be expected to work without being paid, another standard amendment is the insertion of a reasonable cure period for the owner to rectify a late payment. Further, distinguishing between a late payment and one that is disputed is a point of clarification often overlooked.

Since it's not uncommon for a project to get suspended for a variety of reasons, and since the cumulative 90-day trigger of subsection (2) is very restrictive, owners typically extend this time frame if the project is significant and the schedule is complicated; owners also amend the standard form so that the 90-day period is consecutive, not cumulative. These changes benefit the architect as well, as suspensions may not be in any party's control: funding delays, department of building approvals, supply issues and changes in the design are all common. The amendments reflect the real world reality of give and take: architects provide some flexibility on larger projects to owners, while owners respect the architect's time commitment to this project over others.

Owners typically like to maintain a right to terminate an agreement for convenience and without cause (subsection (3)), but imposing an obligation to pay for the continued use of the license essentially takes this right away from the owner and certainly makes it more costly to exercise. If the architect wants to impose a license fee for the continued use of the instruments of service after the owner's termination of the agreement without cause, agreeing to this fee at the drafting stage benefits both parties by avoiding costly litigation. A fixed number may seem straightforward, but it may be more equitable for the fee to be a percentage of the remaining fee due under the agreement. This flexible framework takes into consideration how much the owner has already paid to the architect and the level and quantity of drawings already produced.

The American Institute of Architects has addressed the scenario of the owner continuing to use the instruments of service after terminating the architect and the agreement. Section 7.3.1 contains an automatic release by the owner of the architect if the owner continues to use the instruments of service and further requires the owner to indemnify the architect from any claims relating to the owner's use of the instruments of service without the architect's involvement. But the forms and most architect

agreements do not cover every scenario, and revisions are critical to encompass terminations at different stages of the project and the owner's permission to use or not use the instruments of service existing as of the termination.

If the architect is terminated during the early design phases, before there is a fully developed set of construction documents from which the project can be built, then a new architect would be required to complete the drawings, put its own seal on such documents, and shoulder all of the liability. Whether or not the owner has the right to authorize a new architect to adopt the then-existing instruments of service as its own should be addressed in the agreement. There are many other common scenarios often not considered when drafting, including the following:

What if the architect is terminated when the construction documents are complete? Can the owner use the completed documents, which presumably will not require modification or completion, to build the project? The first architect is likely to argue that its needs to remain as the architect of record through construction to ensure that changes are not made that would affect the design intent contained within the original documents and to confirm that the project is built in accordance with the plans. An owner may argue that it has paid for the construction documents and should have the right to use them.

If the license were to terminate in the middle of a construction project that is relying on the instruments of service, does the owner have to tear the building down? Certainly, this is not a practical solution. But does the architect have the right to damages for the use of the instruments of service in the final building design if the owner's license to use them has in fact terminated?

In *Frost-Tsuji Architects v. Highway Inn Inc.*, the defendant had hired the plaintiff to design and oversee the development of a restaurant.<sup>[10]</sup> The letter agreement entered into between the parties stated that it would "convert" into a standard American Institute of Architects agreement by a date certain, but that conversion never happened.<sup>[11]</sup> The owner then terminated the architect, allegedly for cause, and hired a new architect. The original architect sued.<sup>[12]</sup> The court held that to deny the owner a license to use and adapt the architect's plans would allow the architect to hold the project hostage until the owner paid a ransom for the continued use of the plans.<sup>[13]</sup> Accordingly, the court granted the defendant summary judgment on the plaintiff's copyright claim.<sup>[14]</sup>

Had the parties entered into a comprehensive agreement at the outset, there would have been a clear path for the architect to protect its work in the event of termination.

After termination, does the owner retain rights to the instruments of service or to use the architect's name for marketing purposes? An architect may be very protective of the use of its name and the use of its drawings if it is no longer a part of the project. This is particular true when dealing with a "starchitect." The timing of the termination may be determinative of what rights an owner will have to these continued uses. If the architect is terminated early on, where there may be little in the way of instruments of service to use to construct the building, the owner may simply move on to a new architect altogether. However, if the architect is terminated during construction and after there are a final set of plans from which the building is being constructed, the owner has a stronger argument for the continued use of the instruments of service, not only for the construction of the project but also for marketing; sometimes, identifying the starchitect may help in gaining tenants or purchasers. Indeed, if the project is a condominium, the architect's plans and name may already be included in the offering plan and the inability of the owner to preserve its use could be extremely costly and create significant delays.

What happens if the relationship has not deteriorated but the owner wants to sell the project to another developer or owner? What if the owner enters into a construction loan for the project and the lender requires a right to a collateral assignment of the rights to the instruments of service in connection with granting the loan and/or an outright assignment of the instruments of service in the event of a default of the owner under the loan documents? The American Institute of Architects language limits the owner's right to assign the license, so including the right to assign the copyright of license to a permitted assignee, such as its lender or to someone who becomes the fee owner of the project, is an important revision enabling the project to proceed.

It's important to note that the assignee be a "permitted" one. An architect may wish to have some approval rights; it's not uncommon for the architect to desire the right to deny approval if the project is sold to a developer or owner with whom the architect has had a previous bad experience or even a lawsuit. In such instances, the revision to the forms includes the results of the parties' negotiation of the circumstances under which the architect may block the assignment.

How to deal with every scenario is beyond the scope of this article. Whether you are using an American Institute of Architects form or a privately drafted agreement format, the basic terms are just the start of the process. Not foreseeing the "what ifs" may leave the owner's project at a standstill if it cannot use the architect's work product. Or the architect's name, reputation and design could be at stake or compromised if someone else is permitted to use or change the original design. Careful drafting can set the owner's and architect's minds at ease and ensure a successful project.

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[1] *Ranieri v. Adirondack Dev. Group, LLC*, 164 F. Supp. 3d 305, 336 (N.D.N.Y. 2016) (quoting *Davis v. Bilge*, 505 F.3d 90, 99 (2d Cir. 2007)).

[2] See *Nelson-Salabes, Inc. v. Morningside Development, LLC*, 284 F.3d 505, 514 (4th Cir. 2002) ("An implied nonexclusive license, as the designation suggests, is not a written license and can be given either orally or implied from conduct.").

[3] *Ranieri*, 164 F. Supp. 3d at 336 (quoting *Pavlica v. Behr*, 397 F. Supp. 2d 519, 526 (S.D.N.Y. 2005)).

[4] *Nelson-Salabes, Inc.*, 284 F.3d at 516.

[5] *Effects Associates, Inc. v. Cohen*, 908 F.3d 555, 559 (9th Cir. 1990).

[6] *STAS, Inc. v. Anthony*, No. 6:11-cv-00051, 2012 WL 1970232, \*4 (W.D. Va. May 31, 2012) (emphasis omitted).

[7] *Id.* at \*8.

[8] Id. at \*6.

[9] Id.

[10] Frost-Tsuji Architects v. Highway Inn., Inc., Civil No. 13-000496, 2014 WL 4237285, \*1 (D. Hawaii Aug. 26, 2014).

[11] Id. at \*2.

[12] Id. at \*5.

[13] Id. at \*10.

[14] Id. at \*15.