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Current Cases

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CURRENT CASES


I. INTRODUCTION

You are engaged in a lawsuit with a potential competitor and your opponent hires one of your former employees as an expert consultant. This former employee not only helps your opponent in litigation, but also discloses some of your company’s trade secrets in the process.

As an employer, what recourse do you have against this former employee? Furthermore, what injunctive power do you have to prevent the employee from disclosing information during the judicial proceeding? The case of ITT Telecom Products Corporation v. Dooley holds that an employer cannot prevent a former employee from disclosing trade secrets during a judicial proceeding unless the employer had a written contract with the employee prohibiting such a disclosure. Absent such an agreement, the disclosure would be a “privileged communication” made in a judicial proceeding, which is protected under California law.

California Civil Code section 47, subdivision 2 states that communications taking place within a judicial proceeding are afforded a privilege and thus cannot be subject to non-disclosure actions. The court in ITT applies this code provision to the disclosure of trade secrets.

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1. "'Trade secret' means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." CAL. CIV. CODE § 3426.1(d) (West Supp. 1989).


4. The relevant portion of the statute reads, "A privileged publication or broadcast is one made . . . 2. In any . . . (2) judicial proceeding." CAL. CIV. CODE § 47 (West 1982).
secrets and concludes that California Civil Code section 47 provides an absolute privilege in judicial proceedings for the disclosure of trade secrets by potential expert witnesses like defendant Dooley. However, the court holds that a former employee may not disclose trade secrets to an employer's opponent in a lawsuit when that employee has agreed in a written contract not to disclose secret or confidential knowledge concerning the Company's business. The court leaves open the question of whether such an agreement between an employer and an employee can be implied. The purpose of this casenote is to highlight the important points made in *ITT*, and to suggest areas for further consideration.

II. FACTS

*ITT* involved a suit by ITT Telecom Products Corporation against its former employee, Dooley, alleging that Dooley had breached a contract of confidentiality by discussing company secrets with a purchaser of ITT's international telephone switching system, Intercontinental De Communicaciones Por Satelite, S.A. ("Intercomsa"), a Panamanian corporation. Dooley was an employee of ITT's predecessor company and during that time he signed a contract agreeing not to publish or disclose any of the Company's secrets or confidences during or subsequent to his employment. When ITT acquired the assets of the previous company, it also retained Dooley as an employee. Since ITT acquired the contract rights of the previous company, Dooley's contract was still effective.

At the same time Dooley ended his employment with ITT, Intercomsa became dissatisfied with ITT's telephone switching system and demanded arbitration. Intercomsa contacted a consulting firm to seek assistance in the arbitration and the firm hired Dooley as an expert consultant. Dooley was hired specifically to aid Intercomsa in the arbitration. His tasks were to determine whether ITT's switching system conformed to its product descriptions and whether the capabilities of the system met the requirements of the contract between Intercomsa and ITT. In a written report, Dooley

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5. The contract provided:

I further agree that I will not, except as required in the conduct of the Company's business or as authorized in writing on behalf of the Company, publish or disclose, during such term of employment or subsequent thereto, any secret or confidential knowledge concerning any invention or other matter relating to the Company's business which I may in any way acquire by reason of my employment by the Company.

*ITT*, 214 Cal. App. 3d at 312, 262 Cal. Rptr. at 775.
answered eleven of Intercomsa’s inquiries, and instructed Intercomsa on the traffic engineering of telephone calls. The knowledge Dooley shared with Intercomsa was based on his own personal experience and his experience as an employee at ITT. In 1983, Intercomsa filed a complaint in a Florida federal district court against ITT for selling an allegedly defective telephone switching system.

III. Procedure

ITT filed suit in California state court against Dooley alleging breach of a written contract not to disclose confidential information obtained during his employment, misappropriation of ITT’s trade secrets, breach of the implied covenant of good faith and fair dealing in the written employment contract, unfair competition, and violation of California Labor Code section 2860. The trial court awarded Dooley summary judgment based on the privilege set forth in California Civil Code section 47, subdivision 2.

On appeal, there were only two causes of action at issue: breach of the written employment contract, and misappropriation of ITT’s trade secrets and proprietary information. The key question the court addressed on appeal was whether the privilege of California Civil Code section 47 applies even though Dooley expressly contracted with ITT not to disclose trade secrets.

IV. The Statutory Privilege at Issue

The purpose of California Civil Code section 47 is “to afford litigants the utmost freedom of access to the courts to secure and

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6. “‘Misappropriation’ means: (1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (2) Disclosure or use of a trade secret of another without express or implied consent by a person who: (A) Used improper means to acquire knowledge of the trade secret; or (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was: (i) Derived from or through a person who had utilized improper means to acquire it; (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.”

CAL. CIV. CODE § 3426.1(b) (West Supp. 1989).

7. CAL. LAB. CODE § 2860 (West 1989): “Everything which an employee acquires by virtue of his employment, except the compensation which is due to him from his employer, belongs to the employer, whether acquired lawfully or unlawfully, or during or after the expiration of the term of his employment.”

defend their rights without fear of being harassed by actions for defamation." Communication taking place within a judicial proceeding is privileged if the following factors are met: "the publication (1) was made in a judicial proceeding; (2) had some connection or logical relation to the action; (3) was made to achieve the objects of the litigation; and (4) involved litigants or other participants authorized by law." In addition, the statements must be obtained in good faith and in contemplation of litigation, and the publication must have a reasonable relation to the judicial action.

The statute's requirement of a "judicial proceeding" has been interpreted broadly by the courts. The statutory privilege applies to communications taking place both inside and outside of the courtroom, and "thus, it is not limited to the pleadings, the oral or written evidence, to publications in open court or in briefs or affidavits." The purpose of allowing such a broad definition of "judicial proceeding" is to promote "the vital public policy of affording free access to the courts and facilitating the crucial functions of the finder of fact."
The privilege begins before pleadings are ever filed: "[T]he absolute privilege in both judicial and quasi-judicial proceedings extends to preliminary conversations and interviews between a prospective witness and an attorney if they are some way related to or connected with a pending or contemplated action." Furthermore, the privilege applies to any publication, "even though the publication is made outside the courtroom and no function of the court or its officers is invoked." In addition, it is of no consequence that it is a witness' testimony at issue rather than a pleading, since it has been held that "the testimony of a witness in a judicial proceeding is uniformly accorded the same degree of privilege as is accorded the pleadings therein".

Although the privilege of section 47 appears in the code chapter on defamation, it has been extended to virtually all other causes of action, except malicious prosecution. Courts had never addressed the applicability of the privilege to a case of misappropriation of trade secrets, or to a case where an express non-disclosure agreement exists. Therefore, the ITT case, which addresses both misappropriation of trade secrets and an express non-disclosure agreement, is one of first impression by the court.

V. ARGUMENTS BY THE PARTIES AND ANALYSIS BY THE COURT

A. Applicability of Privilege to Dooley's Communication

ITT's first and weakest argument was that Dooley's statements were not made to further a judicial proceeding, but were made solely for compensation. The court found this argument unpersuasive, since the statements were made specifically to assist Intercomsa in litigation. Furthermore, the fact that Dooley was a

16. Albertson, 46 Cal. 2d at 381, 295 P.2d at 409.
19. ITT, 214 Cal. App. 3d at 318, 262 Cal. Rptr. at 779.
20. Id.
22. ITT, 214 Cal. App. 3d at 315, 262 Cal. Rptr. at 777.
23. Id. at 315-16, 262 Cal. Rptr. at 777.
consultant and not a witness or party was of no consequence, since
the privilege has been extended to other potential expert witnesses
such as Dooley.24 The court concluded that the privilege of Califor-
nia Civil Code section 47 applied to Dooley's communications to
Intercomsa.25

B. Applicability of the Privilege in Light of the Written
Contract

After concluding that Dooley's statements were of the type
covered by the section 47 privilege, the court examined whether the
privilege had the force to override a written contract prohibiting the
disclosure of trade secrets.26 The court concluded that although the
statutory privilege applied to Dooley's disclosure of trade secrets,
the express non-disclosure agreement between Dooley and ITT
would prohibit the disclosure and override the statutory privilege.27

In its analysis, the court balanced the policy reasons favoring
application of the privilege28 with ITT's property interest in trade
secrets and its interest in being able to enforce valid contracts.29
The court pointed out that "trade secrets have been recognized as a
constitutionally protected intangible property interest",30 and that
the California Evidence Code section 1060 specifically provides for
the protection of trade secrets.31 An interesting observation made
by the court is that Evidence Code section 1060 vests in the owner
of a trade secret a privilege against disclosure, but "imposes no
duty on an employee or other party to a trade secret to claim
the owner's privilege against disclosure".32 Therefore, this section
would be of no value unless an employer could assert his or her

24. Id. at 314, 262 Cal. Rptr. at 776 (citing Bernstein v. Alameda-Contra Costa Medi-
cal Ass'n, 139 Cal. App. 2d at 245-47, 293 P.2d at 864-66 (doctor's report on another doctor's
performance)); See also Block v. Sacramento Clinical Labs, Inc., 131 Cal. App. 3d 386, 393-
25. ITT, 214 Cal. App. 3d at 317, 262 Cal. Rptr. at 778.
26. Id. at 318-19, 262 Cal. Rptr. at 779-80.
27. Id. at 320, 262 Cal. Rptr. at 780-81.
28. One policy reason is the necessity of full disclosure for the fact finder in a judicial
29. ITT, 214 Cal. App. 3d at 319-20, 262 Cal. Rptr. at 790-81.
30. Id. at 318, 262 Cal. Rptr. at 779 (citing Ruckelshaus v. Monsanto Co., 467 U.S.
986, 1001-04 (1984)).
31. CAL. EVID. CODE § 1060 (West 1966). This section reads as follows: "If he or his
agent or employee claims the privilege, the owner of a trade secret has a privilege to refuse to
disclose the secret, and to prevent another from disclosing it, if the allowance of the privilege
will not tend to conceal fraud or otherwise work injustice."
32. ITT, 214 Cal. App. 3d at 320, 262 Cal. Rptr. at 780.
privelege against disclosure by contractually creating a duty of nondisclosure.\textsuperscript{33}

\textit{ITT} asserted that since trade secrets were a constitutionally protected intangible property interest, the case of \textit{Cutter v. Brownbridge} should be followed. In \textit{Cutter}, the court declared, "we construe section 47, subdivision 2, as providing no blanket immunity for causes of action based upon constitutional violations".\textsuperscript{34} The \textit{Cutter} court went on to say that "[w]e have determined that the constitutional right to privacy outweighs the policies underlying the judicial proceedings immunity when private material is voluntarily published, without resort to a prior judicial determination".\textsuperscript{35}

The \textit{ITT} court explored the similarities and differences between the \textit{Cutter} case and the present case and concluded that the statutory privilege did not override the express nondisclosure agreement. The court in \textit{ITT} observed that while \textit{Cutter} revealed some similarities helpful to the resolution of the present case, it was distinguishable from the present case because the witness, a psychotherapist, \textit{volunteered} the information, as opposed to providing it pursuant to a subpoena or other request in a judicial proceeding.\textsuperscript{36} Furthermore, \textit{Cutter} did not exclude the testimony because of an express nondisclosure agreement, but instead relied upon the statutory duty of non-disclosure for psychotherapists.\textsuperscript{37} Despite these dissimilarities, the \textit{ITT} court concluded that ITT's express nondisclosure agreement operated in the same fashion as a statutory obligation to override the privilege.\textsuperscript{38} Thus, while the \textit{ITT} court explored differences between the \textit{Cutter} case and the present case, it nevertheless used the \textit{Cutter} decision by analogy to conclude that the nondisclosure agreement overrides the statutory privilege.

\textsuperscript{33} \textit{Id.}
\textsuperscript{34} Cutter v. Brownbridge, 183 Cal. App. 3d 836, 847, 228 Cal. Rptr. 545, 553 (1986). The case involved a suit by a patient against his psychotherapist for volunteering information concerning the diagnosis to the patient's former wife. \textit{Id.} at 840, 288 Cal. Rptr. at 547. The information was used for the purpose of assisting the patient's former wife in an action to suspend the patient's visitation rights with his children. The patient claimed that the psychotherapist committed a breach of his constitutional and common law rights of privacy, and a breach of the implied covenant of confidentiality he had with his psychotherapist. \textit{Id.} at 840, 288 Cal. Rptr. at 547.
\textsuperscript{35} \textit{Id.} at 848, 288 Cal. Rptr. at 553.
\textsuperscript{36} \textit{ITT}, 214 Cal. App. 3d at 320, 262 Cal. Rptr. at 780.
\textsuperscript{37} \textit{See} CAL. EVID. CODE §§ 1010-1027 (West 1966); \textit{But see} CAL. EVID. CODE § 1060 (West 1966), dealing with trade secrets, provides no such duty of non-disclosure.
\textsuperscript{38} \textit{ITT}, 214 Cal. App. 3d at 320, 262 Cal. Rptr. at 780.
C. Application of the Privilege to the Tort of Misappropriation of Trade Secrets

After concluding that the express agreement between Dooley and ITT prohibited Dooley from disclosing the company's trade secrets, the court examined whether the privilege would apply to a tort claim of misappropriation of trade secrets. The court contrasted tort law with contract law, and pointed out that “[t]ort law may be viewed as attempting to define the terms of the unwritten social contract that binds members of a society together.” On the other hand, actions based on contract law are more concerned with enforcing promises and protecting the expectations of the parties.

Because of the differences between tort law and contract law, and the fact that the code section has been held to provide immunity from various tort actions, the court concluded that the privilege of section 47 is more applicable to cases arising out of tort law than contract law. Furthermore, the court pointed out that an obligation of non-disclosure imposed by tort law should not override the witness' privilege of speaking candidly in judicial proceedings. The court concluded, “we hold the privilege applies to ITT's tort claim of unauthorized disclosure of trade secrets.”

VI. AREAS FOR FURTHER CONSIDERATION

While the court was clear in its holding that California Civil Code section 47, subdivision 2 applies to the disclosure of trade secrets unless there is an express non-disclosure agreement prohibiting such a disclosure, the court failed to say how explicit the non-disclosure agreement must be in order to override the statutory privilege. For example, can an employer claim that an implied non-disclosure agreement qualifies as a waiver of the statutory privilege? Since the statutory privilege has been found applicable to various claims involving breaches of confidence, the court suggested that such an agreement may not qualify. However, the court left this question open for further debate.

39. Id. at 321-23, 262 Cal. Rptr. at 781-82.
40. Id. at 322, 262 Cal. Rptr. at 782.
41. Id. at 322, 262 Cal. Rptr. at 781 (citing Tameny v. Atlantic Richfield Co., 27 Cal. 3d 167, 176, 164 Cal. Rptr. 839, 844 (1980)).
42. See infra text accompanying notes 35-37.
43. See id. at 323, 262 Cal. Rptr. at 782.
44. Id.
45. Id.
46. Id. at 322-23, 262 Cal. Rptr. at 782 (citing Lebbos v. State Bar, 165 Cal. App. 3d 656, 667, 211 Cal. Rptr. 847, 852 (1985) (court observed that the section 47 privilege has
VII. CONCLUSION

*ITT Telecom Products Corporation v. Dooley* addressed the applicability of the judicial proceeding privilege to the disclosure of trade secrets by a former employee in the context of a judicial proceeding. While the court declared that the privilege applies to the disclosure of trade secrets, an express nondisclosure agreement between employee and employer would prohibit such a disclosure and override the statutory privilege. Absent such an express agreement, an employee, or former employee, would be statutorily protected under California law from claims arising from the disclosure of an employer's trade secrets in the context of a judicial proceeding.

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provided immunity from a variety of tort actions based on communications disclosed during a judicial proceeding); *See also* Bond v. Pecaut, 561 F. Supp. 1037, 1041 (N.D. Ill. 1983), which determined that a common law witnesses' privilege in a judicial proceeding, as opposed to a statutory privilege like section 47, applies to a breach of an implied confidentiality contract. However, no cases apply the section 47 privilege to an implied agreement of confidentiality.

47. CAL. CIV. CODE § 47 (West 1982).
COPYRIGHT OWNERSHIP AND THE WORKS MADE FOR HIRE DOCTRINE: THE SUPREME COURT ADOPTS THE LITERAL INTERPRETATION


INTRODUCTION

On June 5, 1989, a unanimous U.S. Supreme Court adopted what has been termed the "literal interpretation"¹ of the "works made for hire"² provisions of the 1976 Copyright Act³ (hereinafter the Act). In doing so, the Court rejected several other interpretations endorsed by the Second, Fourth, Seventh, and Ninth Circuits.⁴ The Court held that the creator of a work is an "employee" under the work for hire doctrine only if he or she would be considered an "employee" under the general common law principles of agency as articulated in the Restatement (Second) of Agency.⁵ Under this test, if the creator is determined to be an "employee," then the product is a work for hire under section 101(1) of the Copyright Act.⁶ If, however, the creator is not an "employee," then the creator is, by default, an "independent contractor," and the

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1. This view was initially endorsed by the Fifth Circuit in Easter Seal Soc'y for Crippled Children and Adults of La., Inc. v. Playboy Enters., 815 F.2d 323 (5th Cir. 1987), cert. denied, 108 S. Ct. 1280 (1988).
2. Although the Act terms the doctrine as "works made for hire," in the interest of ease, the term "works for hire" will be used for the purposes of this note.
5. Id. at 2178. The Court cites the following section of the Restatement of Agency in support of its definition of "employee":
   (1) Conduct of a servant is within the scope of employment if, but only if:
       (a) it is of the kind he is employed to perform;
       (b) it occurs substantially within the authorized time and space limits;
       (c) it is actuated, at least in part, by a purpose to serve the master, and
       (d) if force is intentionally used by the servant against another, the use of force is not unexpectable by the master.
   (2) Conduct of a servant is not within the scope of employment if it is different in kind from that authorized, far beyond the authorized time or space limits, or too little actuated by a purpose to serve the master.

ReSTATEMENT (SECOND) OF AGENCY § 228 (1958).

work for hire doctrine is applicable only if the terms of section 101(2) are satisfied.\(^7\)

The significance of the work for hire doctrine is profound in determining copyright ownership. The Copyright Act bestows upon the owner of a copyright five valuable and exclusive rights regarding the disposition of the particular work.\(^8\) Ownership under the Act "vests initially in the author of the work."\(^9\) Generally, the author is the individual who actually creates the work.\(^10\) The work for hire doctrine is an important exception to this general rule. If the product is a work for hire, then "the employer or other person for whom the work was prepared is considered the author" and therefore, the owner of the copyright.\(^11\)

The work for hire doctrine and the newly adopted literal interpretation will have a significant impact in any industry that utilizes the help of freelance workers such as writers, artists, designers, or computer programmers. This note will follow the Court's analysis in arriving at the literal construction of the work for hire doctrine and address some of the issues that this ruling left unresolved.

**The Facts**

*Community for Creative Non-Violence v. Reid* (hereinafter *CCNV v. Reid*) involved a dispute over copyright ownership in a statue between the creating artist, Reid, and the commissioning organization, CCNV. The facts, though lengthy, must be considered closely because the Court's ultimate decision rests on the commercial relationship between Reid and CCNV.\(^12\) In the fall of 1985, CCNV decided to contribute a display to the Washington, D.C. annual Christmas Pageant of Peace. CCNV conceived an idea for the display depicting the plight of the homeless in the form of a modern nativity scene. Instead of the traditional figures, CCNV envisioned a sculpture of a black family, two adults and an infant, huddled on a streetside steam grate. CCNV determined the dimensions of the

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8. 17 U.S.C. § 106 (1982 & Supp. V 1987). These five rights are: to reproduce the work; to prepare derivative works; to distribute copies of the work; to perform the work; and to display the work. *Id.*
11. 17 U.S.C. § 201(b) (1982 & Supp. V 1987). The parties must also agree in writing that the work is a work for hire. *Id.*
12. These are the facts as recited by the Court. *CCNV*, 109 S. Ct. at 2168-71.
piece and entitled it “Third World America” with “and there is no room at the inn” inscribed on the sculpture’s pedestal.

CCNV looked for an artist to make the statue. After some searching, CCNV offered the job to Reid. Reid agreed to create the statue, and CCNV agreed to build the pedestal and steam grate. Reid suggested that the piece be made of bronze, but CCNV rejected the idea due to lack of funds. Reid then recommended a synthetic substance with which to mold the work and CCNV agreed. The price settled upon was $15,000 for cost of materials, and Reid donated his artistic skills.

From his studio in Maryland, Reid sent CCNV a sketch of his vision of the proposed statue. Reid testified that he sent the sketch at the request of CCNV so that CCNV could use the sketch to raise money for the project. CCNV representatives testified that the sketch was also sent for the purpose of obtaining CCNV’s approval. CCNV recommended a particular family to use as models and suggested, contrary to Reid’s sketch, that the family be depicted in a reclining position on the steam grate. Reid adopted both of these suggestions.

During the month of November and part of December, various CCNV representatives went to Maryland to check on Reid’s progress. During one of these visits, CCNV rejected Reid’s idea of using suitcases and paper bags to hold the personal belongings of the family and, instead, insisted that Reid use a shopping cart for this purpose.

At no time during their relationship was the issue of copyright ownership discussed by Reid or CCNV. On December 24, 1985, Reid delivered the finished sculpture to CCNV in Washington, D.C. where it was united with the pedestal and the steam grate prepared by CCNV. The piece was thereafter placed on display in the Christmas pageant.

In late January, 1986, CCNV returned the statue to Reid for repairs. CCNV made plans to take the sculpture on tour in order to raise money for the homeless. When CCNV asked Reid to return the statue in March, he refused. Reid then filed a certificate of copyright registration for the sculpture in his name and announced plans to take it on his own tour. CCNV immediately filed a competing certificate of copyright registration.

After filing its competing certificate, CCNV filed suit against Reid seeking return of the statue and a resolution of copyright ownership. The District Court ruled that “Third World America” was a work for hire under section 101 of the Act and that CCNV was
therefore, the owner of the copyright in the statue. The Court of Appeals, however, disagreed and held under a literal interpretation of the work for hire doctrine that Reid was not an “employee” and therefore, the piece was not a work for hire. The court suggested that the work may have been jointly authored and remanded the case for resolution of that issue. The Supreme Court granted certiorari in order to resolve the conflict among the circuit courts regarding the proper interpretation of the work for hire doctrine.

The literal interpretation of the work for hire doctrine: the “control” and “salaried employee” tests rejected

The Court's analysis of the work for hire doctrine focused on the language, structure, and legislative history of the work for hire provisions of the Act. Although there are two situations under which a work can be a work for hire, by election of the Court, the inquiry was limited to the proper construction of section 101(1) only. Section 101(1) describes a work for hire as “a work prepared by an employee within the scope of his or her employment.” Adopting the common law of agency definition of “employee,” the Court ruled that “Third World America” was not created by Reid as an employee of CCNV.

15. A joint work is “a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.” 17 U.S.C. § 101 (1982 & Supp. V 1987). The authors of a joint work are considered co-owners of the copyright in that work. 17 U.S.C. § 201(a) (1982 & Supp. V 1987).
17. CCNV, 109 S. Ct. at 2178.

   (1) a work prepared by an employee within the scope of his or her employment; or

   (2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.

Because the sculpture does not fit into one of the nine categories, CCNV never contended, nor did the Court ever consider, that the work was a work for hire under section 101(2).
20. CCNV, 109 S. Ct. at 2179.
The Court began its analysis by reciting the four interpretations of the work for hire doctrine that have emerged from the circuit courts.\(^\text{21}\) The first view, which was asserted by CCNV, holds that a work is made by an employee whenever the hiring party retains the right to control the final product.\(^\text{22}\) The second construction is a variation of the first and was also asserted by CCNV. This interpretation holds a work is prepared by an employee when the hiring party actually exercises control over the work.\(^\text{23}\) The third view, and the view endorsed by the Court, gives the term “employee” a common law of agency meaning.\(^\text{24}\) The fourth position, the view adopted by Reid, holds that “employee” refers only to formal, salaried employees.\(^\text{25}\)

The first layer of the Court’s inquiry into the proper construction of the work for hire doctrine was an examination of the language of the Act. The terms “employee” and “scope of employment” are not defined by the Act.\(^\text{26}\) Citing authority compelling it to do so, the Court looked to common law in order to ascertain the proper construction of the two terms.\(^\text{27}\) The Court asserted, “In the past, when Congress has used the term ‘employee’ without defining it, we have concluded that Congress intended to describe the conventional master-servant relationship as understood by common law agency doctrine.”\(^\text{28}\) In addition, the term “scope of employment” is a specific term of art used in agency law.\(^\text{29}\) According to the Court, section 101(1)’s use of this term suggests a congressional intent to incorporate the agency law definition of “employee” into the Act.\(^\text{30}\) Finally, the Court points to the Act’s express goal of establishing a uniform copyright law.\(^\text{31}\) The Court contended that adopting a general common law of agency meaning, rather than relying on the law of a particular state, fits this congres-
sional goal of uniformity.\textsuperscript{32}

Having adopted the common law agency definition of "employee," the Court addressed the conflicting constructions of the work for hire doctrine. The two control-focused tests could not pass scrutiny in light of the Court's literal interpretation of section 101.\textsuperscript{33} One of the Court's primary reasons for rejecting the control tests was that such tests erroneously focus on the commercial relationship between the hiring party and the work instead of focusing on the relationship between the parties as the language and structure of section 101 dictates.\textsuperscript{34} Also, the control tests ignore the clearly articulated dichotomy established by section 101 between works created in the scope of employment and specially commissioned works.\textsuperscript{35}

Section 101 sets forth two distinct situations under which the work for hire doctrine operates. The second of these situations, described in section 101(2), specifically enumerates nine categories of works to which the work for hire doctrine applies.\textsuperscript{36} The Court argued that specially ordered works, by their definition, include the right of the commissioning party to exercise control over production of the work.\textsuperscript{37} If control by the hiring party is the determining factor, then section 101(2) would, in many instances, be redundant and unnecessary because the works would already be considered works for hire under section 101(1).\textsuperscript{38} The control tests create a significant amount of overlap between sections 101(1) and 101(2) which, according to the Court, is inconsistent with the structure of the Act.\textsuperscript{39} In addition to the Act ignoring the distinction between employee and commissioned works, the Court found no language in the Act supporting any kind of control test construction.\textsuperscript{40}

The Court concluded its rejection of the control tests by citing considerable legislative history demonstrating congressional intent.

\textsuperscript{32} \textit{Id.}

\textsuperscript{33} \textit{Id.} at 2174. In a footnote the Court also rejected the Ninth Circuit's formal salaried test. The Court conceded that there exists some legislative history suggesting the validity of this approach, but the language of § 101(1) does not support such an interpretation. \textit{Id.} at 2174 n.8.

\textsuperscript{34} \textit{Id.} at 2173.

\textsuperscript{35} \textit{Id.}

\textsuperscript{36} \textit{See supra} note 18. These categories were chosen because they typically are prepared at the "instance, direction, and risk of a publisher or producer." By their very nature, these types of works include the hiring party's right to control production. \textit{CCNV}, 109 S. Ct. at 2173.

\textsuperscript{37} \textit{Id.}

\textsuperscript{38} \textit{Id.}

\textsuperscript{39} \textit{Id.}

\textsuperscript{40} \textit{Id.} at 2174.
to retain the two mutually exclusive grounds upon which a work for hire claim can be made.41 Not only did Congress retain the employee versus commissioned works distinction through various revisions of the Act, but a contrary reading in favor of a control test would violate the Act's goal of predictability of copyright ownership.42 Because the control tests turn on events that occur during production of a work, the parties would not be certain of copyright ownership until somewhere in the middle or at the end of their relationship.43 In addition, the control tests would allow a hiring party to usurp copyright ownership of a work not falling into one of the nine categories under section 101(2) simply by demonstrating some degree of control over the production of the work.44 With such an easily met burden, hiring parties may end up with copyright interests for which they did not rightfully contract.45

To summarize, the Court rejected the "control" and "salaried employee" tests because they are not supported by the language of the Act, they are inconsistent with the structure of the Act, and they are contrary to congressional intent.46 In applying the work for hire doctrine under a literal interpretation, a court should determine under the common law of agency whether the hired party is an employee or an independent contractor.47 After resolving this preliminary issue, the court can apply either the employee subsection or the commissioned works subsection of 101 in order to determine copyright ownership.48

EMPLOYEE OR INDEPENDENT CONTRACTOR: APPLYING THE LITERAL INTERPRETATION

Although no single factor is determinative, the Court recited several variables which are relevant in determining whether a hired party is an employee under the common law of agency.49 These factors are: the hiring party's right to control production; the skill required to perform the task; the source of the tools used; the place where the work is done; the duration of the relationship between the

41. Id. at 2174-78.
42. Id. at 2178.
43. Id.
44. Id. (citing Easter Seal Soc'y for Crippled Children and Adults of La., Inc. v. Playboy Enters., 815 F.2d 333 (1987)).
45. Id.
46. Id.
47. Id.
48. Id.
49. Id. at 2178-79.
parties; the hiring party's right to assign additional projects to the worker; the degree of control the hiring party has over when and for how long the hired party works; the manner of payment; the hired party's power to hire and pay assistants; whether the project is related to the hiring party's regular course of business; the type of benefits received by the hired party; and the tax treatment of the hired party.\textsuperscript{50}

In applying these factors to the relationship between CCNV and Reid, the Court unreservedly concluded that Reid was not an employee of CCNV, but an independent contractor.\textsuperscript{51} Although CCNV had control over Reid's work to the extent it could insist the sculpture met certain specifications, the Court noted that control by itself is not determinative. The Court then cited the following factors as evidence against CCNV's contention that Reid was its employee: the high level of skill required to sculpt; Reid used his own tools; he worked in his own studio in Maryland; their relationship lasted only two months; CCNV had no authority to assign additional projects to Reid; Reid was free to hire and pay assistants as he wished; the hours that Reid worked were totally at his own discretion; he received none of the standard employee benefits; creating sculptures was not within CCNV's regular course of business; and had Reid not donated his services, he would have been paid a fixed sum payable at the completion of the project.\textsuperscript{52} The Court gave no indication as to which of the factors, or in what combination, it found to be most probative. The Court nonetheless found the sum total of these facts to be overwhelming in favor of finding Reid to be an independent contractor and not an employee of CCNV.

UNRESOLVED ISSUES REGARDING THE APPLICATION OF THE WORK FOR HIRE DOCTRINE

Although the Court settled the question of the proper definition of employee under section 101(1), its decision leaves several issues regarding the application of the work for hire doctrine unanswered. Even after this ruling, the problems of predictability of copyright ownership, the proper construction of section 101(2), and possibility of a joint authorship conclusion still infest the work for hire doctrine.

The Court's literal approach requires the circuit courts to con-

\textsuperscript{50} Id. It should be noted that the Court borrows from both the control tests and the formal salaried test in reciting the controlling factors under the literal approach.

\textsuperscript{51} Id. at 2179.

\textsuperscript{52} Id.
sider a myriad of factors in determining whether or not a hired party is an employee under section 101(1). The Court neither guides the lower courts regarding the probative weight of any of the recited factors, nor does the Court suggest how many of the factors must exist in order for the scales to tilt in either the employee or independent contractor direction. Due to this lack of guidance, future applications of the literal approach will be fact-intensive, case by case exercises leaving both the worker and the hiring party uncomfortably uncertain regarding copyright ownership.

This inherent uncertainty in the literal approach to the work for hire doctrine is directly contrary to the Act’s goal of providing predictability of copyright ownership at the outset of a project. It is ironic that predictability and consistency were major policy reasons for the Court’s rejection of the control tests when the literal approach does very little to advance this congressional purpose. As with the control test, the events determining whether or not the hired party is an employee will not occur until “late in the process, if not until the work is completed.” Parties will be no more able to predict the status of the hired party at the outset of a project under the literal interpretation than they would under either of the control tests.

Another unfinished aspect of the CCNV v. Reid decision is the Court’s election not to construe the meaning of section 101(2) in any significant detail. Besides restating the nine categories of works enumerated by the section, the Court avoids resolving the ambiguity surrounding the scope and meaning of those categories. Even where a court is able to determine with certainty that the hired party is an independent contractor and not an employee, it is still left with the confusing task of characterizing the work at issue in relation to the nine categories of section 101(2). Except in cases where the work clearly does not fit into any of the categories, as in CCNV v. Reid, the lower courts will have to make difficult decisions regarding the scope of the categories. Without any guidance from the Supreme Court, these lower court decisions will undoubtedly conflict, resulting in inconsistent application of the work for hire doctrine.

This ambiguity regarding the nine categories may have a particularly interesting impact on the computer software industry. Although computer programs are classified as “literary works” under the Act, the status of computer programs is yet undetermined

53. Id. at 2178.
54. See supra note 18.
As suggested in an article by Henry Beck, computer programs can arguably fall into any one of the nine categories of section 101(2).\textsuperscript{56} As the use of computer software permeates day to day business and personal activities, courts will inevitably be faced with the problem of classifying various types of works as they exist in this new and ever changing medium. Given the Court's common law of agency definition of employee, the uncertainty regarding the scope of the nine categories, and the yet undetermined status of software under the Act, copyright ownership in specially ordered programs may end up in the hands of the programmer in the absence of an agreement to the contrary.

The final issue left for the circuit courts is the question of joint authorship. On remand, the district court will have to determine whether the sculpture was created by CCNV and Reid "with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole."\textsuperscript{57} After rejecting the control tests because they failed to focus on the commercial relationship between the parties, the Court asks the district court to put aside the employee-employer aspects of the relationship and to focus on the intent of the parties.\textsuperscript{58} This shift of focus may suggest that the Court has reservations regarding the fairness of giving Reid, or any independent contractor, exclusive copyright in the work when the facts indicate that such an outcome was never in-

\textsuperscript{55} A computer program is defined as "a set of statements or instructions to be used directly in a computer in order to bring about a certain result." 17 U.S.C. § 101 (1982 & Supp. V 1987). Literary works include works "expressed in words, numbers, or other verbal or numerical symbols or indicia, regardless of the nature of the material objects, such as books, periodicals, manuscripts, phonorecords, film, tapes, disks, or cards, in which they are embodied (emphasis added). \textit{Id.} See Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240 (3d Cir. 1983) where the court held: "Thus, a computer program, whether in object or source code, is a 'literary work'. . . " \textit{Id.} at 1249.

\textsuperscript{56} Mr. Beck gives the following as examples in support of his contention:

\begin{itemize}
\item Among the categories enumerated by the statute are "contributions to collective works" (arguably, modules of larger programs), parts of a "motion picture or audiovisual work" (arguably, software designed to generate screen displays), "compilations" (arguably including arrangements of public domain materials such as "freeware"), "translations" (arguably, translations which port programs from one operating system/hardware platform to another), "supplementary works" (arguably, enhancements to existing programs) "instructional texts" (arguably, including computer documentation).
\end{itemize}


\textsuperscript{58} The Act's definition of joint works requires a court to look to the intention of the parties at the time the contract, if any, is executed and the existence of a collaborative intent on behalf of the parties. \textit{GINSBURG, GORMAN & LATMAN, COPYRIGHT FOR THE EIGHTIES} 229 (2d ed. 1985).
tended by the hiring party. Perhaps by remanding the case for a resolution of the joint authorship issue, the Court is creating a new step in the work for hire analysis to be triggered by interests of equity and fairness.

CONCLUSION

The Court's literal construction of section 101 will make it tougher for hiring parties to ensure copyright ownership in works which they farm out to independent contractors. The literal approach may have particular impact on the high technology industry where the status of many of its mediums of expression is yet unsettled under copyright law. The cleanest way to settle the issue of copyright ownership when using freelance workers is to execute an agreement at the outset of the project determining in whom the interests will vest.

One commentator on the issue of copyright ownership agreements suggests that such an agreement should not only declare the proposed work to be a "work made for hire," but also include a clause which compels the hired party to transfer all his rights in the work over to the hiring party in the event that the circumstances of their relationship do not satisfy the work for hire doctrine.\(^5\) Although such an agreement may guarantee the hiring party copyright ownership, California employment laws may require that the hired party now an "employee" via the contract, receive full employee benefits from the hiring party.\(^6\)

In addition to the literal interpretation of the work for hire doctrine creating more hoops through which hiring parties must jump in order to secure copyright ownership, its retrospective, fact-intensive analysis may also unfairly endow copyright ownership on either the worker or the hiring party when such an outcome was never intended by the parties. The Court has, however, left open a window through which equitable considerations may enter the analysis by allowing the possibility of a joint authorship outcome. Although it remains to be seen how the lower courts will carry out the ruling of \textit{CCNV v. Reid}, it seems the decision not only determined the proper construction of the term "employee" under sec-

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\(^6\) The possible ramifications of the work for hire doctrine in the area of employment law is well beyond the scope of this casenote. For an overview of the employment law issues, see Victoroff, \textit{Poetic Justice: California "Work Made for Hire" Laws Invite State Regulation of Parties to Copyright Contracts}, \textit{14 New Matter} 3 (1989).
tion 101(1), but also added a new joint works prong to the work for hire analysis.

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