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FINDING A WORKABLE EXCEPTION TO THE WORK MADE FOR HIRE PRESUMPTION OF OWNERSHIP

The United States Constitution confers upon Congress the power to “promote the Progress of Science and useful Arts.”¹ Congress exercises this power through copyright legislation.² The most recent legislation, the Copyright Act of 1976 (Copyright Act),³ provides pecuniary incentive⁴ to produce and create works by granting ownership of a copyright to the work’s creator or “author.”⁵ The Copyright Act entitles authors to a limited monopoly in their works,⁶ carefully balancing this economic incentive with the need to disseminate works to the public.

The “work made for hire” doctrine is a narrow exception to the basic rule that the creator is the owner of the copyright. The doctrine grants ownership rights not to the creator but to (1) the employer whose employee created the work within the scope of his or her employment;⁷ or (2) the party commissioning the work, if the work falls

1. U.S. CONST. art. I, § 8, cl. 8.

2. *See* Copyright Act of 1976, 17 U.S.C. §§ 101-1101 (1994).

3. *See id.*

4. The owner of a copyright has the exclusive right to reproduce, adapt, distribute, perform and display copyrighted works. *See* 17 U.S.C. § 106 (1994). The owner of a copyright may choose to forego payment for his creation in lieu of retaining full ownership rights of the copyright because of the value that it holds. One advertising executive recalled receiving very little compensation for his work for the defendant but stated that he “agree[d] to create a television commercial for [the defendant’s] use provided that [he], not [the defendant] would retain all rights, including any copyright, to th[e] commercial after its production. [He] wanted those rights because [he] knew that commercials could generate licensing revenues for the owners of such rights.” *Sandwiches, Inc. v. Wendy’s Int’l*, 654 F. Supp. 1066, 1068 (E.D. Wis. 1987).

5. *See* 17 U.S.C. § 201(a).

6. *See Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

7. Congress intended that works made for hire falling under this category be the product of the traditional employer-employee relationship in which the

within one of the nine categories enumerated in the Copyright Act and there is a written and signed agreement indicating that the work is to be made for hire.⁸ In the absence of any written agreement to the contrary, the Copyright Act presumes the employer to be the owner of the copyright.⁹

The operative theory behind the presumption is that when a party hires an employee to create a copyrightable work, the fruits of the employee's endeavors properly belong to the employer.¹⁰ The employer often initiates the creative process and without such initiation, many creative works would not be undertaken.¹¹ The employer also bears the risk of commercial failure while the creator will be paid regardless of whether the work is ultimately commercially successful. Thus, the employer's mandate to the employee and the scope of the employee's employment contemplate the creation of copyrightable material for the employer's benefit.

Although the Copyright Act presumes that an employer is the owner of the copyright, there are situations where an employer should no longer be entitled to benefit from its employee's creative

employee gives up authorship in his or her creation in exchange for a regular salary and other employment benefits. Cf. 133 CONG. REC. 12,957 (1987) (statement of Sen. Cochran).

8. See 17 U.S.C. § 101(1)-(2). The specially commissioned work provision is narrow, requiring both a signed and written agreement, and that the work in dispute fall into one of the categories enumerated in subsection (2). See *id.* § 101(2). The rescission analysis which follows *infra* applies to independent contractors to the extent that the commissioning party materially breached its agreement, and that this breach went to the essence of the bargain between the parties.

The express writing requirement of the work for hire provision serves two primary objectives. First, the writing requirement serves as a statute of frauds so that written agreements, rather than oral ones, govern the distribution of copyrights in the "for hire" setting. See *Armento v. Laser Image, Inc.*, 950 F. Supp. 719, 730 (W.D.N.C. 1996), *aff'd*, 134 F.3d 362 (4th Cir. 1998). Second, a written agreement makes clear and definite the ownership of property rights in intellectual property, so that such property will be more readily marketable. See *id.*

9. See 17 U.S.C. § 201(b).

10. See Borge Varma, *Study No. 13: Works Made for Hire and on Commission*, in SENATE SUBCOMMITTEE ON PATENTS, TRADEMARKS AND COPYRIGHTS, 86TH CONG., 2D SESS., COPYRIGHT LAW REVISION 123, 139 (Comm. Print 1960).

11. See Matthew R. Harris, *Copyright, Computer Software, and Work Made for Hire*, 89 MICH. L. REV. 661, 662 (1990).

endeavors. Contract principles assume that people structure consensual transactions to obtain the benefit of any bargains reached. In an employment context, employees and employers are free to bargain over such terms as salary, benefits, and creative control over the work. Where an employer makes certain promises but fails to fulfill them, it should no longer be entitled to the copyright it owns by virtue of the presumption.¹² This Comment proposes that where an employer breaches an express or implied agreement with its employee, the employee should be entitled to rescind the contract and thereby recapture the copyright.¹³ The scope of this remedy should be, however, limited to situations where the employment relates primarily to creative activities—employees who design poster art or album covers for their employers, filmmakers, and other employees whose primary job function depends on their creative abilities and talent. Where creativity by the employee is only an incidental part of the employment relationship, but still within the scope of employment, the adequacy of legal remedies provided by contract law cannot justify divestiture of the copyright from the party initiating the creative process and bearing the commercial risk of its success.

Part I of this Comment discusses copyright ownership, authorship as an economic concept, the implications of finding a work to be a work made for hire, and how to determine whether a work is made for hire under the Copyright Act. Part II summarizes remedies available under the Copyright Act and legal remedies available for breach of contract, and illustrates why such remedies are inadequate to compensate a creative employee for loss of a copyright when there is a material breach of an employment agreement by its employer. Part

12. An employer's failure to pay compensation to its employee is a material breach of the employment agreement which should entitle the employee to the remedy of rescission. *See* *Black v. Pizza Time Theatres*, 1983 Copyright L. Dec. (CCH) ¶ 25,569 (N.D. Cal. 1983); *Hughey v. Palographics Co.*, 189 U.S.P.Q. 527 (D. Colo. 1976). Other reasons an employer should be forced to forfeit copyright ownership include fraudulently inducing an employee into making an unfair agreement or breaching a promise to allow its employee to maintain creative control or direction over the work. *See* *Trenton v. Infinity Broad. Corp.*, 865 F. Supp. 1416 (C.D. Cal. 1994); *McKinney v. Gannett Co.*, 660 F. Supp. 984 (D.N.M. 1981), *aff'd*, 817 F.2d 659 (10th Cir. 1987); *Brown v. Cosby*, 433 F. Supp. 1331 (E.D. Pa. 1977).

13. *See* 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 5.03(E) (1996) [hereinafter NIMMER ON COPYRIGHT].

III analyzes why an employer should forfeit initial ownership of a copyright and how an employee may bring a claim for rescission to recapture that copyright. Part IV concludes that creative employees should, in limited situations, be entitled to rescind contracts of employment and recapture copyrights in works made for hire.

I. COPYRIGHT OWNERSHIP

A. *Authorship as an Economic Concept: Works Made for Hire*

In order to further the underlying goals of copyright,¹⁴ the Constitution authorizes Congress to secure to authors the exclusive rights to their works for a limited time.¹⁵ As a general rule, the party who actually creates the work by translating the idea into a fixed, tangible expression, is the owner, or "author," and is thus entitled to copyright protection.¹⁶ The text of the Constitution thus reserves initial ownership of the copyright to the initial creator.

In contrast to the intellectual characterization of authorship previously described, the "work made for hire" doctrine is an economic conceptualization of authorship. The work made for hire doctrine confers initial ownership upon the person or entity who finances the work's creation and dissemination. The hiring party's assumption of all of the economic risks entitles it to be treated as "author."¹⁷

14. Copyright law seeks to balance the need to motivate artistic and original creation of works by allowing commercial exploitation by the creator and the need to benefit the general public through knowledge gained by access to such works. See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (stating that although the immediate effect of copyright law is "to secure a fair return for an author's creative labor. . . . the ultimate aim [of copyright law] is . . . to stimulate artistic creativity for the general good").

15. See U.S. CONST. art I, § 8, cl. 8.

16. See *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 737 (1989).

17. See generally William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEG. STUD. 325, 327 (1989) (discussing the economic costs of producing copyrightable works).

B. The Work Made for Hire Doctrine as Defined by the United States Copyright Act

The Copyright Act defines a "work made for hire" as: (1) a work prepared by an employee within the scope of his or her employment, or (2) specially commissioned works where the parties expressly agree in a written and signed instrument indicating their intent to consider the work to be made for hire.¹⁸ Rather than vesting ownership in the actual author of the creative work, the Act vests ownership of works made for hire in the employer or party for whom the work is prepared. The employer is then considered the author for purposes of the statute.¹⁹ This is true unless the parties expressly agree otherwise in a signed written instrument.²⁰

C. The Benefits of Ownership and the Implications of Finding a Work to be Made for Hire

Classifying a work as "made for hire" carries profound significance for creative employees²¹ and the industries which employ them.²² Whether a work is made for hire determines the initial ownership of a work's copyright, the copyright's duration,²³ the owner's renewal rights,²⁴ termination rights,²⁵ and the right to import certain goods bearing on the copyright.²⁶ Works created before January 1, 1978, and works created on or after January 1, 1978, are subject to a varying term of protection depending on whether the work was originally created in a for hire relationship.²⁷ Works in which a statutory copyright was subsisting prior to the effective date of the

18. A work must fall within one of the nine categories enumerated in the statute: contribution to a collective work, motion pictures or other audio visual works, translations, supplementary works, compilations, instructional texts, tests, answer materials for a test, or an atlas. See 17 U.S.C. § 101(2) (1994).

19. See *id.* § 201(b).

20. See *id.*

21. Although the list is not exhaustive, creative employees include artists, writers, photographers, designers, composers and computer programmers.

22. Such industries include publishing, motion pictures, television production, advertising and music.

23. See 17 U.S.C. § 302(c) (1994).

24. See *id.* § 304(a).

25. See *id.* § 203(a).

26. See *id.* § 601(b).

27. See *id.* §§ 302(c), 303.

Copyright Act—January 1, 1978—are subject to renewal of that copyright after the initial 28-year term.²⁸ The person entitled to claim such renewal varies, depending on whether or not the work is one made for hire.²⁹

Authorship and copyright protection under initial ownership or a renewal term entitles the owner to exclusive commercial exploitation of the work. The owner has the sole right to reproduce the copyrighted work, to prepare derivative works based on the copyrighted work, and to distribute copies.³⁰ Furthermore, copyright ownership exclusively entitles the owner to perform or display the work in public and to perform the copyrighted work publicly by means of digital audio transmission.³¹

Works made for hire are not protected under the 1990 amendment to the Copyright Act, the Visual Artists Right Act (VARA).³² In passing VARA, Congress for the first time provided protection of an artist's "moral rights" in a work of visual art under the Copyright Act.³³ Moral rights afford protection for the author's personal, non-economic interests in receiving attribution for her work.³⁴ VARA defines "works of visual art" to include paintings, drawings, prints and sculptures, existing in a single copy or in limited edition.³⁵ Works made for hire are excluded from VARA's definition of works of visual art and are thus not protected under the amendment.³⁶

28. *See id.* § 304(a).

29. *See id.*

30. *See id.* § 106.

31. *See id.*

32. *See id.* § 106A.

33. *See id.*; Jane C. Ginsburg, *Copyright in the 101st Congress: Commentary on the Visual Artists Rights Act and the Architectural Works Copyright Protection Act of 1990*, 14 COLUM.-VLA J.L. & ARTS 477, 478 (1990).

34. *See id.*

35. *See* 17 U.S.C. § 101.

36. *See id.*; *Carter v. Helmsley-Spear, Inc.*, 861 F. Supp. 303, 313 (S.D.N.Y. 1994), *aff'd in part, vacated in part, rev'd in part*, 71 F.3d 77 (2d Cir. 1995). For a further discussion of the moral rights issue in copyright, see Collen Creamer Fielkow, *Clashing Rights Under United States Copyright Law: Harmonizing an Employer's Right with the Artist-Employee's Moral Rights in a Work Made for Hire*, 7 DEPAUL J. ART & ENT. L. 218 (1997); Russ VerSteeg, *Federal Moral Rights for Visual Arts: Contract Theory and Analysis*, 67 WASH. L. REV. 827 (1992); Craig A. Wagner, Note, *Motion Picture Colorization, Authenticity, and the Elusive Moral Right*, 64 N.Y.U. L. REV.

D. How to Determine Under Copyright Law Whether a Creator Is an Independent Contractor or Employee

In determining whether a work is made for hire, a court must first determine whether the creator is an employee or an independent contractor.³⁷ If the creator is deemed to be an independent contractor, his or her work will be made for hire if the work falls within a number of categories and there is a written agreement expressing that the commissioning party owns the work. These specially ordered or commissioned works include an atlas; works to be used as a contribution to a collective work, motion picture or other audiovisual work; or works to be used as a translation, supplementary work, compilation, instructional text, test, or answer material for a test.³⁸ If the work falls within one of these categories and there is a written agreement expressing that the work is made for hire, the commissioning party owns the work. If the work either does not fall within one of the categories or there is no written and signed agreement between the parties, then the creator, as an independent contractor, retains copyright ownership. On the other hand, if the creator is deemed to be an employee and there is no writing to the contrary, the employer owns the copyright.³⁹

The Supreme Court set forth factors relevant in determining whether a creator is an independent contractor or employee in *Community for Creative Non-Violence v. Reid*.⁴⁰ The case involved a sculpture created by James Earl Reid, a Baltimore, Maryland artist.⁴¹ In the fall of 1985, the Community for Creative Non-Violence (CCNV), a non-profit unincorporated association dedicated to eliminating homelessness, decided to sponsor a display dramatizing the plight of the homeless in conjunction with the annual Christmastime Pageant of Peace in Washington, D.C.⁴² CCNV contacted Reid to

628 (1989).

37. See *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 738 (1989).

38. See 17 U.S.C. § 101(2) (1994).

39. See *id.* § 201(b).

40. 490 U.S. 730 (1989).

41. See *id.* at 733.

42. See *id.*

create a sculpture of a homeless family eventually entitled "Third World America."⁴³

Since the sculpture did not fall within one of the nine categories enumerated in § 101(2)⁴⁴ and the parties did not execute an assignment or other written agreement, the dispute centered around whether Reid, the artist, was an employee acting within the scope of his employment, or whether he was an independent contractor.⁴⁵ Status as an employee meant that the sculpture belonged to CCNV, while status as an independent contractor meant that Reid owned the copyright in his work.⁴⁶

The district court found that because CCNV was the motivating force behind the sculpture, that "Third World America" was a work made for hire.⁴⁷ The court also found that CCNV had "directed enough of [Reid's] effort to assure that . . . he had produced what they, not he, wanted."⁴⁸ Accordingly, the district court determined that CCNV owned the copyright.⁴⁹

The Court of Appeals for the District of Columbia Circuit reversed.⁵⁰ The court held that Reid owned the copyright because under agency law, Reid was an independent contractor.⁵¹ The Supreme Court agreed with the Court of Appeals and affirmed.⁵² In rejecting the district court's reliance on CCNV's right to control, or actual control over, Reid's work,⁵³ the Court considered four possible tests: (1) right to control,⁵⁴ (2) actual control,⁵⁵ (3) formal salary,⁵⁶ and (4) common law agency.⁵⁷

43. *See id.*

44. *See id.* at 736. *See also supra* note 18 and accompanying text (listing the nine categories enumerated in § 101(2)).

45. *See* 490 U.S. at 738.

46. *See id.* at 737.

47. *See id.* at 735.

48. *See id.* at 735-36.

49. *See id.* at 735.

50. *See id.* at 736.

51. *See id.*

52. *See id.*

53. *See id.* at 741, 750.

54. *See id.* at 738, 741-42; *Peregrine v. Lauren Corp.*, 601 F. Supp. 828, 829 (D. Colo. 1985); *Clarkstown v. Reeder*, 566 F. Supp. 137, 142 (S.D.N.Y. 1983).

55. *See* 490 U.S. at 739, 742; *Brunswick Beacon, Inc. v. Schock-Hopchas Publ'g Co.*, 810 F.2d 410 (4th Cir. 1987); *Evans Newton, Inc. v. Chicago Sys.*

The Court rejected CCNV's claims of copyright based on both the right to control and actual control tests.⁵⁸ The right to control test refers to the right to direct and control the means and manner of creation.⁵⁹ Under this test, a creator is considered an employee as long as the employer retains the right to control the creation of the work, regardless of whether the employer actually exercises the control. The Court rejected this test because its exclusive focus "on the relationship between the hiring party and the product clashes with the language of § 101(1), which focuses on the relationship between the hired and hiring parties."⁶⁰ The Court further noted:

Section 101 plainly creates two distinct ways in which a work can be deemed for hire: one for works prepared by employees, the other for those specially ordered or commissioned works which fall within one of the nine enumerated categories and are the subject of a written agreement. The right to control the product test ignores this dichotomy by transforming into a work for hire under §101(1) any "specially ordered or commissioned" work that is subject to the supervision and control of the hiring party. Because a party who hires a "specially ordered or commissioned" work by definition has a right to specify the characteristics of the product desired . . . the right to control the product test would mean that many works that could satisfy §101(2) would already have been deemed works for hire under §101(1).⁶¹

The Court rejected the actual control test based on similar rationale: "Under the actual control test, a work for hire could arise under §101(2), but not under §101(1), where a party commissions, but does not actually control, a product which falls into one of the

Software, 793 F.2d 889 (7th Cir. 1986); Aldon Accessories Ltd. v. Spiegel, Inc., 738 F.2d 548 (2d Cir.), *cert. denied*, 469 U.S. 982 (1984).

56. See 490 U.S. at 739, 742-43 n.8; Dumas v. Gommerman, 865 F.2d 1093 (9th Cir. 1989).

57. See 490 U.S. at 739-43.

58. See *id.* at 741-43.

59. See Harris, *supra* note 11, at 676.

60. 490 U.S. at 741.

61. *Id.*

nine enumerated categories.”⁶² Because § 101 only distinguished between works prepared by an employee and commissioned works, the Court found “no statutory support for an additional dichotomy between commissioned works that are actually controlled and supervised by the hiring party and those that are not.”⁶³

The formal salaried employee test adopts the narrowest definition of the term “employee.” Only creators qualifying as employees in the traditional sense of being paid a regular wage and having taxes withheld could be found to be employees.⁶⁴ The Court did not elaborate on reasons why this was an unacceptable test.

Ultimately, the Court adopted the common law agency test based on “past cases of statutory interpretation” where terms such as “employee,” “employer,” and “scope of employment,” were understood in light of agency law.⁶⁵ Since the Act used the term “scope of employment,” the Court found that there was congressional intent to incorporate the agency law definition.⁶⁶

After determining that Congress had intended the “agency” definition of the term “employee” to apply in interpreting the work made for hire provision, the Court analyzed the relationship between Reid and CCNV in light of several factors. The factors included: (1) the source and location of Reid’s work and its tools, (2) the skill required, (3) the duration of the relationship between Reid and CCNV, (4) whether CCNV had the right to assign additional projects to Reid, (5) the extent of Reid’s discretion over when and how long to work, and (6) whether the sculpture was part of CCNV’s regular business.⁶⁷ The Court also considered how Reid was paid, whether he received employment benefits, his role in hiring and paying assistants, and whether CCNV paid Social Security taxes.⁶⁸

Although the Supreme Court found that CCNV exercised some control over the manner and means by which “Third World

62. *Id.* at 742.

63. *Id.*

64. *See Dumas*, 865 F.2d at 1101-04 (rejecting the actual and right to control tests as inconsistent with both the plain language of the statute and congressional intent).

65. *See* 490 U.S. at 740.

66. *See id.*

67. *See id.* at 751-52.

68. *See id.*

America” was created, it concluded that most of the factors weighed heavily against finding an employment relationship between Reid and CCNV:

Reid is a sculptor, a skilled occupation. Reid supplied his own tools. He worked in his own studio in Baltimore making daily supervision of his activities from Washington [by CCNV] practically impossible. Reid was retained for . . . a relatively short period of time. During and after this time, CCNV had no right to assign additional projects to Reid. Apart from the deadline for completing the sculpture, Reid had absolute freedom to decide when and how long to work. CCNV paid Reid \$15,000, a sum dependent on “completion of a specific job, a method by which independent contractors are often compensated.” Reid had total discretion in hiring and paying assistants.⁶⁹

The Court also found that Reid was an independent contractor because CCNV was not a business and creating sculptures could not have therefore been part of its regular business.⁷⁰ Finally, the Court found that CCNV did not pay payroll or taxes, provide any employment benefits, or contribute to unemployment insurance or workers’ compensation funds.⁷¹

Courts after *CCNV* typically agree that no one factor is dispositive in determining whether a hired party is an employee or an independent contractor.⁷² Some factors will be more relevant than others in any given situation, while others will have no relevance at all.⁷³ Although relevant factors should be tallied and considered in light of their relative importance,⁷⁴ the hiring party’s right to control the means of creation, the skill required of the work, the tax treatment of the hired party, the provision of employee benefits, and whether the hiring party has the right to assign additional projects to the hired party, are significant factors in “virtually every situation.”⁷⁵

69. *Id.* (citation omitted).

70. *See id.* at 753.

71. *See id.*

72. *See, e.g.,* *Aymes v. Bonelli*, 980 F.2d 857, 861 (2d Cir. 1992).

73. *See, e.g.,* *Marco v. Accent Publ’g Co.*, 969 F.2d 1547, 1549 (3d Cir. 1992) (declining to apply factors it deemed to be “indeterminate”).

74. *See Aymes*, 980 F.2d at 861.

75. *Id.*; *Carter v. Helmsley-Spear, Inc.*, 861 F. Supp. 303, 316-17 (S.D.N.Y.

II. THE INADEQUACY OF COPYRIGHT REMEDIES AND LEGAL REMEDIES UNDER CONTRACT LAW

A. Only "Owners" Have Remedies Under the Copyright Act

Copyright infringement occurs when anyone violates any one of the exclusive rights⁷⁶ of the copyright owner or author.⁷⁷ An act of infringement also occurs when copies are imported into the United States in violation of section 602 of the Copyright Act.⁷⁸ Once an act of infringement occurs, the owner of the copyright has certain remedies under the Copyright Act.⁷⁹ Only the legal or beneficial owner of the copyright may initiate an action against an alleged infringer.⁸⁰

Under the work for hire doctrine, the employer rather than its employee is deemed the copyright owner.⁸¹ Therefore, if a copyright is infringed, it is the employer who is entitled to bring an action for damages or equity. An employee is not entitled to bring an action for any of the remedies available for an action of infringement, unless or until the employee can prove that he or she owns the copyright.

1994), *aff'd in part, vacated in part, rev'd in part*, 71 F.3d 77 (2d Cir. 1995).

76. *See supra* Part I.C.

77. *See* 17 U.S.C. § 501(a) (1994).

78. *See id.*

79. *See id.* §§ 502-505. Remedies for copyright infringement include an injunction to prevent or restrain infringement of the copyright. *See id.* § 502. A court may also order the impounding of copies of articles which are allegedly being infringed. *See id.* § 503. An owner bringing a copyright infringement action may also recover legal damages. The Copyright Act allows the owner to elect between actual damages and profits or statutory damages. *See id.* § 504(b)-(c).

80. *See id.* § 501(b) ("The legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement of that particular right committed while he or she is owner of it."). A beneficial owner has been defined as including "an author who . . . part[s] with legal title to the copyright in exchange for a percentage of the royalties based on sales or license fees." *Cortner v. Israel*, 732 F.2d 267, 271 (2d Cir. 1984) (quoting H.R. REP. NO. 94-1476, at 159 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5775). A beneficial owner may bring an infringement action to protect his or her economic interest in the copyright from being diluted by a wrongdoer's infringement. *See id.* A beneficial owner thus only has an economic, rather than an ownership, interest in the copyright. *See Fantasy, Inc. v. Fogerty*, 654 F. Supp. 1129, 1131 (N.D. Cal. 1987).

81. *See* 17 U.S.C. § 201(b).

B. Legal Damages Are Inadequate to Compensate an Employee for Loss of a Copyright

The purpose of contract damages is to give compensation for a breach, *so far as money can do this*.⁸² In most cases, the plaintiff's measure of damages will be based on "expectation," or an amount of money sufficient to enable the plaintiff to purchase a substitute performance.⁸³ In an employment context, contract damages usually consist of lost salary and benefits.⁸⁴ However, these damages are inadequate to compensate an employee for loss of a copyright for at least three reasons. First, claims typically brought for breach of employment agreements, namely wrongful termination claims, are irrelevant in a dispute over copyright ownership. Second, damages for the potential value of a copyright cannot be ascertained with any degree of certainty. Third, copyrights are a unique form of property the loss of which may only be adequately compensated for by equitable remedies.⁸⁵

Breach of contract actions by an employee against its employer typically involve claims of wrongful termination in violation of substantial public policy,⁸⁶ discharge in breach of the implied covenant

82. See 5 LAWRENCE A. CUNNINGHAM & ARTHUR J. JACOBSON, CORBIN ON CONTRACTS § 992 (1964) [hereinafter CORBIN ON CONTRACTS] (stating that courts "must determine what additions to an injured party's wealth (expected gains) have been prevented by the breach and what subtractions from his wealth (losses) have been caused by it").

83. See 4 LAWRENCE A. CUNNINGHAM & ARTHUR J. JACOBSON, CORBIN ON CONTRACTS § 958 (1998 Supp.) [hereinafter CORBIN ON CONTRACTS SUPP.]; *Burt v. Board of Trustees*, 521 F.2d 1201, 1207-08 (4th Cir. 1975) (per curiam) (Winter, J., sep. op.) ("[T]he measure of damages is the loss of compensation [that] would have been paid had [the employee] been permitted to perform . . . less what [the employee] actually earned or reasonably would have earned in the time [the employee] was not required to perform [the] contract.").

84. See MAUREEN E. MCCLAIN, EMPLOYMENT TERMINATION LAW: A PRACTICAL GUIDE FOR EMPLOYERS 51 (C.E.B. 1995).

85. See *infra* note 91 and accompanying text.

86. See *Tameny v. Atlantic Richfield Co.*, 27 Cal. 3d 167, 178, 610 P.2d 1330, 1336-37, 164 Cal. Rptr. 839, 846 (1980) (holding that an employer's authority over its employee includes neither the right to demand that its employee commit a criminal act to further its interests nor the right to coerce compliance with unlawful directions by discharging an employee who refuses to follow such orders); *Sheet's v. Teddy's Frosted Foods*, 427 A.2d 385, 387 (Conn. 1980); Lawrence E. Blades, *Employment at Will vs. Individual Free-*

of good faith and fair dealing,⁸⁷ or discharge in breach of an implied promise not to terminate without good cause.⁸⁸ These causes of action for wrongful termination will not apply in a loss of copyright scenario where the employee has not been terminated. A creative employee is injured not by virtue of termination but because an employer owns the copyrights in his or her works while failing to fulfill its own obligations under the employment agreement. Even assuming one of these causes of action applied, the employee is suing on the contract, affirming its existence in order to recover damages thereon. In breach of contract or implied covenant cases, contract damages alone are available.⁸⁹ A court may allow recovery of tort damages if the employee can show that the termination was in violation of some substantial public policy.⁹⁰ Because an employee in most cases will only be able to recover damages as measured by the terms of the employment agreement, and a copyright's value is potentially greater, contract damages are usually inadequate.

Money damages are also inadequate to remedy a creative employee for loss of a copyright because damages cannot be ascertained

doms: On Limiting the Abusive Exercise of Employer Power, 67 COLUM. L. REV. 1404 (1967); Phillip I. Blumberg, *Corporate Responsibility and the Employee's Duty of Loyalty and Obedience: A Preliminary Inquiry*, 24 OKLA. L. REV. 279, 307-18 (1971). Wrongful termination in violation of public policy is designed to protect a terminated employee who is discharged because of a refusal to participate in an illegal act. See *Baker v. Kaiser Aluminum & Chem. Corp.*, 608 F. Supp. 1315, 1321-22 (N.D. Cal. 1984).

87. See *Foley v. Interactive Data Corp.*, 47 Cal. 3d 654, 765 P.2d 373, 254 Cal. Rptr. 211 (1988). The covenant of good faith and fair dealing is an implied promise by both parties to the contract not to do anything in bad faith that would deprive the other party of the contract's benefits. See *Habetz v. Condon*, 618 A.2d 501, 505 (Conn. 1992).

88. See *Foley*, 47 Cal. 3d at 681-82, 765 P.2d at 387-88, 254 Cal. Rptr. at 218; *Pugh v. See's Candies, Inc.*, 116 Cal. App. 3d 311, 171 Cal. Rptr. 917 (1981); MCCLAIN, *supra* note 84, at 51. See also *infra* notes 184-86 and accompanying text (discussing the implied promise not to terminate without good cause as an exception to the at-will employment rule).

89. See *Foley*, 47 Cal. 3d at 699, 765 P.2d at 400, 254 Cal. Rptr. at 238.

90. See *Gantt v. Sentry Ins.*, 1 Cal. 4th 1083, 824 P.2d 680, 4 Cal. Rptr. 2d 874 (1992) (awarding contract and tort damages of \$1,340,000 to an insurance company sales manager allegedly forced to resign for complaining of sexual harassment of a co-worker and refusing to withhold information or testify falsely in connection with the administrative investigation of the co-worker's claim).

with any reasonable degree of certainty.⁹¹ Damages fail to address the time and effort an employee puts into creating a particular work and its potential financial value. Damages cannot address how employees may feel when they no longer have creative direction over their work, especially where the employee specifically contracts for this term.⁹² What the employee is losing—the personal, aesthetic, and financial value of his or her intellectual endeavors—cannot be measured by the loss of salary or benefits. One could not measure and therefore adequately compensate an employee for the potential value of his or her intellectual property. Lastly, like trademarks and other forms of intellectual property, a copyright is a unique form of property, the loss of which may only be adequately compensated for by equitable remedies.⁹³

C. Equitable Remedies Other Than Rescission of Contract Are Insufficient to Compensate an Employee for Loss of Copyright Ownership

1. Restitution without rescission will not re-vest copyright ownership in the employee

Generally, a party who has substantially performed a contractual obligation may recover a money amount equal to the reasonable value of the services already performed.⁹⁴ Under this

91. *Cf. Tamarind Lithography Workshop, Inc. v. Sanders*, 143 Cal. App. 3d 571, 576-77, 193 Cal. Rptr. 409, 413 (1983) (holding that an award of damages was an inadequate remedy at law in lieu of specific performance for breach of an agreement to give a filmmaker screen credits). The court in *Tamarind* found that “future” damages resulting from loss of screen credit were too “ethereal to define in terms of a monetary reward.” *Id.* at 576, 193 Cal. Rptr. at 412.

92. *See McKinney v. Gannett Co.*, 660 F. Supp. 984, 1014 (D.N.M. 1981), *aff’d*, 817 F.2d 659 (10th Cir. 1987).

93. *See Cassidy v. Bowlin*, 540 F. Supp. 901, 904 (W.D. Mo. 1982). In granting a preliminary injunction in favor a successful and respected wildlife photographer and lithograph producer who had “taken care to build his reputation,” the court found that the defendant’s copyright infringement had automatically divested the photographer of the exclusive control over his unique intellectual property. *See also Hughes Tool Co. v. Fawcett Publ., Inc.*, 315 A.2d 577 (Del. 1974) (viewing a prayer for an assignment of a copyright to its owner as a genuine effort to secure a unique property).

94. *See* 5 CORBIN ON CONTRACTS SUPP., *supra* note 83, §§ 1104, 1109;

“quasi-contractual” theory of recovery, a plaintiff, who is prevented from completing the purpose or undertaking intended by a contract, may sue for and recover the value of his or her services.⁹⁵ An action for restitution is not based on a rescinded contract but on an implied promise of compensation.⁹⁶ An employee can recover such “damages,” or quantum meruit, even where there is no written contract.⁹⁷ A plaintiff may also recover under restitution where the defendant has been discharged from its duty under an existing contract and thus not liable for any breach.⁹⁸ In order to make a claim for restitution, a plaintiff must establish: (1) the performance of services in good faith, (2) the acceptance of the services by the person to whom they were rendered, (3) the expectation of compensation for the services rendered, and (4) the reasonable value of the service.⁹⁹

Assuming an employee can plead and prove the elements enumerated above, he or she may be entitled to recover an amount of money which exceeds the price contracted for by the parties.¹⁰⁰ However, the contract price remains “competent evidence” of the reasonable value of the employee’s services.¹⁰¹ Furthermore, restitution only considers the value of an employee’s services. Thus, an employee, who has forfeited a copyright and all of the attached exclusive rights to commercial exploitation under a work made for hire arrangement, receives only some benefit in suing for restitution.

Beaudoin v. Zaccardo, 371 A.2d 1174, 1175 (N.H. 1977).

95. See *Oliver v. Campbell*, 43 Cal. 2d 298, 304, 273 P.2d 15, 19 (1954).

96. See 3 HENRY CAMPBELL BLACK, RESCISSION OF CONTRACTS OF CANCELLATION OF WRITTEN INSTRUMENTS § 705 (2d ed. 1929) [hereinafter BLACK ON RESCISSION].

97. See *Abramson v. Delrose*, 132 F. Supp. 440, 444 (D. Del. 1955) (allowing an architect to maintain a suit for the reasonable value of his services after he had performed a majority of the work and after the defendant abandoned the undertaking, even though there was no written agreement between the parties).

98. See 5 CORBIN ON CONTRACTS SUPP., *supra* note 83, § 1104.

99. See *Mauro v. Orville*, 660 N.Y.S.2d 662 (Sup. Ct. 1997) (citation omitted).

100. An employee may recover an amount greater than the contract price unless the contract has been fully performed. See *Oliver*, 43 Cal. 2d at 303, 273 P.2d at 18.

101. See *id.* at 305, 273 P.2d at 19.

On the other hand, an employee could elect both rescission and restitution.¹⁰² Combined, these remedies entitle the employee to recapture the copyright while at the same time recover for the reasonable value of his or her services. Because rescission renders a contract void, an employee cannot sue to recover damages for a breach thereon.¹⁰³ On the other hand, rescission of an employment agreement will enable a creative employee who has invested time, interest, and effort into creating a work to recapture the copyright.¹⁰⁴ Ownership then entitles the employee to benefit from his or her intellectual endeavors. Restitution ensures that the employee will not be required to "restore," or repay, any compensation that was due to him or her under the contract.¹⁰⁵

2. A court may not order the specific performance of personal services contracts

A court will not generally order the specific performance of an employment or personal services contract, regardless of which party seeks enforcement.¹⁰⁶ The rule prohibiting specific performance of an employment agreement first developed when courts recognized the inherent difficulties they would encounter in supervising the performance of uniquely personal efforts.¹⁰⁷ An order of specific performance most likely imposes upon courts the difficult job of passing judgment on the quality of an employee's or employer's

102. See 3 BLACK ON RESCISSION, *supra* note 96, § 561 (noting that "[e]ven where rescission is the remedy elected, it does not follow that there can be no compensation in damages"). Because rescission is an equitable remedy, a court will allow rescission as well as damages if both are necessary to "complete justice." See *id.*

103. 3 BLACK ON RESCISSION, *supra* note 96, § 561 (noting that after rescission, no action can lie in breach).

104. 3 BLACK ON RESCISSION, *supra* note 96, § 701 ("[w]hen a contract for the sale of either real or personal property is rescinded, the title to the subject-matter of the contract reverts in the grantor").

105. See *Oliver* 43 Cal. 2d at 306, 273 P.2d at 20; 3 BLACK ON RESCISSION, *supra* note 96, §§ 616, 621, 704.

106. See CAL. CIV. CODE § 3390 (West 1997); *Barndt v. County of Los Angeles*, 211 Cal. App. 3d 397, 403-04, 259 Cal. Rptr. 372, 376-77 (1989).

107. See *Barndt*, 211 Cal. App. 3d at 403, 250 Cal. Rptr. at 376. Corbin also notes in his treatise that "[a]n artist does not work well under compulsion, and the court might find it difficult to pass judgment upon the performance rendered." 5A CORBIN ON CONTRACTS, *supra* note 82, § 1204.

performance.¹⁰⁸ The Thirteenth Amendment's prohibition against involuntary servitude also provides a compelling reason for courts to avoid directing the performance of personal services.¹⁰⁹ In an even more tangible sense, the common law disfavors specific performance of personal services agreements to avoid the friction and social costs that often result when an employer and employee are reunited in a relationship that has already failed.¹¹⁰ This rationale is particularly applicable where the employment relationship requires mutual confidence among the parties and involves the exercise of discretionary authority.¹¹¹ Since a court will not order the specific performance of an employment agreement, this equitable remedy, potentially available in other types of breach of contract claims, is not available to a creative employee suing his or her employer for breach of the employment agreement.

III. FORFEITURE OF INITIAL COPYRIGHT OWNERSHIP BY EMPLOYERS

A. Forfeiture of Copyright Ownership

Section 201(b) creates a presumption of copyright ownership in an employer or commissioning party. The Copyright Act does not, however, preclude an employer and its employee from agreeing that the copyright shall remain with the employee. Evidence of a written agreement indicating that the employee is to retain copyright ownership in the work, for example, easily rebuts this presumption. Because nothing in the Copyright Act indicates that an employer necessarily *remains* owner of the copyright, evidence of a material breach of the employment agreement by the employer may also sufficiently rebut the presumption of ownership.¹¹² The theory that a copyright

108. See *Motown Record Corp. v. Brockert*, 160 Cal. App. 3d 123, 137, 207 Cal. Rptr. 574, 583 (1984).

109. See U.S. CONST. amend. XIII; *Beverly Glen Music, Inc. v. Warner Communications, Inc.*, 178 Cal. App. 3d 1142, 1144, 224 Cal. Rptr. 260, 261 (1986).

110. See *Poultry Producers v. Barlow*, 189 Cal. 278, 288-89, 208 P. 93, 97 (1922); RESTATEMENT (SECOND) OF CONTRACTS, § 367 cmt. a (1981).

111. See *Poultry Producers*, 189 Cal. at 288, 208 P. at 97.

112. See 1 NIMMER ON COPYRIGHT, *supra* note 13, § 5.03(E); *Black v. Pizza Time Theatres*, 1983 Copyright L. Dec. (CCH) ¶ 25,569 (N.D. Cal. 1983); *Hughey v. Palographics Co.*, 189 U.S.P.Q. 527 (D. Colo. 1976).

should revert to an employee in light of a material breach by its employer stems from the notion that one should not be entitled to something for which one did not pay.¹¹³

An employee may sufficiently state a claim of copyright ownership in works made for hire by focusing on the fact that an employer failed to pay him or her for the contracted services.¹¹⁴ The presumption in the Copyright Act suggests that it is not merely the employer's status as an employer, but the employment agreement itself, which makes that employer the author.¹¹⁵ Since the employer would not be the author at all if the parties had expressly agreed otherwise, it is the employment agreement itself which gives an employer the rights of authorship by virtue of the implied agreement under § 201(b).¹¹⁶ The employer's material breach of the employment contract thus gives rise to a claim of rescission of contract, including the implied right to authorship.¹¹⁷

B. Recapturing Copyrights in Works Made for Hire

1. Threshold issues

In bringing a claim for rescission of contract, an employee will have to consider threshold issues such as the relevant statutes of limitations governing written and oral contracts, as well as federal preemption of state-based remedies.

a. statutes of limitations

A claim for breach of contract is not governed by the Copyright Act. One must turn to state law in order to determine the relevant statute of limitations in bringing a claim for breach of contract. In

113. *See* Richardson v. Gilbert, 61 Eng. Rep. 130 (Ch. 1851) (stating that in a work made for hire situation, actual payment of a work was a necessary condition to the vesting of the copyright therein in the proprietor of such work). *See also* Brown v. Cooke, 16 L.J.Q.B. 140, 143 (Ch. 1846) (alluding to the idea that a copyright in a work will belong to the proprietor of such work only when the proprietor pays his employee upon the terms of their agreement).

114. *See* Black v. Pizza Time Theatres, 1983 Copyright L. Dec. (CCH) ¶ 25,569 (N.D. Cal. 1983).

115. *See id.*

116. *See id.*

117. *See id.*

California, a claim for breach of a written contract must be brought within four years.¹¹⁸ Claims for breach of an oral contract must be brought within two years.¹¹⁹ A creative employee must strictly adhere to the relevant statutes of limitations in order to succeed in bringing a claim for rescission of contract and copyright ownership.

*Brown v. Cosby*¹²⁰ involved copyrights in characters eventually appearing in Bill Cosby's "Fat Albert Show." In 1970, Cosby contacted his childhood friend, Kenneth Brown, and asked him to create cartoon characters of their mutual childhood friends whom Cosby had adapted into a comedy routine.¹²¹ Over the next several months Brown developed characters on paper and received \$250 per week from Cosby's company, Jemmin.¹²² Eventually, Brown entered into a written agreement with Cosby and Jemmin. The agreement provided that Brown was to be employed as an independent contractor to produce comic strips based on the characters.¹²³ The agreement also contained a work made for hire provision which expressly stated that Jemmin was to:

exclusively own, in addition to [Brown's] services, all of the results and proceeds thereof as though [Brown] were [defendant's] employee-for-hire, including but not limited to all rights throughout the world of copyright, trademark, patent, production, manufacture, recordation, reproduction, transcription, performance and exhibition by any medium now known or hereafter discovered and to obtain renewals thereof.¹²⁴

About the same time the parties entered into the written letter agreement, Lou Schimer and Norm Prescott, two principals of

118. See CAL. CIV. PROC. CODE § 337(1) (West 1982).

119. See *id.* § 339(1) (West Supp. 1998).

120. 433 F. Supp. 1331 (E.D. Pa. 1977).

121. See *id.* at 1334.

122. See *id.*

123. See *id.*

124. *Id.* at 1334-35. It seems unlikely that someone would willingly assign such a broad grant of rights for nothing more than independent contractor status and such a modest salary. Employees usually forfeit their rights in the copyright of a work to which they might otherwise be entitled, in exchange for employee benefits and other security. See *supra* note 7 and accompanying text. In this case, Brown forfeited both these benefits and his copyright.

Filmation Associates (Filmation), along with Cosby, made to Brown an oral promise that they would pay to Brown twenty-five percent of the profits generated from any other commercial exploitation of the characters, and that Filmation would retain Brown as a consultant.¹²⁵ Commercial exploitation of Brown's characters, in the form of books, films and novelty items, eventually resulted in "very substantial profits" for the defendants.¹²⁶

Jemmin initially paid \$6,500 to Brown for his services but did not pay Brown any profits.¹²⁷ Filmation did not hire Brown as a consultant.¹²⁸ At some later point, Jemmin attempted to have Brown sign a second letter of agreement which would have in effect terminated the first letter agreement and provided Brown with a final payment of \$1,600. The letter also stated that Brown was not entitled to any other compensation under the previous agreement and that "Jemmin was the owner of all 'results and proceeds' of [Brown's] services rendered under the [first letter] agreement."¹²⁹ Although Brown refused to sign the second letter agreement, Cosby and Jemmin had already commercially exploited the characters and substantially destroyed their value to Brown.¹³⁰

Brown's primary claim against Cosby, Jemmin, Filmation, and Filmation's principals was for breach of contract.¹³¹ The statute of limitations in bringing the claim begins to accrue at the time of the breach.¹³² The court found that the breach accrued on or around June 27, 1971, when Jemmin sent the proposed termination letter to Brown, when it stopped making payments to Brown under the written agreement, or when Filmation failed to hire him as a consultant or pay him profits under the terms of the oral agreement.¹³³ The

125. *See Brown*, 433 F. Supp. at 1335.

126. *Id.*

127. *See id.* at 1340.

128. *See id.* at 1336.

129. *Id.* at 1335.

130. *See id.* at 1341. Once Jemmin appropriated Brown's characters for use in the television series, Brown was "unable to sell them as characters with different names and personalities." *Id.* The defendant's use of Brown's characters rendered the characters valueless to him since such exploitation effectively precluded Brown from marketing them himself.

131. *See id.* at 1336.

132. *See id.*

133. *See id.*

court applied the California limitations period to Brown's claims because the defendants—Cosby, Filmation, Schimer, and Prescott—were located in California, the proposed letter agreement was sent to Brown in California, and because Brown worked in California.¹³⁴ Since Brown failed to bring his suit for breach of written contract within the four-year statute of limitations period and his suit for breach of oral contract within the two-year statute of limitations period, the court dismissed his claims.¹³⁵

b. federal preemption of state-based claims

Whether an artist or employee may rescind a contract allegedly forfeiting its copyright to a hiring party is partially contingent upon whether federal copyright law preempts state contract law. The test for preemption is whether a plaintiff's claim: (1) asserts a "remedy expressly granted by the Act," (2) requires construction of the Act, or (3) at least implicates federal copyright policy.¹³⁶ Not every case involving federal copyright law "arises under" those laws such that federal jurisdiction is proper pursuant to 28 U.S.C. § 1338(a).¹³⁷ Section 301 of the Copyright Act, which governs the preemption of conflicting state law claims, applies only if two conditions are satisfied: (1) the work for which the state law right is asserted comes within the "subject matter" of copyright law, and (2) the state cause of action protects rights that are qualitatively equivalent to copyright protection.¹³⁸

134. *See id.*

135. *See id.* at 1337.

136. *See* T.B. Harms Co. v. Eliscu, 339 F.2d 823, 828 (2d Cir. 1964).

137. *See* 28 U.S.C. § 1338(a) (1993). For patent, copyright, and trademark suits, the federal subject matter jurisdiction test of 28 U.S.C. § 1338(a) is whether the suit is one "arising under" the federal patent, copyright or trademark laws. The "arising under" language in 28 U.S.C. § 1338(a) is similar to "arising under" language in the general federal question jurisdiction statute, 28 U.S.C. § 1331. Accordingly, rules governing federal question jurisdiction may also govern patent, copyright and trademark jurisdiction. *See* Ted D. Lee & Ann Livingston, *The Road Less Traveled: State Court Resolution of Patent, Trademark, or Copyright Disputes*, 19 ST. MARY'S L.J. 703, 706 (1988).

138. *See* 17 U.S.C. § 301(b)(1), (3) (1994); *Worth v. Universal Pictures, Inc.*, 5 F. Supp. 2d 816, 821 (C.D. Cal. 1997); *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 656 (W.D. Wis. 1996), *rev'd on other grounds*, 86 F.3d 1447 (7th Cir. 1996).

In *T.B. Harms Co. v. Eliscu*,¹³⁹ the Second Circuit held that the district court lacked subject matter jurisdiction because the claim did not arise under the Copyright Act but instead was a dispute concerning ownership of copyright.¹⁴⁰ There was no allegation that the defendants had used, or threatened to use, copyrighted materials.¹⁴¹ Rather than infringement, the sole issue in *T.B. Harms* was who owned the copyright.¹⁴² The plaintiff:

did not even raise what has been the problem presented when a defendant licensed to use a copyright or a patent on certain terms is alleged to have forfeited the grant; in such cases federal jurisdiction is held to exist if the plaintiff has directed his pleading against the offending use, referring to the license only by way of anticipatory replication, but not if he has sued to set the license aside, seeking recovery for unauthorized use only incidentally or not at all.¹⁴³

Since the plaintiff alleged neither copyright infringement nor sought a remedy under the Copyright Act, and because the cause of action involved contract interpretation to determine who owned the copyrights, the court held that federal law did not preempt the plaintiff's claim.¹⁴⁴

However, *Schoenberg v. Shapolsky Publishers, Inc.*¹⁴⁵ raised the much more difficult issue of whether a claim asserting infringement resulting from a breach of a contract purporting to license or assign a copyright, arose under the Copyright Act.¹⁴⁶ The underlying action that gave rise to the appeal was litigation between Harris Schoenberg, author of *A Mandate for Terror: The United Nations and the PLO*, and Shapolsky Publishers.¹⁴⁷ The dispute concerned the

139. 339 F.2d 823 (2d Cir. 1964).

140. *See id.* at 827.

141. *See id.* at 825.

142. *See id.*

143. *Id.*

144. *See id.* at 827; *see also* *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150, 153-54 (2d Cir. 1968) (applying state law to a dispute over whether a copyright license included the right to exploit the work through the medium of television).

145. 971 F.2d 926 (2d Cir. 1992).

146. *See id.* at 931.

147. *See id.* at 928.

alleged unauthorized publication of Schoenberg's manuscript.¹⁴⁸ The plaintiff alleged "copyright infringement, breach of contract, and inducing breach of contract."¹⁴⁹ Schoenberg asserted that Shapolsky had breached the contract because it failed to make any royalty payments or render quarterly royalty statements, both of which were due under the agreement.¹⁵⁰ Since Shapolsky's actions constituted a breach of contract, Schoenberg alleged that it no longer had a right to publish his work.¹⁵¹

The *Schoenberg* court distinguished *T.B. Harms*.¹⁵² Unlike the plaintiff's complaint in *T.B. Harms*, which focused on copyright ownership, Schoenberg's complaint alleged copyright infringement.¹⁵³ Schoenberg's complaint also sought damages and an injunction against future infringements.¹⁵⁴ The court found that the Copyright Act addressed a cause of action for infringement and provided the same remedies that Shapolsky was seeking under state law. Since Shapolsky's manuscript fell within the "subject matter" of copyright law, and because he sought state-based remedies which were provided for in federal copyright law, the Copyright Act preempted his state claims.¹⁵⁵

148. *See id.*

149. *Id.*

150. *See id.*

151. *See id.*

152. *See id.* at 931-33.

153. *See id.* at 931.

154. *See id.*

155. *See id.* At least one court has taken the analysis a step further by going beyond the face of the complaint. *See Berger v. Simon & Schuster*, 631 F. Supp. 915, 919 (S.D.N.Y. 1986). In *Berger*, the court looked beyond the complaint to see whether it was really infringement with which the plaintiff was concerned. Because the plaintiff was actually concerned with whether he would be able to enjoy his property free from the defendant's contract claims, his complaint failed to assert a claim "arising under" the Copyright Act. *See id.* at 918-19. Compare *Berger* with the Ninth Circuit's decision in *Vestron, Inc. v. Home Box Office Inc.*, 839 F.2d 1380, 1382 (9th Cir. 1988) (reaffirming the application of the well-pleaded complaint rule: as long as the complaint alleges infringement and seeks remedies under the Copyright Act, the controversy arises under federal copyright law). *See also Lee & Livingston, supra* note 137, at 705-07 (providing "general rules" for avoiding removal from state court and preemption of state law). The authors state that "in the absence of diversity, careful pleading of a state court suit assures state court jurisdiction." *Id.* at 707. Accordingly, the complaint "should omit any claim arising from

A contract-based claim must allege nothing more than breach of contract to avoid removal to federal court. Any allegations of copyright infringement trigger federal preemption.¹⁵⁶ In *Trenton v. Infinity Broadcasting Corp.*,¹⁵⁷ the plaintiff predicated his contract-based causes of action upon a copyright interest in "Loveline," a radio program format he allegedly conceived and developed.¹⁵⁸ Since the court found that he possessed no such copyright interest for the program, his contract-related causes of action lacked a required element for copyright infringement.¹⁵⁹ In dismissing Trenton's contract-based causes of action without prejudice, the court noted that Trenton could refile his contract-based claims in state court devoid of any underlying copyright-related claims in the recorded radio programs: "[b]y focusing on the alleged breach of contract and avoiding any assertion of a copyright interest in the simultaneously recorded Loveline programs, these claims can be made to adequately assert state law causes of action."¹⁶⁰ Although the court's dismissal was determined by an issue of pleading, it left open the question of whether Trenton would be able to rescind his employment contract with Infinity.¹⁶¹

T.B. Harms, Schoenberg, and Trenton indicate that claims for copyright *infringement* will most likely be preempted by the Copyright Act. On the other hand, where the plaintiff asserts claims of *ownership*, which hinge on contract interpretation, state law governs the dispute.¹⁶² The distinction between a claim of infringement and one of ownership is significant where artists seek to protect their potential copyright interests from the sometimes inequitable

federal law rights and remedies [since] such claims cause federal question jurisdiction." *Id.* Since preempted state law claims will be either treated as federal claims or be dismissed, they should be omitted. *See id.*

156. *See Trenton v. Infinity Broad. Corp.*, 865 F. Supp. 1416, 1425 (C.D. Cal. 1994).

157. 865 F. Supp. 1416.

158. *See id.* at 1418.

159. *See id.* at 1429-30.

160. *Id.* at 1429.

161. *See infra* notes 237-64 and accompanying text.

162. *Cf. Rotardier v. Entertainment Co. Music Group*, 518 F. Supp. 919, 921 (S.D.N.Y. 1981) (holding that principles of common law and equity determine a dispute over title to a copyright arising from an alleged breach of contract where that issue is controlling).

consequences of the work for hire doctrine by electing the remedy of rescission under contract law.¹⁶³

2. Claims for rescission of contract

Rescission is an equitable remedy under which an injured party may recover if there is no adequate remedy at law.¹⁶⁴ Rescission is either mutual or unilateral¹⁶⁵ and may be implied from the conduct of the parties.¹⁶⁶ Mutual rescission requires the consent on the part of both parties to abandon the contract.¹⁶⁷ Mutual rescission discharges both parties from the legal obligations existing under the contract by a subsequent agreement made before the complete performance of their agreement.¹⁶⁸ Unilateral rescission by one party requires that the other party's breach be so substantial as to defeat the object of the parties in making the contract.¹⁶⁹ A party may also choose to

163. If copyright law, rather than contract law, exclusively governs a dispute regarding copyright ownership, the employee will likely lose any rights to the copyright by virtue of the presumption created in § 201(b) of the Copyright Act. *See supra* notes 7-9 and accompanying text.

164. *See McKinney v. Gannett Co.*, 660 F. Supp. 984, 1013 (D.N.M. 1981) (“[A] court of equity will not order an equitable remedy if the party has an adequate remedy at law.”).

165. *See* CAL. CIV. CODE § 1689 (West 1985) (providing for mutual and unilateral rescission of a contract); 1 BLACK ON RESCISSION, *supra* note 96, §§ 1, 14. *But see* *Anderson v. Lifeco Services Corp.*, 881 F. Supp. 1500, 1504 (D. Colo. 1995) (finding that under Colorado law, a contract cannot be rescinded unilaterally).

166. In order to find an implied rescission, or abandonment of the contract, “the acts and conduct relied upon must be positive, unequivocal, and inconsistent with the contract.” *Pennel v. Pond Union Sch. Dist.*, 29 Cal. App. 3d 832, 838, 105 Cal. Rptr. 817, 821 (1973) (citation omitted). The abandonment of contract by one party must be “complete and unmistakable.” *See* 2 BLACK ON RESCISSION, *supra* note 96, § 532.

167. *See* 2 BLACK ON RESCISSION, *supra* note 96, § 525 (“To effect a rescission by subsequent mutual agreement, it is necessary that the contract to rescind should receive [the] free . . . consent of both or all the parties to the original contract.”). However, this consent does not have to be consummated in a written agreement. It may result from any act or course of conduct by the parties which clearly indicates a mutual understanding that the contract has been abrogated or terminated. *See id.* § 528.

168. The right of parties to mutually rescind a contract is based on the principle that wherever parties have the power to bind themselves by contract, they may release themselves therefrom by subsequent contract. *Id.* § 521.

169. *See Lerman v. Joyce Int'l, Inc.*, 10 F.3d 106, 109 (3d Cir. 1993) (quot-

invoke the equitable powers of a court and obtain a decree for rescission of contract. When courts are called upon to set aside contracts, the party seeking rescission must show that substantial reasons exist for setting aside the contract. The result of any type of rescission—mutual, unilateral, or implied—brings the parties to their respective positions before the agreement between them existed.¹⁷⁰

Under the Copyright Act, a copyright inures to an employer by virtue of an employment agreement, whether express or implied. Thus, in order to recapture a copyright, the employee must rescind the employment agreement. Since the result of such rescission brings the parties to their respective positions before the agreement between them existed, the employer and employee no longer have an agreement, and the copyright reverts to the employee.¹⁷¹ This remedy is most desirable for an employee who foresees no long-term benefit in continuing employment with a particular employer. However, an employee seeking to rescind a contract must do so with “reasonable promptness.”¹⁷² The employee cannot claim relief after acquiescing in the existing conditions for so long a period of time that the rescission would seriously compromise an employer’s rights and interests.¹⁷³

There are at least two more reasons why a creative employee seeking to rescind an employment agreement should do so promptly. First, the value of a copyright lies in its potential for commercial exploitation.¹⁷⁴ Where an employer has already exploited the copyright in a particular work, it is of little value to the employee, and there is little reason to bring an action to recover it. Second, the remedy of rescission requires a party seeking to rescind a contract to restore the

ing *Callanan v. Powers*, 92 N.E. 747, 752 (N.Y. 1910)).

170. See *Sokol v. Labor & Indus. Relations Comm’n*, 946 S.W.2d 20, 25 n.5 (Mo. Ct. App. 1997) (citing *Ballenger v. Castle Rock Bldg. Corp.*, 904 S.W.2d 62, 64 (Mo. Ct. App. 1995)). While the effect of rescission, generally speaking, is to undo the existing contract and completely restore the parties to the positions in which they stood immediately before it was made, rescission by mutual agreement enables the parties to avoid any *retroactive* effect and subsequent destruction of previously vested rights. See *Young v. New Pedrara Onyx Co.*, 48 Cal. App. 1, 23, 192 P. 55, 64 (1920).

171. See 1 NIMMER ON COPYRIGHT, *supra* note 13, § 5.03(E).

172. 1 BLACK ON RESCISSION, *supra* note 96, § 197.

173. See *id.*

174. See *supra* notes 4, 127-30 and accompanying text.

other party to the position he or she was in before the agreement.¹⁷⁵ Thus, when a creative employee seeks to rescind an employment agreement in order to recapture a copyright, one might argue that the employee is required to return to its employer any compensation or benefits that the employee received as consideration for the contract. The longer the employee delays in rescinding the contract, the more compensation he or she will have to return. However, the employee will most likely fall into one of the exceptions to the "restoration" requirement. A party seeking rescission of a contract will not be required to restore the other party to its previous position if the contract is one for personal services,¹⁷⁶ or where the rescission was effected by mutual agreement.¹⁷⁷

In order to be allowed to elect the remedy of rescission, an injured party must show that there is an enforceable contract,¹⁷⁸ that it was materially breached,¹⁷⁹ and that there is no adequate remedy at law.¹⁸⁰ Contracts are frequently described as express or implied.¹⁸¹

175. See 3 BLACK ON RESCISSION, *supra* note 96, §§ 616-617.

176. An employee will not be required to return any compensation that was paid to him or her under the contract which he or she would have been entitled to retain "in any event." *Id.* § 621. See also *supra* notes 92-103 and accompanying text (explaining that an employee can avoid having to restore to an employer any compensation that has already been paid under the employment agreement by bringing a suit for restitution).

177. See 3 BLACK ON RESCISSION, *supra* note 96, § 704.

178. Rescission is only applicable to the undoing of something which has been the subject of mutual agreement. It is thus restricted to the cancellation of contracts involving mutual obligations. Therefore, before there can be any "rescission," there must be a completely formed and enforceable contract between the parties. See 1 BLACK ON RESCISSION, *supra* note 96, § 3. As enforceable contracts, oral and implied agreements are subject to rescission. See *Brown v. National Elec. Works*, 168 Cal. 336, 338, 143 P. 606, 606-07 (1914) (breaches of an implied contract to employ the plaintiff for a reasonable time entitled the plaintiff to rescission); *cf. Olikier v. Gershunoff*, 195 Cal. App. 3d 1288, 1294-95, 241 Cal. Rptr. 415, 418-19 (1987) (finding that the defendants were not entitled to rescission of an oral partnership agreement based on the court's finding that the plaintiff discharged his burden of rebutting the presumption of alleged undue influence).

179. See *Lerman v. Joyce Int'l, Inc.*, 10 F.3d at 109; *Hensley v. E.R. Carpenter Co.*, 633 F.2d 1106, 1109-10 (5th Cir. 1980); *Pasquel v. Owen*, 186 F.2d 263, 270 (8th Cir. 1950); *Anderson v. Lifeco Servs. Corp.*, 881 F. Supp. at 1504.

180. See *McKinney v. Gannett Co.*, 660 F. Supp. at 1013. See also *supra* Part II.B (discussing the inadequacy of legal damages in compensating an em-

An express contract is formed by oral or written language.¹⁸² Implied contracts are formed by conduct or manifestations of assent other than oral or written language.¹⁸³

In an employment context, when there is no contract stating a definite term or length of employment and no statutory restrictions on termination apply, the employment relationship is "at-will."¹⁸⁴ The concept that, just as an employee can voluntarily quit at any time, so can the employer terminate the employee for any reason. Whether an employee is at-will depends upon the totality of the circumstances of the employment relationship. For example, an implied contract not to terminate without good cause may arise when the employee can reasonably assume, from indirect statements, past practices, personnel policies, longevity of employment, and other factors in the workplace, that they are not employed at-will.¹⁸⁵ In such an event, the employee is no longer at-will and may bring a claim for breach of contract.¹⁸⁶ Thus creative employees may show

ployee for loss of copyright ownership for an employer's breach of the employment agreement).

181. See *Bullock v. Automobile Club of Mich.*, 444 N.W.2d 114, 117 (Mich. 1989) (formation of an employment contract may be either "by express agreement, oral or written, or as a result of an employee's legitimate expectations grounded in an employer's policy statements") (citing *Toussaint v. Blue Cross & Blue Shield*, 292 N.W.2d 880 (Mich. 1980)).

182. See *Childs v. Kalgin Island Lodge*, 779 P.2d 310, 314 (Alaska 1989) ("[F]ormation of an express contract requires an offer encompassing its essential terms, an unequivocal acceptance of the terms by the offeree, consideration and an intent to be bound.").

183. See *Pugh v. See's Candies, Inc.*, 116 Cal. App. 3d 311, 327, 171 Cal. Rptr. 917, 925-26 (1981) (noting that courts may consider "the personnel policies or practices of the employer, the employee's longevity of service, actions or communications by the employer reflecting assurances of continued employment, and the practices of the industry in which the employee is engaged").

184. See Jay M. Feinman, *The Development of the Employment at Will Rule*, 20 AM. J. LEGAL HIST. 118, 118 (1976); Clyde W. Summers, *Individual Protection Against Unjust Dismissal: Time for a Statute*, 62 VA. L. REV. 481, 482 (1976).

185. See *supra* note 178 and accompanying text.

186. The implied-in-fact contract claim acts as a limitation on an employer's historical at-will power to terminate one of its employees. See *General Dynamics Corp. v. Superior Court*, 7 Cal. 4th 1164, 1177, 876 P.2d 487, 495, 32 Cal. Rptr. 2d 1, 9 (1994).

the existence of an employment contract if there is any written, oral, or implied agreement with an employer.

A party's failure to perform in accordance with the contractual terms will amount to a material breach if the other party does not receive the substantial benefit of the bargain struck between them.¹⁸⁷ A material breach entitles the injured party to certain remedies such as damages, restitution, or rescission. An employee may thus be entitled to rescind a contract where the employer fails to perform substantially or materially breaches the contract and the breach goes to the essence of the bargain.¹⁸⁸

Compensation for one's services is a term material to any employment contract. Most employees would not work for a particular employer unless they received compensation for such services. An employer's right to authorship in a work made for hire is contingent upon such payment for the employee's work. In *Hughey v. Palographics Co.*,¹⁸⁹ the defendant, Palographics, hired Sue C. Hughey to prepare an historical map of Texas.¹⁹⁰ The contract called for a total compensation of \$4,500 payable in installments.¹⁹¹

Upon reviewing Hughey's layout, Palographics was dissatisfied with her work and decided to terminate its agreement with her.¹⁹² Palographics then hired other artists to complete the poster-map without Hughey's permission.¹⁹³ Before Palographics' new artists completed the map, Hughey applied for and received from the Register of Copyrights a certificate of registration for the preliminary

187. See *McKinney*, 660 F. Supp. at 1011-12.

188. See *Lerman*, 10 F.3d at 109 ("[R]escission . . . is permitted only when the other party's breach is 'material and willful, or, if not willful, so substantial and fundamental as to strongly tend to defeat the object of the parties in making the contract.'") (quoting *Callanan v. Powers*, 92 N.E. 747, 752 (N.Y. 1910)); see also *Anderson v. Lifeco Servs. Corp.*, 881 F. Supp. at 1504 (noting that where a breach is substantial or material, a party may rescind a contract if "the injury caused is irreparable, or . . . damages would be inadequate, difficult, or impossible to assess") (quoting *Wall v. Foster Petroleum Corp.*, 791 P.2d 1148, 1150 (Colo. Ct. App. 1989)).

189. 189 U.S.P.Q. 527 (D. Colo. 1976).

190. See *id.* at 528.

191. See *id.*

192. See *id.*

193. See *id.* at 529.

layout of the poster-map.¹⁹⁴ Hughey brought a claim for infringement when Palographics later printed, published, and distributed the map.¹⁹⁵

In challenging the validity of Hughey's copyright, Palographics argued that it owned the material under a work made for hire theory and that Hughey's only recourse was to bill Palographics for her services in accordance with the contract or based on a quantum meruit.¹⁹⁶ Hughey contended that Palographics had unilaterally rescinded its contract with Hughey.¹⁹⁷ The court agreed with Hughey and held that any such contract was null and void.¹⁹⁸ Palographics had repudiated and terminated its contract with Hughey when it informed Hughey of its dissatisfaction with her work.¹⁹⁹ Furthermore, the fact that Palographics did not pay or in any way compensate Hughey further supported Hughey's argument that Palographics had repudiated the contract.²⁰⁰ Since the presumption of ownership which Palographics claimed was only applicable to contracts which are satisfied by both parties,²⁰¹ Palographics could not have been entitled to ownership of the copyright by merely having "*obligated* themselves to pay for the [map]," when, in reality, they failed to fulfill this obligation to Hughey.²⁰² Evidence that an employer failed to pay for an employee's services thus sufficiently rebuts the presumption of copyright ownership in favor of the person at whose instance the work is done.²⁰³

If an employee is able to recapture the copyright in his or her original work of authorship by virtue of a material breach or repudiation by the employer who refuses to pay the artist, why could this remedy not be expanded into other types of material breaches as well? Although the cases supporting the copyright reversion theory have to date only dealt with an employer's refusal to pay, there is no

194. *See id.*

195. *See id.*

196. *See id.* at 532.

197. *See id.* at 529.

198. *See id.* at 532.

199. *See id.*

200. *See id.*

201. *See id.*

202. *See id.* (emphasis added).

203. *See supra* notes 62-66 and accompanying text.

reason why this rationale should not be expanded to breaches of promises that are as equally fundamental, essential and material to an employment contract. Among the terms negotiated for in employment agreements, an employee may desire and thus specifically contract to maintain creative control over his or her work.

In *McKinney v. Gannett Co.*,²⁰⁴ the former owner of a newspaper was allowed to rescind the sale of his newspaper based on the defendant's breach of his employment contract. The plaintiff, Robert M. McKinney, owned all of the stock of *The New Mexican* and acted as the newspaper's editor-in-chief and publisher.²⁰⁵ In 1975, McKinney negotiated with Gannett²⁰⁶ for the transfer of all the shares of common stock of *The New Mexican* to Gannett in return for 300,000 shares of Gannett common stock.²⁰⁷

Prior to the closing of this transaction, McKinney and *The New Mexican* agreed to the terms of an employment agreement.²⁰⁸ The employment agreement gave McKinney, as editor-in-chief, total control of the news and editorial policies at *The New Mexican* for ten years, subject only to budget limitations.²⁰⁹ The agreement also granted McKinney complete control of the business operations of *The New Mexican* for another five years.²¹⁰ Thus, "in return for Gannett stock, McKinney transferred to Gannett his ownership of *The New Mexican* and carved out for himself a reserved interest of control and management for a period of years."²¹¹

The court found that Gannett breached its employment agreement with McKinney, "by a course of conduct in which it was made clear to McKinney that his reserved right to control and manage the newspaper would no longer be honored."²¹² The employment

204. 660 F. Supp. 984 (D.N.M. 1981), *aff'd*, 817 F.2d 659 (10th Cir. 1987).

205. *See id.* at 989.

206. Gannett was a Delaware corporation which owned over eighty newspapers and several radio and television stations. *See id.*

207. *See id.*

208. *See id.* Because Gannett acquired *The New Mexican* by virtue of the "Reorganization Plan," the court found that the parties to the Employment Agreement were actually Gannett on the one hand and McKinney on the other. *See id.*

209. *See id.*

210. *See id.*

211. *Id.* at 1012.

212. *Id.*

agreement had granted to McKinney complete control over the news and editorial policies of all of the publications at *The New Mexican*.²¹³ The agreement had also given McKinney complete authority over *The New Mexican* news and editorial employees.²¹⁴ Gannett deliberately and repeatedly broke these promises by, among other things, failing to follow McKinney's instructions concerning a political endorsement for the New Mexico partisan primary elections in early June 1978,²¹⁵ firing McKinney's general manager,²¹⁶ and selecting and hiring a new general manager, without first consulting McKinney.²¹⁷ Based on these breaches of his employment agreement with Gannett, McKinney brought a claim for rescission of the contract in which he conveyed his ownership of *The New Mexican* to Gannett.²¹⁸

In order for McKinney to achieve rescission of his entire agreement with Gannett, which included the sale of his newspaper to Gannett, he had to show that the employment agreement and the stock transfer agreement were parts of an inseparable contract such that the breach of the employment agreement was a breach of the entire agreement.²¹⁹ The test of inseparability was "whether the parties assented to all the promises as a single whole, so that there would have been no bargain whatever if any promise or set of promises were struck out."²²⁰

The court found that McKinney's rights to control and manage the newspaper were so substantial and fundamental that without them, McKinney's basic objective of making the bargain was

213. *See id.* at 993.

214. *See id.* at 996.

215. *See id.* at 993.

216. *See id.* at 998, 1000.

217. *See id.* at 1001.

218. *See id.* at 988.

219. *See id.* at 1005.

220. *Id.* (citations omitted). Here the district judge found the contracts to be inseparable in spite of the fact they were contained in two different documents. *See id.* at 1006. The documents referred to each other but more importantly, it was "[a] peculiarity relating to the subject matter of th[e] two documents [which] suggests their inseparability: essentially, what McKinney did was transfer ownership of his newspaper to Gannett while retaining control of it for himself for a period of years. The Employment Agreement itself d[id] more than promise employment and compensation for McKinney." *Id.*

completely frustrated.²²¹ The court also found that the employment agreement and the stock transfer agreement were inseparable such that breach of the latter would allow rescission of both. Accordingly, the court entered judgment in favor of McKinney allowing him to elect rescission as a remedy.²²²

In a copyright setting, the contract of employment necessarily involves the transfer of intellectual property from the employee to his or her employer by virtue of the presumption in the work made for hire doctrine. However, employees may divest themselves of copyrights either through an actual employment agreement or a separate writing. *McKinney* seems to indicate that although an injured party may rescind an employment agreement that involves the transfer of some unique property right by a separate writing, the employment agreement and the separate writing must be "inseparable" for the purposes of rescinding both agreements.

Unlike the *McKinney* court, the court in *Royal v. Leading Edge Products, Inc.*²²³ did not allow the plaintiff to rescind an agreement conveying the copyright in a software program he created.²²⁴ Leading Edge Products, Inc. (Leading Edge), a Massachusetts corporation, was involved in various facets of the computer industry and hired James Royal to manage its word processing development department.²²⁵ At some later point, Royal and a co-worker entered into a royalty agreement with Leading Edge regarding the development of the software package.²²⁶ Royal and his co-worker agreed to develop a software package for Leading Edge in exchange for stipulated royalty payments based on future sales.²²⁷ The royalty agreement provided that if Royal was terminated for no cause, he would be entitled to royalties for a period of "five (5) years from the date of termination."²²⁸

Leading Edge eventually terminated Royal's employment. Leading Edge then failed to pay the royalties allegedly due to him.

221. *See id.* at 1012.

222. *See id.* at 1044.

223. 833 F.2d 1 (1st Cir. 1987).

224. *See id.* at 3.

225. *See id.* at 1.

226. *See id.*

227. *See id.*

228. *Id.* at 2.

While Royal conceded that the copyright to the software package inured to his employer by virtue of the work made for hire doctrine,²²⁹ he attempted to argue, like the plaintiff in *McKinney*, that the company's refusal to pay royalties was related to his employment agreement.²³⁰ If the two agreements were related, a material breach of one—the royalty agreement—would entitle Royal to rescind both.²³¹ If Royal could have rescinded his employment agreement with Leading Edge, the copyright in the software package would have reverted to Royal.²³²

However, unlike *McKinney*, the contractual relationship established between Royal and Leading Edge by virtue of the royalty agreement was entirely “separate and distinct” from their employment relationship.²³³

The royalty agreement makes clear that the trade-off for the proprietary copyright interest is not a job, but payment of royalties It makes explicit provision with respect to what consequences will flow from termination of the author's employment—whether for cause, without cause, or in the event of Royal's voluntary departure. . . . Reversion of the copyright is not among those consequences.²³⁴

Royal would not have fared any better for rescinding either agreement. He could not plead the existence of an element essential to recover under the copyright reversion theory: breach of the employment agreement. In fact, Leading Edge's breach of the royalty agreement occurred after Royal's employment relationship with Leading Edge had been terminated. Thus, if the royalty agreement stood, Royal's only remedy for Leading Edge's breach was money damages, not rescission of his employment contract and subsequent reversion of the copyright.²³⁵ On the other hand, if the royalty agreement was subject to rescission, as Royal had suggested, then

229. *See id.* at 3.

230. *See id.*

231. *See id.*

232. *See id.*

233. *See id.* at 4. The court stated that “there [was] neither authority nor precedent for the assertion that a breach of a *royalty agreement alone* catalyzes an implicit exception to the work-made-for-hire doctrine.” *Id.*

234. *Id.* at 3.

235. *See id.*

that agreement would have vanished and Royal would have been left with no written instrument indicating the parties' intent with respect to copyright ownership in the software package. Without the written and signed agreement, Leading Edge was author by virtue of the presumption created in § 201(b) of the Copyright Act.²³⁶ Because there was no breach of the employment agreement entitling Royal to rescission, Leading Edge remained owner of the copyright.

Cases involving more than one set of agreements or contracts add a twist to the idea that an aggrieved employee may rescind his or her employment contract. When read together, *McKinney* and *Royal* mean that where there are two separate agreements, the contract sought to be rescinded based on a material breach must be inseparable from the employment agreement in order for both to be rescinded. The *Royal* case also supports the argument that there may be claims for rescission and copyright ownership where transfers of a creator's copyright are accomplished by virtue of the employment agreement, as opposed to separate and distinct royalty agreements.

Appropriation of an idea, if its disclosure is exchanged in consideration for an employment contract, may also be heard on contract theory, and a claim for breach of contract may sufficiently set forth a claim for copyright ownership.²³⁷ James Trenton was a radio announcer and talk show host in Los Angeles.²³⁸ Infinity Broadcasting of Los Angeles, Inc. (Infinity) owned and operated KROQ, 106.7 FM in Burbank, California (KROQ).²³⁹ When Trenton first began broadcasting on KROQ, he worked without compensation in order to gain experience in the radio business.²⁴⁰ He began receiving a salary for his on-air segments in 1982.²⁴¹ In early 1983, Trenton conceived a radio program format called "Loveline."²⁴² In creating the format, Trenton sought to devise a radio talk show that would mirror real life

236. *See id.*

237. *See Trenton v. Infinity Broad. Corp.*, 865 F. Supp. 1416 (C.D. Cal. 1994); *see also Whitfield v. Lear*, 751 F.2d 90, 92 (2d Cir. 1984) ("While an idea is not property and is not subject to copyright . . . its disclosure may be valid consideration for a contract.").

238. *See Trenton*, 865 F. Supp. at 1418.

239. *See id.*

240. *See id.*

241. *See id.*

242. *See id.*

discussions among friends regarding social relations, dating, and sexuality.²⁴³ Trenton eventually introduced a medical expert co-host to enhance the program's on-air chemistry and to lend credibility to the medical advice given on the air.²⁴⁴ Loveline aired once a week during a late night, two-hour time slot.²⁴⁵

Trenton eventually signed a three-year employment agreement with KROQ in November 1988, several months after Infinity had purchased the station.²⁴⁶ Shortly thereafter, station management informed Trenton that they wanted to broadcast Loveline five nights a week, rather than one, due to its increasing popularity.²⁴⁷ In exchange for agreeing to broadcast the show five nights a week—and giving up the substantial income that he was earning by making late night personal appearances—Trenton was promised increases in his regular salary, complete discretion in the number and nature of celebrity guests appearing on the show, exclusive recognition for the creation of the program, and the exclusive right to perform the show as lead host.²⁴⁸ Infinity also promised Trenton to repay a substantial loan Trenton had taken out to start a clothing business, to syndicate Loveline if it became successful airing five nights a week, and to continue to contract with Trenton's medical expert for his services as a co-host on the show.²⁴⁹

Loveline became extremely successful, becoming the "fourth most listened to program in Los Angeles, behind only the three most popular morning programs."²⁵⁰ Trenton's relationship with his employer, however, became increasingly strained.²⁵¹ Infinity suspended Trenton for inviting his listeners to discuss an incident involving a West Hollywood record store during an event sponsored by KROQ.²⁵² Infinity later suspended Trenton for mentioning the name of another radio announcer, also employed by Infinity, on the air

243. *See id.*

244. *See id.* at 1419.

245. *See id.*

246. *See id.*

247. *See id.*

248. *See id.* at 1419-20.

249. *See id.*

250. *Id.* at 1420.

251. *See id.*

252. *See id.*

after being told by the station not to use the "competition's name"²⁵³ in his program. Trenton was suspended again after he and his medical expert co-host staged a dispute during which Trenton "walked off the show."²⁵⁴ Infinity suspended Trenton again seven months later.²⁵⁵ Trenton alleged that the last suspension was in retaliation for the disagreement between himself and Infinity over the ownership of Loveline.²⁵⁶ The suspensions occurred during a time period when negotiations over the ownership of the potential syndication rights in Loveline broke down and after Trenton's attorney sent a letter to Infinity asserting Trenton's ownership rights in Loveline.²⁵⁷ After the last suspension, Infinity hired a new permanent lead host for Loveline.²⁵⁸ Trenton remained under the contract after his suspensions and continued to draw a salary.²⁵⁹

After Infinity suspended Trenton's employment and refused to pay him an increased salary, Trenton brought a suit asserting ownership rights in broadcasts of the radio format he allegedly created.²⁶⁰ The court first determined that the radio broadcasts, because they had been simultaneously recorded, were copyrightable material.²⁶¹ On the issue of whether Trenton or Infinity owned the copyrights in the recorded Loveline programs, the court decided that the copyrightable interest was created in the scope of Trenton's employment.²⁶² Since Trenton did not plead the existence of any written agreement expressly naming him as owner of the programs, the court found that Infinity owned the copyright interest in the recorded programs under the work-for-hire doctrine.²⁶³

Although the court ultimately dismissed Trenton's lawsuit, it found that Trenton might have had a claim for ownership of the

253. *Id.*

254. *Id.*

255. *See id.*

256. *See id.*

257. *See id.*

258. *See id.* at 1421.

259. *See id.*

260. *See id.* at 1420-22. Radio broadcasts, if simultaneously recorded, fall within copyrightable subject matter under the Copyright Act. *See* 17 U.S.C. § 101 (1994).

261. *See Trenton*, 865 F. Supp. at 1423-25.

262. *See id.* at 1426.

263. *See id.*

copyrights based on contract theory.²⁶⁴ Trenton properly alleged breach of contract based on his employer's agreement to compensate him for his ideas, that such compensation would increase as Loveline became more popular, and that Infinity failed to fulfill either obligation. Trenton further alleged that Infinity agreed to give him complete control and discretion regarding the number and nature of guests appearing on the show. Lastly, Trenton alleged that Infinity agreed to continue to give him exclusive recognition as creator of the radio show broadcasts. Assuming that Trenton could prove that these terms were material to his signing the employment agreement with Infinity, and that Infinity's conduct completely frustrated Trenton's objectives in making the contract, Trenton would have a strong claim for rescission of his employment contract under the rationale of *McKinney*. Upon rescission of the contract, the copyright to Loveline would revert to Trenton. Trenton could then attempt to negotiate with other radio stations to broadcast the show and sue Infinity for restitution, or the reasonable value of his services.

IV. CONCLUSION

A copyright entitles its owner to enforce exclusive reproduction, performance, and display rights against the world.²⁶⁵ Where an employee creates a work within the scope of his or her employment and receives a salary or wages and benefits, the work for hire doctrine vests initial ownership of the copyright in the employer.

This Comment has discussed situations where the employer should no longer be entitled to copyright ownership which it acquired by virtue of the work for hire presumption. Initial ownership of the copyright vests in the employer by virtue of its relationship with its employee. Both the employee and the employer contract for specific rights under an employment agreement. Where an employer fails to fulfill its obligations under the contract and the employee is no longer able to receive the benefit of the bargain for which he or she contracted, the employer should no longer be allowed to benefit from the copyright. An employer's material breach should sufficiently rebut the employer's implied right to authorship. Courts

264. *See id.* at 1429.

265. *See ProCD v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996).

should expand and continue to apply this exception to the work for hire doctrine where the employer has materially breached any term of an employment agreement. Upon a finding of material breach by an employer, the employee could then elect to rescind the employment agreement, allowing him or her to recapture the copyright, and sue for restitution to recover payment for his or her services.

*Chau Vo**

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