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Case Closed: Federal Courts Resolve the Question of an Exclusive Licensee's Ability to Sublicense a Copyright

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I. INTRODUCTION

Federal copyright law is the vehicle through which statutory rights and protections are defined for authors of artistic and literary expression. Within this construct, the law defines the parameters for licensees to commercially exploit their works.[1] As technology advances, however, intellectual property developers demand correlative changes in copyright law to keep in step with their needs.[2] The law should be flexible enough to stay relevant, yet clear and consistent enough to be followed.

Legislators made sweeping changes to copyright law through the enactment of the Copyright Act of 1976.[3] Though legislators and courts did not eliminate all remnants of the previous Copyright Act of 1909, those elements retained play a minor role in contemporary regulation.[4] Until recently, licensees successfully broadened those statutory policies in their favor, persuading courts to back their position.[5] The licencees' stance purported to advance exploitive efficiency, the free transferability of property interests, and divisibility of copyright interests.[6] The Ninth Circuit, however, initiated a shift from these policies by siding with copyright licensors, and some courts are following suit.[7] Yet, with federal circuits coming to different conclusions on the same questions of law, clarity is overdue in defining the rights of a licensee. To stop the confusion and to end the controversy in this area of law, the legislature should establish uniform, compre-

1. *See* Peter H. Kang & Jia Ann Yang, *Doctrine of Indivisibility Revived? Ninth Circuit Confirms Copyright Exclusive Licensee Has No Right to Transfer License Absent Owner's Consent:* Gardner v. Nike, Inc., 18 SANTA CLARA COMPUTER & HIGH TECH. L.J. 365, 366 (2002).

2. *See id.*

3. Copyright Act of 1976, Pub. L. No. 94-553, 90 stat. 2541 (1976) (codified as amended in scattered sections of 17 U.S.C.).

4. *See* Kang & Yang, *supra* note 1, at 366.

5. *See id.* at 366–67.

6. *See id.* at 367.

7. *See* Gardner v. Nike, Inc., 279 F.3d 774 (9th Cir. 2002); *see also* Ward v. Nat'l Geographic Soc'y, 208 F. Supp. 2d 429 (S.D.N.Y. 2002).

hensive guidelines for licensing copyrights.

Federal courts have attempted to balance the rights of copyright owners and their licensees. Adding weight to each scale is the scope of the license and those rights that come with the ownership of a copyright. One court recently addressed whether this ownership, when held by a licensee, includes an unlimited right of transferability.[8] In *Gardner v. Nike, Inc.*, a case regarded by a California district court as one of first impression, the plaintiffs challenged a licensor that demanded consent before sublicensing an exclusive copyright when their agreement was silent on the issue.[9] Could an individual sublicense a copyright without the original licensor's consent? The *Gardner* court held that the licensor's consent was necessary, preserving select policies of the 1909 Act.[10] This decision sparked a controversy that had its share of critics and supporters within the legal community.[11] On appeal, the Ninth Circuit affirmed the decision of the district court, and other circuits are now following *Gardner's* holding.[12] The federal judiciary clarified the sublicensing question without broadening the rights of licensees beyond that which the legislature may have intended.[13] The Supreme Court may get the opportunity to settle the controversy if it chooses to grant *certiorari*.

This comment reviews recent developments regarding the issue of copyright transferability and interprets relevant provisions of the Copyright Act of 1976. Part II retraces the history of copyright law leading up to the recent clash over licensees' rights and the transferability of a copyright. Part III examines the circuit split, and compares those courts' divergent approaches to interpreting the Copyright Act of 1976. Part IV analyzes the 1909 and 1976 Acts, highlighting policies in favor of *Gardner*, and interprets subsequent cases following the holding in the case. This comment concludes that the *Gardner* court correctly affirmed the lower court's holding which requires consent before a sublicense can be granted, and that the Supreme Court should uphold the ruling of the Ninth Circuit if it chooses to

8. Gardner v. Nike, Inc., 110 F. Supp. 2d 1282, 1284 (C.D. Cal. 2000).

9. *Id. Leicester v. Warner Bros.* had already analyzed the question of licensee sublicensing, thus it is curious that the court would consider *Gardner* a case of first impression. Though *Leicester* may be distinguishable on its facts, it is unusual that rather than explain *Leicester's* divergent nature, the Court chose to not mention the case at all. *See* Leicester v. Warner Bros., 232 F.3d 1212 (9th Cir. 2000).

10. *Gardner*, 279 F.3d at 777.

11. *See* Kang & Yang, *supra* note 1, at 366–67, 375.

12. *Gardner*, 279 F.3d at 781. The Second Circuit followed *Gardner*, establishing what seems to be a decisive trend on the issue of licensor consent for sublicensing a copyright. This connection will be discussed in Part III of this article. *Ward*, 208 F. Supp. 2d 429.

13. *Gardner*, 279 F.3d at 781.

grant certiorari.

II. HISTORICAL DEVELOPMENTS OF COPYRIGHT LAW

Over the last century, copyright law slowly shifted in response to technological change.[14] In the past thirty years, technological advances occurred at a rapid pace. As a result, some of the copyright concepts of the past are no longer aligned with market realities.[15] Users demand more liberal policies to accommodate the progress of technology, as the number of uses for copyrighted materials increases.[16] Lawmakers have incorporated such considerations into legislation in an attempt to modernize copyright law to make it more practical.[17] However, the vastly divergent interests advocated by licensors and licensees complicated the law-making process; licensees are concerned with the potential monopolization by owners of their works, while licensors have fought to preserve the rights of authors and composers to foster creativity.[18]

At its inception, copyright law was developed to protect the rights of the copyright owner. Accordingly, statutes protected a licensor's ability to maintain ownership of a copyright and to control the use of that intellectual property.[19] The framers of the Constitution recognized both the significance of protecting this statutory right and the need for universal policies among the states to govern copyright regulation.[20] Consequently, they designated Congress as the ultimate governing body of copyright law, creating a constitutional basis of copyright protection and empowering Congress to enact uniform copyright legislation.[21] Article I, section 8, clause 8 of the United States Constitution states, "The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[22]

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14. David L. Hitchcock & Kathy E. Needleman, *Current Status of Copyright Protection in the Digital Age and Related Topic*, 8 TEX. WESLEYAN L. REV. 539, 541 (2002).

15. *Id.*

16. *See id.* at 542.

17. *See id.*

18. *See, e.g.*, Kang & Yang, *supra* note 1, at 369.

19. *See generally* CRAIG JOYCE ET AL., COPYRIGHT LAW §§ 1.03(B)–(C)(1) (5th ed. 2001) (discussing the passage of the first federal copyright act in 1790 and general provisions of the 1909 Copyright Act).

20. *See id.* § 1.03(B).

21. *See* Hitchcock & Needleman, *supra* note 14, at 544.

22. U.S. CONST. art. I, § 8, cl. 8.

The Copyright Act of 1909 was the first extensive codification of federal copyright law.[23] In the Act, Legislators crafted the doctrine of indivisibility, a central concept influencing the fundamental interpretations of copyright law.[24] According to this doctrine, anything less than a total transfer of rights under copyright law was considered a mere license.[25] Thus, the license conferred upon a licensee was merely an implied agreement by the licensor not to sue for the copyright's use.[26] The licensee had permission to engage in the licensed act, but because actual ownership rights were retained by the licensor, a licensee could not sublicense the copyright or sue an infringer without first persuading the copyright proprietor to join the cause of action.[27] At that time, copyrights were primarily exploited through the reproduction of copies, and a copyright holder's principal concern was the prevention of a non-owner from infringing upon her reproduction right.[28]

Another noteworthy feature of the Copyright Act of 1909 was its clear distinction between a license and an assignment.[29] An *assignee* acquired the proprietorship of the copyright, and could bring an infringement action in court.[30] A *licensee*, by comparison, did not obtain actual ownership rights, and lacked standing to bring a cause of action against an infringer on her own.[31] The 1909 Act created less of a distinction between an exclusive and a non-exclusive license.[32] The Act defined an *exclusive license* as conferring certain rights to a single licensee, and a *non-exclusive license* as a grant of rights to multiple licensees.[33] Under the 1909 Act, neither an exclusive nor a non-exclusive licensee could transfer the license

23. The Copyright Act of 1790 was the first enacted statute, most of which remained intact until the revised Copyright Act of 1909. *See* BRUCE P. KELLER & JEFFREY P. CUNARD, *COPYRIGHT LAW: A PRACTITIONER'S GUIDE* § 1.3 (Practising Law Institute, 2002).

24. 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 10.01(A) (Matthew Bender & Co., Inc. 2001) [hereinafter NIMMER].

25. *Gardner*, 279 F.3d at 778 (citing 3 NIMMER, *supra* note 24, § 10.01(A)). Under the doctrine of indivisibility, the bundle of rights afforded to a copyright was said to be "indivisible," and assignment must be a transfer of the totality of rights. The basis for this approach stemmed from specific language of the 1909 Act, which referred only to a singular copyright, thus inferring that the copyright was incapable of assignment in parts. Any transfer of less than a totality of rights would only constitute a mere license. 3 NIMMER, *supra* note 24, at § 10.01(A).

26. *See* 3 NIMMER, *supra* note 24, § 10.01(A).

27. *Id.* § 10.01(C)(1).

28. *Id.* § 10.01(A).

29. *See id.*

30. *See id.* § 10.01(C)(1).

31. 3 NIMMER, *supra* note 24, § 10.01(C)(1).

32. *See id.*

33. *Id.*

without first obtaining the licensor's consent.[34] Part IV of this comment elaborates upon the significance of these definitions, and discusses modern translations of these terms.[35]

A. Copyright Act of 1976

Over time, licensees gained support in the market by promoting efficiency in copyright exploitation, and discouraging monopolistic control by copyright owners.[36] Although views in the marketplace began to tilt in their favor,[37] licensees' rights were still bound by the Copyright Act of 1909,[38] which began to show signs of aging as advances in technology increasingly distorted the traditional lines of copyrightable material.[39] Thus, aging laws served as a barrier to the most productive use of copyrightable material.[40] Consequently, Congress sought to repair the problems of federal copyright law with the enactment of the Copyright Act of 1976.[41]

Prior to the enactment of the 1976 Act, the most problematic technological advancement facing copyright owners was the ease with which material could be inexpensively reproduced.[42] In addition, other rights beyond the reproduction right, such as the right to prepare derivative works, became increasingly valuable, yet copyright owners were still incapable of reserving those rights.[43] The 1909 Act had become so outdated that state common law rights were filling the gaps in copyright proceedings.[44]

After years of extensive debate, Congress once again codified U.S. copyright law when it enacted the Act of 1976.[45] Legislators finally released copyright law from the shackles of the doctrine of indivisibility,

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34. *See id.*

35. Before *Gardner* was decided, courts interpreting the 1976 Act made virtually no distinction between an assignee and an exclusive licensee, as both obtained ownership and could sublicense without the owner's consent.

36. *See, e.g.*, Hitchcock & Needleman, *supra* note 14, at 542.

37. *Id.*

38. Pub. L. No. 60-349, 35 Stat. 1075 (1909) (codified as amended in scattered sections of 17 U.S.C.).

39. *See* Hitchcock & Needleman, *supra* note 14, at 541.

40. *Id.*

41. *Id.*

42. *Id.*

43. *See* 3 NIMMER, *supra* note 24, § 10.01(A).

44. *See* JOYCE ET AL., *supra* note 19, § 1.03(C)(1). Copyright protection under the 1909 Act began at the moment of publication, as opposed to when the title was filed for registration under the prior provision. This distinction resulted in a dual system: unpublished works retained state common law protection, while published works were covered by federal law.

45. *Id.* § 1.03(C)(3). Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified as amended in scattered sections of 17 U.S.C.).

seeking to restore the balance between the competing interests of copyright claimants and their licensees.[46] This expanded the power of the federal government to enforce copyright law, and overruled any then conflicting state law under the Supremacy Clause.[47] Moreover, by excluding the doctrine of indivisibility from the Act of 1976, Congress modified five basic areas of copyright law: standing to sue, the right to claim copyright, the recordation of assignments, the right to resell a copyright, and certain copyright formalities.[48] However, the actual effect of this legislation on each of these areas was initially difficult to decipher.[49]

Initially, interpreters of the law wrestled with the question of how to separate a single copyright, which was now divisible, into its respective parts.[50] Did the single, original copyright suddenly become multiple copyrights held by each party? Melville and David Nimmer ("Nimmer"), the leading commentators on copyright law, discuss several problems with the "multiple copyright" theory, emphasizing that compliance with certain publication, registration, and notice provisions would create significant administrative difficulties.[51] More importantly, the potential ramifications of the resulting policy under a "multiple copyright" scheme are unclear. The creation of a "new copyright" might justify unconsented sublicensing, assuming that the original copyright effectively disappeared with the original copyright claimant's rights.[52] The majority's interpretation of the 1976 Act permits *divisibility of rights,* not *divisibility of the copyright.*[53]

The protections afforded by the 1976 Copyright Act envelops several rights, including an owner's reproduction rights, public performance and display rights, adaptation rights, and distribution rights in the copyright-protected work.[54] In particular, section 106 of Title 17 enumerates the exclusive right of a copyright owner: (1) to reproduce the copyrighted work in copies or phonorecords; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies or phonorecords of the copy-

46. *Compare* Copyright Act of 1909, Pub. L. No. 60-349, 35 Stat. 1075 §§ 1, 6 (1909) *with* 17 U.S.C. §§ 106, 201 (2000).

47. Hitchcock & Needleman, *supra* note 14, at 544. *See* discussion *infra* Part IV for a critique of federal versus state law, which disapproves of Aaron Xavier Fellmeth's argument that state law should have governed in *Gardner.*

48. 3 NIMMER, *supra* note 24, § 10.02(B)(1)–(5).

49. *See id.*

50. *See id.* § 10.02(A).

51. *Id.* § 10.02(C)(1)(a)–(c)(discussing the difficulties that arise under the Act's requirements, through hypothetical publication, registration, and notice problems).

52. *See id.*

53. *Id.* § 10.02(C)(2).

54. Hitchcock & Needleman, *supra* note 14, at 544–45.

righted work to the public by sale or other transfer of ownership, or by rental, lease, or lending; (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and (6) in the case of sound recording, to perform the copyrighted work publicly by means of a digital audio transmission.[55]

B. Statutory Text and Legislative Intent

The enactment of the 1976 Copyright Act altered central features of copyright law.[56] As a preliminary matter, courts applied the 1976 Act to works created on or after January 1, 1978, with the 1909 Act remaining relevant for most works created before January 1, 1978.[57] A distinguishing factor of the 1976 Act was Congress's new approach to the nature of a copyright, enumerated in section 106: "[The o]wner of the equitable title of copyright is not a mere licensee, and he may sue in equity, particularly where owner of legal title is an infringer, or one of the infringers, thus occupying a position hostile to the plaintiff."[58] This provision conferred standing upon an exclusive licensee to sue in his own name for an infringement of that particular right.[59] The Act reflected the manifestation of copyright divisibility by explicitly providing what situations amounted to a "transfer of copyright ownership," specifically an "assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license."[60]

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55. 17 U.S.C. § 106. In addition to granting these rights, the 1976 Act retained the principle of unlimited alienability of copyright, which compelled authors to assign, license, and waive each of these exploitation rights when the copyright was assigned. *See generally* Neil Netanel, *Alienability Restrictions and the Enhancement of Author Autonomy in United States and Continental Copyright Law*, 12 CARDOZO ARTS & ENT. L.J. 1, 1–78 (1994).

56. *See generally* Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C. §§ 101–801).

57. BRUCE P. KELLER & JEFFREY P. CUNARD, COPYRIGHT LAW: A PRACTITIONER'S GUIDE § 3.1 (Practising Law Institute, 2003).

58. Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C § 106).

59. 3 NIMMER, *supra* note 24, § 10.02(B)(1).

60. Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C. § 101). Excluding a nonexclusive licensee's ability to transfer the copyright is reminiscent of the 1909 Act's doctrine of indivisibility. A residue of the doctrine's impact is thus retained under the 1976 Act re-

Still, the statutory language fails to clarify the precise nature of a licensee's rights, and how implicated parties were to apply the law in a practical manner.[61] Central to this ambiguity is the question of transferability of the license.[62] Several sections of the 1976 Act, some in conjunction and others seemingly in opposition, function to redefine license ownership. Section 201(d)(1) rejects most of the doctrine of indivisibility, allowing portions of the copyright to be transferred by either assignment or license.[63] The 1976 Act outlines those interests in copyright law that could benefit from ownership rights. Section 101 specifically incorporates ownership into an assignment, mortgage, and exclusive license, but does not include these right for a nonexclusive license.[64] Thus, while the statute clearly enumerates that a *nonexclusive* license is not a "transfer" of copyright ownership, it fails to describe the actual scope of such transferability for the listed conveyances.[65] In fact, nowhere in the statute did Congress directly address an exclusive licensee's ability to transfer the copyright, and whether they intended to maintain the scope of the 1909 Act.[66] This congressional silence may mean either that the legislature deferred to the judgment of the courts, or that the question was already resolved in another section of the Act.[67]

The second sentence of section 201(d)(2) seems to define the scope of the rights granted to a holder of some copyright interest, providing that, "the owner of any particular exclusive right is entitled, to the extent of that right, to all of the protections and remedies accorded to the copyright owner by this title."[68] This language, however, stands in opposition to section 201(d)(1) by restricting the scope of ownership to only the "protections and remedies" and not to all rights under the copyright.[69] For instance, one

garding nonexclusive licenses. *See* 3 NIMMER, *supra* note 24, § 10.02(A). The legislative history of the 1976 Act discusses concept of divisibility, stating that section 201(d)(2) "contains the first explicit statutory recognition of the divisibility of copyright in our law." H.R. REP. NO. 94-1476, 94th Cong., 2d Sess. 123, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5738.

61. *See generally* 17 U.S.C. §§ 101–122, 501–513.

62. *See generally id.* § 201.

63. *Id.* § 201(d)(2). This section describes the transfer of ownership, stating "The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession." *Id.*

64. *Id.* § 101.

65. *Id.*

66. *Id.*

67. 17 U.S.C. § 101.

68. *Id.* § 201(d)(2).

69. Michael I. Rudell, *Court Imposes Restriction on Exclusive Licensee's Right to Assign*, Articles of Interest, Franklin, Weinrib, Rudell & Vassallo, P.C., *at*

can infer that an exclusive licensee is entitled to ownership without the right of transfer because the statute refers to such a licensee as "the *owner* of any particular exclusive right."[70] Courts have interpreted this statutory silence differently; some courts inferred an acquiescence of the 1976 Act to retain the approach of the 1909 Act, which grants ownership only to the licensor.[71] Part IV of this comment will further analyze the Court's ultimate interpretation of this inconsistency.

The text of the 1976 Act also muddles the traditional distinction between a license and an assignment under the property laws. An assignment, in the most elementary sense, is a transfer to another of one's rights or property interest.[72] A license, on the other hand, is a right granted to a person to do something which he otherwise could not legally do; a license can be retracted, revoked, or otherwise limited in scope or duration by the license owner.[73] If the 1976 Act granted to a licensee all ownership rights under the copyright, including an unlimited right of transferability, then a license would be the functional equivalent of an assignment.[74] As this comment argues, the legislature may have retained a distinction between these terms by textually implying that certain elements of the doctrine of indivisibility were retained in a license, but not in an assignment.[75] In sum, the text of the 1976 Act neither expressly confers to a licensee a right to assign a license, nor prohibits such an assignment absent the licensor's consent.[76]

The Committee Notes of the House of Representatives often serve to clarify textual inconsistencies by revealing the legislature's actual intent in formulating the law. Unfortunately, the legislative history of the 1976 Act provides no clear direction in reconciling what appears to be conflicting sections of the 1976 Act.[77] The Notes of Committee on the Judiciary lack any indication that Congress intended to grant an exclusive licensee the

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http://www.fwrv.com/articles/artmir0301.html (last visited Aug. 28, 2003).

70. 17 U.S.C. § 201(d)(2) (emphasis added).

71. Aaron Xavier Fellmeth, *Control Without Interest: State Law of Assignment, Federal Preemption, and the Intellectual Property License*, 6 VA. J.L. & TECH. 8, ¶ 13 (2001).

72. BLACK'S LAW DICTIONARY 115 (7th ed. 1999).

73. *Id.* at 931.

74. Rudell, *supra* note 69.

75. *See id.*

76. *See* Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C. § 201).

77. *See* United States v. Hockings, 129 F.3d 1069, 1071 (9th Cir. 1997) (stating that if the language of a statute is unclear, the court should study its legislative history to aid its interpretation). The "legislative history" of the Copyright Act of 1976 actually encompasses twenty-one years of reports and hearings, beginning in 1955. JOYCE ET AL., *supra* note 19, § 1.03(C)(3).

right to sublicense the copyrighted interest.[78] Congress took into account the limitations that the 1909 Act placed on a licensee's ability to transfer a copyright, and retained the spirit of that notion by restricting the benefits conferred to a licensee to the "protections and remedies" afforded to the owner.[79]

Such an interpretation of a license is in harmony with the underlying premise of the 1976 Act. The legislative history does reveal Congress' acute awareness of its responsibility to maintain the delicate balance between the competing interests of licensors and licensees.[80] As history suggests, Congress may have used the term "owner" to indicate the abolition of indivisibility under copyright law, and not to grant licensees outright ownership rights.[81]

C. *Case Law under the Copyright Act of 1909*

Under the 1909 Act, a licensee did not have the ability to transfer rights under the license without the consent of the licensor.[82] In *Harris v. Emus Records Corp.*,[83] the court held that, under the 1909 Act, a copyright license (whether exclusive or not) was not transferable, unless the licensee had been expressly authorized to do so.[84] The court first mentioned that, although the transferability of a copyright license was a question of first impression in the Ninth Circuit, there was authority to support the proposition that such licenses were not transferable as a matter of law.[85] The plaintiff, singer Emmylou Harris, recovered a money judgment and injunctive relief against defendants for infringing her copyrights in certain songs.[86] She had granted a mechanical license to Jay-Gee Record Company, which subsequently filed bankruptcy and sold the licensed recordings to defendant Suellen Productions.[87] Suellen Productions then transferred its manufactur-

78. Rudell, *supra* note 69; *see also* H.R. REP. NO. 94-1476, 94th Cong., 2d Sess. 123, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5738.

79. Rudell, *supra* note 69.

80. *See* H.R. REP. NO. 94-1476, 94th Cong., 2d Sess. 123, reprinted in 1976 U.S.C.C.A.N. 5659, 5738. The committee notes explain that the term "owner" can describe any number of people who have a mere ownership interest in the copyright. Fellmeth, *supra* note 71, ¶ 14.

81. *See generally* Fellmeth, *supra* note 71, ¶ 14.

82. *See* 3 NIMMER, *supra* note 24, § 10.01(C)(1).

83. 734 F.2d 1329 (9th Cir. 1989).

84. *Id.* at 1335.

85. *Id.* at 1333.

86. *Id.* at 1331.

87. *Id.* "'Mechanical royalties' [are] paid for the use of musical compositions on phonograph records in all of the various formats. . . ." The phrase was originally derived from player-piano's perforated paper music rolls, the earliest form of music publishing royalties. DONALD E.

ing and distribution rights to defendant Emus Recordings, which never paid Harris royalties from the songs.[88] Harris demanded that defendants cease the manufacture and distribution of the songs and sued, alleging copyright infringement.[89] The court held that "[t]he release of the new album, without new mechanical licenses, constituted copyright infringement for which defendants are liable."[90] Relying on the 1909 Act, the court reiterated that, "[a]bsent any contractual limitations, an assignee [of the whole contract] had the right to reassign the work. A licensee, however, had no right to resell or sublicense the rights acquired unless he has been expressly authorized so to do."[91] The court agreed with a previous district court decision, which described a licensee's copyright as "a bare license . . . without any right to assign its privilege."[92] At the time, this approach was warranted under both the doctrine of indivisibility and by certain policies underlying patent law.[93]

III. THE CIRCUIT SPLIT: COMPARING FEDERAL COURTS' DIVERGENT APPROACHES TO COPYRIGHT LICENSING

The extensive modification to copyright law left implicated parties unsure as to the scope of the license, and whether it included the right to transfer for copyright licensees.[94] Because of this uncertainty, many disputes over the scope of a license were left unlitigated, as parties chose to settle rather than be the first to litigate their issues under the 1976 Act. One

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BIEDERMAN ET AL., LAW AND BUSINESS OF THE ENTERTAINMENT INDUSTRIES, 552–53 (Praeger Publishers 4th ed. 2001). Record companies are responsible for paying artist royalties and royalties for mechanical licenses. 17 U.S.C. § 115 requires a manufacturer of phonograph records to enter into a license agreement with the copyright owner of each musical composition embodied thereby. The record company pays the copyright owner a royalty for each of the records made and distributed into the marketplace. For compositions that are first-time releases to the public, the record company must negotiate for a mechanical license with the owner of the composition. GARY STIFFLEMAN & BONNIE GREENBERG, ENTERTAINMENT INDUSTRY CONTRACTS § 159.03(1)(e) (Donald C. Farber ed., 2003) (citing 17 U.S.C. § 115).

88. *Harris*, 734 F.2d at 1332.

89. *Id.*

90. *Id.* at 1335.

91. *Id.* at 1333 (quoting NIMMER, *supra* note 24, § 10.01(C)(4)).

92. Ilyin v. Avon Publications, Inc., 144 F. Supp. 368, 372 (S.D.N.Y. 1956).

93. *Harris*, 734 F.2d at 1333. Where precedent in copyright cases is lacking, it is appropriate to look for guidance to patent law "because of the historic kinship between patent law and copyright law." Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 439 (1984). A patent license has been characterized as "a naked license to make and sell the patented improvement as a part of its business, which right, if it existed, was a mere personal one, and not transferable, and was extinguished with the dissolution of the corporation." Hapgood v. Hewitt, 119 U.S. 226, 233 (1886).

94. *See* discussion *supra* Part II.B.

such ambiguity concerns a licensee's ability to transfer. Whether purposeful or inadvertent, Congress left unanswered the question of whether an exclusive license is considered a transfer of ownership, enabling the licensee to further transfer the copyright.[95]

Two divergent approaches to defining the scope of a license have evolved. One view restricts a license to include only "such uses as fall within the unambiguous core meaning of the term," excluding "any uses that lie within the ambiguous penumbra."[96] Under this more restrictive view, a strict statutory reading construes copyright law to preclude a licensee's right to transfer, since neither the 1909 or 1976 Copyright Acts enumerates such an exclusion.[97] The other, more expansive and accepted view, is that a "licensee may properly pursue any uses which may reasonably be said to fall within the medium as described in the license," including uses within the ambiguous penumbra.[98] This approach permits courts to imply legislative inferences, particularly in cases of statutory silence.[99]

A survey of the relevant case law reveals a circuit splinter among the courts regarding a licensee's ability to transfer a copyright.[100] The array of disparate decisions reflects the various approaches courts have taken to define the scope of a license, ranging from highly restrictive to highly expansive. As a consequence, subsequent courts have delivered inconsistent decisions on the same issues of law.

A. Ninth Circuit Decisions

When Congress passed the Copyright Act of 1976, the Ninth Circuit Court of Appeals initially appeared to establish a policy seemingly contrary to the 1909 Act: conferring to a licensee all property rights within the "bundle of sticks," including the right to transfer.[101] Only three years ago, the Ninth Circuit court, in dicta, discussed an exclusive licensee's ability to freely assign his rights without consent of the licensor.[102] In *Leicester v. Warner Bros.*, although the plaintiff artist tested the boundaries of the 1976 Act, the court allowed exclusive licensee R & T (who is R&T? A defen-

95. *See* discussion *supra* Part II.B.

96. Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co., 145 F.3d 481, 486 (2d Cir. 1998).

97. *See* 3 NIMMER, *supra* note 24, § 10.10(B).

98. Bartsch v. Metro-Goldwyn-Mayer, Inc., 391 F.2d 150, 155 (2d Cir. 1968).

99. *See* discussion *supra* Part II.B.

100. *See supra* Part I.

101. *Id.*

102. *See* Leicester v. Warner Bros., 232 F.3d 1212 (9th Cir. 2000).

dant?) to sublicense the copyrighted "sculptural work."[103] In that case, developer R & T entered into an agreement with the artist Leicester to create a work of public art in downtown Los Angeles.[104] The contract allocated the rights to two-dimensional and three-dimensional reproductions or representations of the work between the developers and the artist.[105] The artist granted the developers the exclusive, perpetual, irrevocable right to make reproductions of three-dimensional representations for certain purposes, but denied R & T the right to duplicate the work in another project.[106] In July 1994, R & T granted a license to the Warner Bros. movie studio to use three-dimensional representations of the work in a movie.[107] The following year the artist registered his copyright and sued Warner Bros. for copyright infringement.[108] The circuit court held that sublicensing the architectural work did not infringe upon plaintiff's rights because of an exception to the Architectural Works Copyright Protection Act of 1990 regarding pictorial representations of a building.[109] The decision hinged on the court's characterization of the artistic work as "architectural," since, in general, such architectural works are afforded more limited copyright protection.[110] The court did mention the exclusive nature of the license, but did not discuss a need for consent in sublicensing, simply stating, "R & T's ability to sublicense turns on whether R & T had an exclusive right to make Zanja Madre miniatures."[111] Since the developer's license was in fact exclusive, the artist could not require the developer to obtain his consent before sublicensing the copyright.[112] The court appeared to acquiesce to the notion that consent was not necessary, therefore interpreting the 1976 Act to grant all copyright ownership, including the presumed right to transfer, to an exclusive license

103. *Id.* at 1213. Leicester called the sculptural work "Zanja Madre." The work included streetwall towers, a fountain representing "Mother Ditch," and a garden area. *Id.* at 1214.

104. *Id.* at 1214.

105. *Id.* at 1215.

106. *Id.* Specifically, R & T had exclusively licensed three-dimensional reproduction to Warner Bros. (in sublicense), but did not have the right to sublicense photographic or other pictorial copies of Zanja Madre. *Id.*

107. *See Leicester*, 232 F.3d at 1215.

108. *Id.* at 1215.

109. *Id.* at 1216, 1220 (construing 17 U.S.C. § 120(a)).

110. *Id.* at 1216. Copyright protection of architectural work "does not include the right to prevent the making, distributing, or public display of pictures, paintings, photographs, or other pictorial representations of the work," if the building is ordinarily visible to the public. 17 U.S.C. § 120(a).

111. *Leicester*, 232 F.3d at 1220 (citing Harris v. Emus Records Corp., 734 F.2d 1329, 1333 (9th Cir. 1984)).

112. *See id.*

holder.[113]

Curiously, subsequent courts have not cited *Leicester* as precedent on the sublicensing issue. This may be a result of two things either the *Leicester* court's limited discussion of exclusive licensee's right to sublicense, or the distinguishing nature of *Leicester's* facts to subsequent cases. The artist's failure to register the copyright until after the developer granted the sublicense, not the *nature* of the license, may have been fatal to his case.[114] In any case, the absence of discussion in *Leicester* leaves the impression that the court believed that sublicensing was a non-issue and not a necessary point of debate.[115] Subsequent courts may be ignoring *Leicester* as valid precedent because of its inadequate analysis. Regardless, mere disagreement with *Leicester's* holding does not support the decision by courts to ignore the implications of this relevant precedent.

Two years after *Leicester*, a Ninth Circuit court directly re-examined the sublicensing question in *Gardner v. Nike*.[116] The district court began its opinion by stating that the case was one of first impression, never mentioning *Leicester*.[117] The facts in *Gardner* were undisputed.[118] Nike and Sony entered into a licensing agreement in 1992, conferring certain rights to Sony to exploit a cartoon character called "MC Teach."[119] The licensing contract specifically granted Sony:

[T]he right to use the character, and any modification or alterations, in perpetuity throughout the world on and in the packaging of phonograph records, in publicity, advertising and allied exploitation of the records, in television programs or motion pictures embodying the musical compositions embodied on the records, on educational materials and on cloth-

113. *See id.*

114. Registration of copyright is not required in order for the work to be protected. *See* 17 U.S.C. § 102(a). However, registration is a prerequisite to filing an infringement suit on a work first published in the United States. *Id.* § 411. Works published outside the United States need not be registered prior to instituting an infringement action, except for certain works which are recorded as they are transmitted. *See id.* In order to recover statutory damages, the registration must occur prior to the allegedly infringing act. *Id.* § 412(2). However, there is an exception where the registration is made within three months of the date of first publication. Registration requires submission of specified information regarding the applicant, deposit of a designated number of copies, and payment of the required filing fee. *Id.* § 407–10.

115. The *Leicester* court only mentioned the ability of a licensee to sublicense because the plaintiff argued that the district court erred in ruling that Warner Bros. acquired a license from R & T to make a three-dimensional miniature model of the Zanja Madre. *Leicester*, 232 F.3d at 1220.

116. Gardner v. Nike, Inc., 110 F. Supp. 2d 1282 (C.D. Cal. 2000).

117. *Id.* at 1285.

118. *Id.* at 1284.

119. *Id.* at 1283.

ing . . . .[120]

Sony was conferred an exclusive, perpetual, worldwide license in exchange for fifteen percent of the profits earned from any use of MC Teach in merchandise other than records.[121] Sony sought to exploit the character through a third party, and accordingly transferred all its rights in the exclusive license to Gardner in June 1996.[122] Gardner subsequently utilized the MC Teach character in various educational materials. [123] Once Nike became aware of the sublicensing agreement, they threatened legal action against Sony, Gardner, and their proposed licensees.[124] Gardner beat Nike to court by quickly filing suit in California state court, alleging breach of contract and requesting declaratory relief.[125] The case was dismissed for lack of subject matter jurisdiction, and Nike eventually filed a cause of action in federal district court in December 1999.[126]

The federal court granted jurisdiction to the parties. Both Nike and Gardner moved for summary judgment, with Gardner again seeking declaratory relief affirming that its license transfer from Sony was valid, and Nike claiming lack of standing for Gardner due to the invalidity of its rights.[127] The Court examined the language of the 1976 Act and underscored the congressional silence regarding the exclusive licensee's right to transfer the license.[128] Next, the court acknowledged that neither parties' argument could be dispositively upheld by statute, since the 1976 Act does not explicitly address exclusive license transferability;[129] because Congress chose not to address the issue, the limiting "protection and remedies" language indicates that the state of the law remains unchanged from the 1909 Act.[130] The district court held that an exclusive licensee does not have the right to sublicense the copyright without the licensor's consent.[131]

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120. *Id.* at 1283 n.1.

121. Gardner v. Nike, Inc., 279 F.3d 774, 776 (9th Cir. 2002).

122. *See id.*

123. *Gardner*, 110 F. Supp. 2d at 1283.

124. *Id.*

125. *Id.*

126. *Gardner*, 279 F.3d at 776–77. Nike asserted that the transfer of rights under licensing contracts should be governed by the Copyright Act of 1976, not California state law. *Id.* at 777. Nike made an initial attempt to remove the case from state court to the district court, but the district court remanded the action to state court when Nike's removal petition was untimely. *Id.*

127. *Id.* at 777.

128. *Id.* at 780.

129. *Id.*

130. *See Gardner*, 110 F. Supp. 2d at 1287.

131. *See id.*

The court of appeals recently affirmed the district court's decision. [132] The Ninth Circuit appeared to be redefining the direction of the federal standard for licenses in copyright law.

B. Beyond the Ninth Circuit

The crucial question was whether other circuit courts would validate the Ninth Circuit precedent by following its holding. Up to this point, other federal circuits had granted exclusive licensees broad rights under copyright.[133] Would they adopt the Ninth Circuit approach? Litigation outside the Ninth Circuit prior to *Gardner* painted an unpromising picture.[134]

Library Publications v. *Medical Economics Co.*, a 1982 case in the United States District Court for the Eastern District of Pennsylvania, addressed the interpretation of section 201(d)(2) of the 1976 Act.[135] There, the court maintained that an exclusive license was intrinsically assignable, but did so only in dicta.[136] In *Library Publications,* the plaintiff, a book publisher and distributor, allegedly obtained an oral (nonexclusive) copyright license to distribute the *Physicians Desk Reference* from the defendant publisher, the assignee of the copyright.[137] When the plaintiff "undersold" the defendant to a large retail outlet, the move so frustrated the defendant that he subsequently refused to sell the plaintiff any more books.[138] The defendant publisher justified withholding future sales by asserting that the plaintiff had violated the license.[139] The court interpreted section 201(d) as conferring to an exclusive licensee the right to "transfer, in whole or in part, any of the exclusive rights comprised in a copyright."[140] Nevertheless, even though the district court established that the defendant *could* have granted an exclusive license to the plaintiff, he did not succeed because an exclusive license cannot be granted orally.[141] The defendant's case failed because the license was not reduced to writing, and the court never ruled on the issue of transferability under an exclusive license.[142]

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132. *Gardner*, 279 F.3d at 776.

133. *See, e.g.*, Library Publ'ns, Inc. v. Med. Econ. Co., 548 F. Supp. 1231, 1233–34 (E.D. Pa. 1982), *aff'd*, 714 F.2d 123 (3d Cir. 1983).

134. *Id.*

135. *Id.* at 1233.

136. *Id.*

137. *Id.* at 1232.

138. *Id.*

139. *Library Publ'ns*, 548 F. Supp. at 1232.

140. *Id.* at 1233.

141. *Id.* at 1234.

142. *Id.*

In re Patient Education Media, Inc.[143] was an early case which hinted at restraining a licensee's right to transfer, yet critical flaws in the court's interpretation of section 201(d)(2) forced other courts to subsequently reject its holding.[144] There, a debtor licensee obtained a nonexclusive license to use a licensor's copyrighted photographs.[145] When the licensee later filed for Chapter 11 bankruptcy, he attempted to sell the non-exclusive license for use of the copyrighted photographs, though the licensor emphatically opposed the sale.[146] The court held that the debtor licensee could not sell the license because "[t]he federal policy designed to protect the limited monopoly of copyright owners and restrict unauthorized use . . . prevent[ed] the trustee from assigning the nonexclusive license absent the owner's consent."[147] In weighing the opposing policy arguments, the court acknowledged that, "[a]lthough the assignment of the . . . license [would] maximize the assets available to creditors, this goal [had to] give way to the countervailing considerations expressed in § 365(c)."[148] The court concluded that on this basis, the debtor licensee could not assign his nonexclusive license without the licensor's consent.[149]

Gardner and other related cases do not discuss the court's holding in *In re Patient Education Media* because of a critical flaw in its reasoning.[150] The central mistake in the court's logic was its misstatement of 17 U.S.C. § 201(d)(2) as granting an exclusive licensee all "*rights* and protections" of the copyright owner to the extent of the license;[151] the Act's actual language grants the licensee all "protection[s] and *remedies*" of the copyright owner.[152]

The Second Circuit finally solidified its support of *Gardner* in the 2002 case *Ward v. National Geographic Society*.[153] There, plaintiff photographer sued National Geographic Magazine and its sublicensed computer software companies for selling digital archives of all past issues of the magazine on CD-ROM and DVD.[154] The plaintiff had worked as a freelance photographer and writer for National Geographic from 1964 to 1978,

143. 210 B.R. 237 (Bankr. S.D.N.Y. 1997).
144. *See, e.g., Gardner*, 110 F. Supp. 2d at 1287 n.4.
145. *In re Patient Educ. Media, Inc.*, 210 B.R. at 239.
146. *Id.* at 240.
147. *Id.* at 242.
148. *Id.* at 243.
149. *Id.*
150. *See, e.g., Gardner*, 110 F. Supp. 2d at 1297 n.4.
151. *In re Patient Educ. Media, Inc.*, 210 B.R. at 240 (emphasis added).
152. 17 U.S.C. § 201(d)(2) (emphasis added).
153. 208 F. Supp. 2d 429 (S.D.N.Y. 2002).
154. *Id.* at 431–33.

during which time the parties infrequently memorialized the terms of their agreements in writing.[155]The case hinged on Ward's ownership of the valid copyrights, a tall order given that Ward's engagement resembled work for hire.[156] The court for the Southern District of New York found that the presumption arose that National Geographic owned the copyright in the photographs on the work for hire rationale.[157] However, Ward rebutted National Geographic's argument by establishing "a genuine issue of fact regarding the existence of an . . . implied agreement to the contrary."[158] First, Ward testified that it was regular custom and practice during the 60's and 70's for magazines to hire photographers for "one-time rights," remarking that he had done "thousands of assignments under these conditions."[159] What the court found particularly convincing was the testimony of Robert Gilka, a former director of photography at National Geographic who gave Ward his assignments during the period of time in question.[160] Gilka testified that the rate National Geographic paid to Ward was not the typical amount it would have had to pay "in order to obtain 'all rights'" in his work, and that the magazine "was not interested in and therefore did not acquire the copyright to the [freelancer's] works."[161] The court also relied on evidence produced by Ward showing that National Geographic repeatedly paid Ward to reuse his work.[162] Although there were certain admissi-

155. *Id.* at 431. Some of plaintiff's assignments were put into writing, but the terms rarely specified who retained the rights to the photographs, and whether those rights were exclusive or not. *Id.* at 433–34.

156. *Id.* at 435. To establish a prima facie case for copyright infringement, a plaintiff must establish (1) ownership of a valid copyright, and (2) copying. *See* 3 NIMMER, *supra* note 24, § 13.01, at 13-5 & n.5 (2003) (citing Reyher v. Children's Television Workshop, 533 F.2d 87, 90 (2d Cir. 1976)).

157. *Ward*, 208 F. Supp. 2d at 437. "Once it is established that a work is made for hire, the hiring party is presumed to be the author of the work. That presumption can be overcome, however, by evidence of a contrary agreement, either written or oral." Playboy Enters., Inc. v. Dumas, 53 F.3d 549, 554 (2d Cir. 1995). "At trial, the burden is on the independent contractor to demonstrate by a preponderance that such a contrary agreement was reached." *Ward*, 208 F. Supp. 2d at 435–36.

158. *Ward*, 208 F. Supp. 2d at 437. "Under New York law, '[a]n implied-in-fact contract arises in the absence of an express agreement, and is based on the conduct of the parties from which a fact-finder may infer the existence and terms of a contract.'" *Id.* (citing AEB & Assoc. Design Group, Inc. v. Tonka Corp., 853 F. Supp. 724, 731 (S.D.N.Y. 1994)). Plaintiff Ward based the contract formation on the proposition that an implied-in-fact contract may be based on industry custom. *See* Boyle v. Stephens Inc., 1998 U.S. Dist. LEXIS 15215 (S.D.N.Y. Sept. 28, 1998).

159. *Ward*, 208 F. Supp. 2d at 438.

160. *Id.* at 439–40.

161. *Id.* at 439.

162. *Id.* at 440. The court mentioned that it was unusual that defendants would pay Ward to reuse work in which they claimed ownership. *Id.*

bility problems with Gilka's testimony, the court finally held in the plaintiff's favor, granting partial summary judgment as to liability regarding his copyright infringement claim.[163] The *Ward* court specifically expressed its support of *Gardner*, stating that the court agreed with the Ninth Circuit that the preferred policy was "to place the burden on the licensee to get the licensor's explicit consent during or after contract negotiations."[164]

IV. DISCUSSION

The dispute over a licensee's ability to sublicense under the 1976 Act still may not be fully resolved. The Second Circuit in *Ward* acknowledged that consent was required under the 1909 Act: "it is difficult to see how a license under the 1909 Act has anything other than a personal right."[165] Courts have not been so bold in promulgating a policy under the 1976 Act.[166] *Gardner* was the court's first big step in establishing a rule that strikes an appropriate balance between economic incentives and public access.[167] Nevertheless, harsh criticism continues to be expressed by individuals who support an expansive interpretation of copyright licensing.[168]

A. Choice of Law: Federal or State?

One commentator disagrees not only with policy arguments in favor of licensors, but also with the choice of law governing license agreement cases. Aaron Xavier Fellmeth has written an extensive article in the *Virginia Journal of Law and Technology* concerning an exclusive licensee's right in a copyright transfer.[169] Fellmeth maintains that the purpose of federal intellectual property law is not to promote an inherent property right of the creator,[170] and he criticizes courts who have allowed copyright owners to "reach out beyond the grave," essentially "strangling [sic] statutory or

163. *Id.* at 439–41. Gilka was not competent to testify regarding the state of mind of National Geographic due to his lack of personal knowledge regarding the magazine's interests. *Id.* at 439–40. Additionally, Gilka's statements that National Geographic did not acquire rights to certain photographs was inadmissible hearsay. *Id.* In spite of these problems, the assertions were fairly admitted on the basis of being construed as evidence of Gilka's knowledge of the industry custom Ward referred to in his testimony. *Id.*

164. *Id.* at 442 (quoting *Gardner*, 279 F.3d at 781).

165. *Ward*, 208 F. Supp. 2d at 442.

166. *See* Gardner v. Nike, Inc., 279 F.3d 774, 780–81 (9th Cir. 2002).

167. *Id.*

168. *See* Fellmeth, *supra* note 70, at 4–6.

169. *Id.* at 9.

170. *Id.* at 10.

common law rights of licensees."[171] The crux of Fellmeth's argument, however, is that state rather than federal law should have been applied in *Gardner* and other licensing cases.[172] State common law rights concerning copyright law were significant prior to the 1976 Act as a result of outdated federal copyright regulation.[173] Under the Supremacy Clause, once the 1976 Act became effective, all conflicting state laws were preempted.[174] In his article, Fellmeth argues that there is no state law that clearly conflicts with federal policy, and therefore no preemption.[175] However, the 1976 Act contains a provision that explicitly allows federal law to preempt pertinent state law.[176] A thorough rebuttal to these contentions would reach beyond the scope of this article, but it suffices to say that since 1976, courts have applied federal rather than state law to cases regarding copyright licensing.[177]

Opponents to *Gardner*, including Fellmeth, tend to blur the lines of distinction between a license and an assignment. Maintaining a definitional separation between these terms is critical, since it is presumed that a copyright claimant's reason for granting a license, rather than an assignment, is to retain some rights in the copyright.[178] Licensors argue that, at a minimum, they retain some control over further sublicensing of the granted rights.[179] Neither the 1976 Act nor the Legislature has specifically articulated the scope of the interest, if any, that the licensor retains after an exclusive license is granted.[180]

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171. *Id.*

172. *Id.* at 33.

173. *See generally id.* at 10.

174. U.S. CONST. art. VI, § 2 states:

> This Constitution, and the Laws of the United States, which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

See also 17 U.S.C. § 301 (2000) (describing the federal preemption with respect to other laws).

175. Fellmeth, *supra* note 70, at ¶¶ 29-34. The author believes that Congress intentionally limited the Copyright Act to very restrictive provisions regarding copyright licensing in order for state law to fill in these gaps. *Id.*

176. KELLER & CUNARD, *supra* note 56, § 1:3.2.

177. *See, e.g.*, Gardner v. Nike, Inc., 279 F.3d 774, 777–78 (9th Cir. 2002).

178. *See Ward*, 208 F. Supp. 2d at 442.

179. *See generally* Fellmeth, *supra* note 71, at 9–10, 12.

180. *See generally*, Copyright Act of 1976, Pub. L. No. 94-553, 90 stat. 2541 (codified as amended in scattered sections of 17 U.S.C.).

B. Legitimacy of Contemporary Copyright Policy

It is not unreasonable to limit a licensee's treatment of his interest in a copyright. Requiring a licensee to obtain consent from the licensor to sublicense the copyright is both logical and fair. From the inception of copyright law, one of the central purposes of copyright protection was to enable creators of intellectual property to guard and control their interests.[181] It is unjustifiable to assume that, in the absence of explicit language regarding sublicensing, the default rule compels a licensor to essentially lose all ability to steer the direction of the interest. The most obvious problem would arise in a situation where a license is granted for a specific duration, whereby the interest reverts back to the licensor at its conclusion. The original copyright owner clearly has an interest in the means a licensee employs to exploit the copyright during that limited term of the license.

In re Patient Education Media presents a similar situation that would disadvantage a licensor, assuming an exclusive license is the functional equivalent of an assignment.[182] Had the bankruptcy creditors been able to claim the copyright licensee's copyright interests, the licensor may have seen his interest pass on to an unknown third party who was likely indifferent to the licensor's intentions. The situation in *Ward* further demonstrates the harmful ramifications that can arise when licensors are not consulted in decisions regarding the copyright.[183] The defendant in *Ward*, a sublicensee CD-ROM distributor called Mindscape, drafted an initial copyright notice which stated that the product contained "clipart and photo images" that the consumer was "free to use, modify and publish . . . as you wish."[184] The wording of this notice was only modified after National Geographic asserted it had not authorized the language, and that Mindscape was responsible for rectifying the situation.[185] One can only imagine how devastating the original notice would have been to Ward's career; virtually all of his most prized work would have been released to the public, who could have had unrestrained use of his photographic portfolio. Clearly, the licensor potentially has much more at stake than the licensee; simply inferring licensor indifference from the absence of express language regarding sublicensing

181. *See* H.R. REP. NO. 94-1476, 94th Cong., 2d Sess. 123, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5660.

182. *In re* Patient Educ. Media, Inc., 210 B.R. 237 (Bankr. S.D.N.Y. 1997).

183. *See Ward*, 208 F. Supp. 2d at 442–43.

184. *Ward*, 208 F. Supp. 2d at 433 n.15. The final approved notice informed end-users that "Mindscape and its suppliers grant you the right to use one copy of the Program for your personal use only" and that "[y]ou must treat the [p]rogram and associated materials and any elements thereof like any other copyrighted material." *Id.* at 433.

185. *Id.* at 433 n.15.

would initiate damaging implications for copyright licensors.[186]

The argument that the licensor should have included specific language in the agreement regarding consent before sublicensing may be reasonable, but it does not justify the resulting situation in absence of such language. By definition, licensors retain some interest in the copyright,[187] otherwise, the copyright owners would have granted an assignment, not a license. In *Ward*, the Court agreed with the Ninth Circuit that "there are strong policy reasons to place the burden on the licensee to get the licensor's explicit consent either during or after contract negotiations."[188]

Licensees should shoulder the responsibility to include specific language in an agreement that allows unrestrained sublicensing of the copyright. Critics of *Gardner* have argued that there was an implied "expectation" in the original agreement that Sony would sublicense the copyright in order to efficiently exploit MC Teach.[189] The inference was apparently due to prior dealings and business practices.[190] It is not enough to have an "expectation" that certain elements will likely be exploited through other channels. If sublicensing is contemplated at the time the contract is formed, the licensee must explicitly include such terms, rather than rely on an assumed expectation of the other party's intent.[191]

Critics have claimed that licensors are only concerned with receiving royalties for the exploitation of the copyright, and are not interested in how the money is earned, just that they receive the minimum compensation by the deadline established contractually with the licensee. While this approach may prove true in some cases, the nature of the licensor's interest depends on the type of copyrighted material being granted and his personal attachment to it. An individual artist, such as the plaintiff in *Leicester,* arguably has more of a vested, personal concern for the copyright's use.[192] On the other hand, one may assume that Nike would have only been concerned with receiving its royalties, and presume that the means by which

186. *Id.* at 442–43.

187. *Id.* at 441.

188. *Id.* at 442 (quoting *Gardner*, 279 F.3d at 781). The court in *Gardner* mentioned "the necessity to preserve the rights and control of the owners and creators." *Gardner*, 279 F.3d at 781.

189. *See* Fellmeth, *supra* note 71, at 8–9.

190. *See id.*

191. *Ward*, 208 F. Supp. 2d at 442; *see also Gardner*, 279 F.3d at 781.

192. This line of reasoning loosely reflects a "natural rights" rhetoric, which justifies recognizing property rights in works of authorship "based on the rights of authors to reap the fruits of their creations, to obtain rewards for their contributions to society, and to protect the integrity of their creations as extensions of their personalities." *See* JOYCE ET AL., *supra* note 19, § 1.06(C)(1).

Sony obtained Nike's payments was immaterial. This assumption proved incorrect, as seen by Nike's disapproving reaction to Sony's sublicensing to Gardner.[193] In any case, one cannot assume that royalties are the only concern of all copyright licensors. Copyright owners, in general, do not share a uniform position regarding royalty collection that would rationalize such an argument.[194]

Even if a licensor's only interest was to secure her share in collecting royalties, this is a legitimate interest that the copyright claimant is entitled to protect.[195] The *Harris* case addressed this point, indicating that the grantor of a license reserved the right to collect royalties, and that "his ability to monitor use would be jeopardized by allowing sublicensing without notice."[196] The court in *Ward* warned that "copyright owners who grant nonexclusive licenses might find themselves involuntarily competing with their own licensees for future licensing opportunities if sublicensing were permitted without permission." [197]

C. *Implications of Licensee Consent: How Does Gardner Affect Copyright Law?*

The implications of *Gardner* go beyond the facial policy issues in the case, delving into important concepts that lie at the core of copyright law. The court in *Gardner* supported the notion that the scope of a copyright license should be limited to those rights which are specifically stated in the parties' agreement.[198] It follows that a license "includes only such uses as fall within the unambiguous core meaning of the term . . . and exclude any uses that lie within the ambiguous penumbra."[199] While this restrictive approach may be unpopular among contemporary scholars,[200] such a construct furnishes copyright agreements with the certainty and clarity that are essential to all contracts.[201] Other courts beyond *Gardner* have begun to

193. *See generally Gardner*, 279 F.3d 774.

194. *See, e.g., id.* at 776–77; *Leicester*, 232 F.3d at 1215.

195. By granting a license rather than an assignment in copyright, a copyright owner reserves certain rights, including, in some cases, the right to collect royalties. *See Ward*, 208 F. Supp. 2d at 442.

196. Harris v. Emus Records Corp., 734 F.2d 1329, 1334 (9th Cir. 1984); *see also Ward*, 208 F. Supp. 2d at 442.

197. *Ward*, 208 F. Supp. 2d at 442–43.

198. *Gardner*, 279 F.3d at 781.

199. Boosey & Hawkes Publishers, Ltd. v. Walt Disney Co., 145 F.3d 481, 486 (2d Cir. 1998).

200. *See id.* at 487.

201. *See generally* ARTHUR L. CORBIN, CORBIN ON CONTRACTS § 4.1 (Revised edition, 1993).

support this view in their recent decisions.[202] Theoretically, the debate over the licensee's right to transfer can be summarized by the two approaches mentioned in Part III regarding the scope of a license: the strict textual reading of the statute versus the ambiguous penumbra of rights.

Courts and commentators have fallen on both sides of the issue regarding statutory interpretation. Some prefer the latter approach as opposed to the strict textual standard, which, they say, would unduly burden licensees by requiring them to obtain further clarification on the meaning intended in the license.[203] Both camps recognize that flexibility is necessary when technological advances create new mediums of exploitation for a copyright.[204] But a line must be drawn when contract interpretation extends beyond the scope of the language. In the words of the Second Circuit, "[T]he burden still falls on the party advancing a deviation from the most reasonable reading of the license to insure that the desired deviation is reflected in the final terms of the contract."[205] That statement specifically addressed whether the reasonable reading of the defendant's license extended to uncontemplated future technology.[206] The court's opinion is an extension of the restrictive approach, further illustrating the judiciary's recent hesitation to infer contract meaning outside of enumerated terms.[207]

Despite the contract's silence on the issue, when applying this concept, a reading of a license that promulgates no required consent by the licensor is "a deviation from the most reasonable reading."[208] It follows that the burden should fall on the licensee, who is advancing such a deviation, to insure that his desired meaning is reflected in the license's final terms. The restrictive approach should be utilized for all other circumstances to

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202. *See Ward*, 208 F. Supp. 2d 429.

203. *See Boosey & Hawkes Publishers, Ltd.*, 145 F.3d at 488.

204. The Second Circuit reiterated this concept, stating that "if the broad terms of the license are more reasonably read to include the particular future technology in question, then the licensee may rely on that language." *Id.*

205. *Id.*

206. *See id.* The court's final decision urged clarity in defining contractual terms concerning potential future uses:

> By holding contracting parties accountable to the reasonable interpretation of their agreements, we encourage licensors and licensees to anticipate and bargain for the full value of potential future uses. Licensors reluctant to anticipate future developments remain free to negotiate language that clearly reserves the rights to future uses. But the creation of exceptional principles of contract construction that places doubt on the capacity of a license to transfer new technologies is likely to harm licensors together with licensees, by placing a significant percentage of the profits they might have shared in the hands of lawyers instead.

Id. at 488 n.4.

207. *Gardner*, 279 F.3d at 781.

208. *Boosey & Hawkes Publishers, Ltd.*, 145 F.3d at 488.

promote clarity in the license agreement. The intent of the parties should be fully reflected by the copyright agreement, except in cases of implied collateral rights that are incorporated in a copyright grant.[209] Adopting the strict textual approach promotes retaining leverage in the copyright claimant. This, in turn, supports this paper's thesis that the licensee does not acquire an absolute and unconditional entitlement in the copyright.

D. Criticism of Gardner

Critics of *Gardner* have attacked the court's holding and argued that alternative approaches should have been utilized by the court. None of these arguments is convincing, however. The *Gardner* court should be commended for boldly initiating a now-accepted copyright policy.

Commentators disagree with *Gardner*'s default sublicensing policy that puts sublicensing control in the hands of the licensor.[210] Had state law been applied by the court in *Gardner*, this default position would have likely shifted to the licensee since the agreement was silent as to the sublicensing issue.[211] This argument is flawed for two reasons. First, the court has clearly established that federal law preempts state law in matters of copyright.[212] Second, by allowing such "flexibility" to seep into licensing policy, courts would be conferring untenable rights upon licensees while unjustifiably exposing licensors' reputations to possible "scandal . . . or improper use," subject to the behavior of the licensee.[213] It is not burdensome to retain the established default rule, which simply requires parties to include boilerplate language to free the licensee from necessarily obtaining licensor permission before sublicencing, should they agree to such a term.

Critics of *Gardner* have suggested amending the Copyright Act in order to "better clarify its meaning."[214] Some go so far as to suggest changing the language of 17 U.S.C. § 201(d)(2) by adding "ownership rights" to the "protections and remedies" language.[215] Such "clarity" of the statute is both unnecessary and contrary to the legislature's intent. Drafters of the 1976

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209. 3 NIMMER, *supra* note 24, § 10.10(C). Collateral grants are those interests which must be granted for full enjoyment of the copyright. For example, a license to record a musical work implies the collateral right to distribute and sell such records. *Id.*

210. *See* Kate Williams, *Gardner v. Nike*, 18 BERKELEY TECH. L.J. 371, 386 (2003).

211. *See Gardner*, 279 F.3d at 780.

212. *See* discussion *supra* Part IV.A.

213. Williams, *supra* note 210, at 387.

214. *Id.* at 390.

215. 17 U.S.C. § 201(D)(2) (enumerating what rights the legislature confers to exclusive licensees); Williams, *supra* note 210, at 390 (suggesting the addition of the "ownership rights" language to 17 U.S.C. § 201(D)(2)).

Act could have granted broad ownership rights to licensees if that was their intent—they did so in other sections[216] and intentionally narrowed the scope of the right bestowed by section 201(d)(2). Additionally, the courts have already determined that their interpretation of section 201(d)(2) does not include the broad ownership rights that these suggested language changes would allow. It is not necessary to change the law if courts have spoken to clarify the issue. In the present case, the two leading entertainment circuits—the 9th Circuit and the 2nd Circuit—have been vocal in definitively limiting a licensee's right to sublicense.[217] It is therefore unnecessary to amend what the courts consider a resolved, moot point.

E. Promoting and Protecting New Technology

New technology has posed novel questions to lawmakers regarding copyright law.[218] Specifically, technological developments that allow reproduction of copyrighted material by easy, inexpensive means have created problems for owners of copyrighted material.[219] The Digital Millennium Copyright Act of 1998 (DMCA) was drafted to bring the Copyright Act up to date with technological developments.[220]

Several DMCA provisions enabled copyright owners to better protect their interest by utilizing new technology to outlaw certain technological advances that individuals have used to pirate intellectual property.[221] For instance, the DMCA prohibits individuals from circumventing technical measures that copyright owners had used to both (1) limit access to a work and (2) prevent its unauthorized reproduction.[222] Requiring consent in sublicensing echoes this policy and promotes the development and protection of new technology.[223] A balance is retained between the public's access to information, inventions, and art on one hand, and the need to grant creators the incentive to continue to produce works on the other. This effectively rewards the "beneficent efforts of genius" and encourages the useful arts

216. *Cf.* 17 U.S.C. § 103(b) ("The copyright in such [compilation or derivative] work is independent of, and does not affect or enlarge the scope, duration, *ownership*, or subsistence of, any copyright *protection* in the preexisting material." (emphasis added)).

217. *See Gardner*, 279 F.3d at 776; *see also Ward*, 208 F. Supp. 2d at 442.

218. 3 NIMMER, *supra* note 24, § 10.10(B).

219. *See* Hitchcock & Needleman, *supra* note 14, at 541.

220. *Id.* at 542.

221. KELLER & CUNARD, *supra* note 57, § 1:3.8.

222. *Id.* Such allowed technical measured included encryption that conditioned access to certain areas, and encryption or other measures that limit the right to use a work. *Id.*

223. *See Gardner*, 279 F.3d at 781.

without compromising public access to these ideas.[224] Inventors, artists, and other creators of new technology require statutory assistance to enable them to effectively protect their products.[225] The consent requirement for licensees will serve as another tool to aid licensors in protecting their work,[226] which will, in turn, foster continued technological progress as opposed to stifling copyright development.[227] Much has been written both supporting and criticizing the DMCA since it went into effect in 1998, and further challenges will undoubtedly arise as technology continues to evolve.[228]

In the end, a licensor has an intangible, yet significant, future interest in his granted copyright. Because a licensor always retains this interest, a licensee, even in the case of an exclusive license, always obtains a qualified right to transfer.[229] The licensee is not entirely denied of the right to transfer; rather, the right is merely limited, contingent upon the consent of the licensor.[230]

F. Alternative Approaches to License Analysis

Though the courts have seemingly resolved the issue of consent in exclusive licensing,[231] this may not be the end of the story. The current approach employed by the judiciary to analyze this issue may be flawed.[232] Courts may want to consider one of the following alternative frameworks to truly resolve this problem. A solution that may appease both licensors and licensees would be to divide copyright licensing schemes into categories according to the function of the property interest in question. The rights granted would be tailored to the needs of the parties, who could thereafter modify the terms further in negotiations. The purpose of the categories would be to start the parties off in a position most practical for their needs, rather than using one licensing scheme as a panacea for all licenses.

Rather than attempting to develop one overlying rule, lawmakers

224. Patterson v. Kentucky, 97 U.S. 501, 508–09 (1878).

225. *See Gardner*, 279 F.3d at 781.

226. *See* Ward v. Nat'l Geographic Soc'y, 208 F. Supp. 2d 429, 442–43 (S.D.N.Y. 2002).

227. *See generally* JOYCE ET AL., *supra* note 19, § 1.03(B).

228. A comprehensive discussion of copyright protection in the digital age and the ramifications of the Digital Millenium Copyright Act of 1998 can be read in Hitchcock & Needleman, *supra* note 14.

229. The appropriate analogy is that the licensor obtains part of the "stick" representing the right to transfer within the bundle of sticks.

230. *See* 17 U.S.C. § 201(d)(1).

231. *See generally Gardner*, 279 F.3d 774; *see also Ward*, 208 F. Supp. 2d at 429.

232. *See* discussion *supra* Part III.

could identify each work by the nature of the use so that the language could be customized to fit the most logical applications to each term. If the contract fell into a category that necessarily required consent by the licensor for sublicensing, then the court would approach the dispute from such a framework. Conversely, an entire industry may for all practical purposes intuitively regard sublicensing as a conferred right to exclusive licensors. This categorizing process would be time-consuming and would initially cause added confusion to the debate, but the final result may be worth the effort. The law has systematically altered as a result of the continual development of new uses for licensed material.[233] Retaining the original basis for granting rights is outweighed by current needs for use-specific legislation.[234]

Another practical solution may be for courts to develop an alternative approach to analyzing exclusive licenses. In fact, a shift in the theoretical structure may ultimately lead courts to the conclusion that the decisions of *Leicester* and *Gardner* were reconcilable. Courts presented with the question of whether consent is necessary in a licensing case could apply a multifactor test to conclude whether requiring consent is actually logical. Possible factors for the court to consider are (1) the type of copyright license granted, (2) the extent of the right in copyright conferred, (3) the course of dealing and course of performance of the parties, and (4) sophistication of the parties. Had this test been utilized, the Ninth Circuit may have concluded that, considering the totality of the circumstances, consent was required in *Gardner*, but not in *Leicester*.[235] This approach would not conflict with the current Copyright Act, which is silent on the issue and therefore does not prohibit multiple analyses of different circumstances under the same issue.[236] A test such as this makes sense in the current technological environment, which may require additional nuances to an increasingly complex area of law.

V. CONCLUSION

Neither the 1909 Act nor the 1976 Act explicitly address an exclusive licensee's right to transfer, and very little precedent or commentary exists regarding this topic.[237] Until recently, a shift away from requiring consent

233. *See* Kang & Yang, *supra* note 1, at 366.

234. *See id.* at 366–67.

235. *See Gardner*, 279 F.3d 774; *see also* Leicester v. Warner Bros., 232 F.3d 1212 (2000).

236. *See* discussion *supra* Part II.A.

237. *See* Copyright Act of 1909, Pub. L. No. 60-349, 35 Stat. 1075 (1909); *see also* Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified as amended in scattered 17

seemed to be developing.[238] An audible constituency began voicing its support of permitting sublicenses without the licensor's consent, and for some time the courts agreed.[239] However, in the past few years, the courts have begun to align in favor of requiring express licensor consent.[240] Recent decisions have retained both the explicit text of the 1976 Copyright Act and significant policy arguments in favor of promoting new technology.[241] This

U.S.C.).

238. *See Licensee May Not Transfer Exclusive Rights Without Licensor's Consent Under 1976 Act*. BNA's Intellectual Property Professional Center, PATENT, TRADEMARK & COPYRIGHT JOURNAL (2003) *at* http://ipcenter.bna.com/pic2/ip.nsf/c9136ec2a0a6115985256a0f0012e350/dc5b00ed293e395785256cc3004e3a7d?OpenDocument&Highlight=2,licensee (last visited Feb. 2, 2003).

239. *See* Leicester v. Warner Bros., 232 F.3d 1212, 1213 (9th Cir. 2000).

240. *See generally* Gardner v. Nike, 279 F.3d 774 (2002); *see also* Ward v. Nat'l Geographic Soc'y, 208 F. Supp. 2d 429 (2002).

241. *See generally Gardner*, 279 F.3d 774.

approach is consistent with both the statutory language and sound policy. Courts may conclude that an alternative approach should be applied in future cases. However, as it stands, the current controversy regarding the scope of a licensee's right to transfer a copyright has been finally and accurately resolved.

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