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GARDNER V. NIKE

By Kate Williams

The goal of U.S. copyright law has always been to promote the “useful arts” by striking a comfortable balance between providing authors and creators with enough incentive to create, while at the same time not stifling creativity through oppressive ownership regimes. Before the Copyright Act of 1976 (“1976 Act”), judges and legislators attempted to accomplish this goal through the “doctrine of indivisibility.” The doctrine allowed creators to license their works to others in the hopes of more fully exploiting their works, but the doctrine did not give licensees full ownership rights. Over time, as the nature of many copyright industries changed, licensees’ lack of ownership status began to cause both legal and practical problems. By the mid-1970s, legislators recognized the need to abolish the doctrine of indivisibility and with passage of the 1976 Act, arguably provided exclusive licensees with full ownership rights. In the past year, however, the Ninth Circuit’s decision in Gardner v. Nike has once again opened the issue of ownership rights of exclusive licensees.

Gardner is both an important and problematic decision. Gardner held that under the 1976 Act, owners of exclusive licenses cannot assign or sublicense copyrighted works to third parties without permission from the owners of their copyrights. It does not deny exclusive licensees the right to retransfer their works, but rather sets a default rule that forces licensees to bargain with licensors for the right to retransfer. Unfortunately, after

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1. See Gardner v. Nike, 279 F.3d 774, 781 (9th Cir. 2002); See generally ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 12-18 (2000) [hereinafter MERGES, ET AL.] (discussing the economic incentives to create and invent intellectual property).

2. See generally 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 10.02[A] (2002) [hereinafter NIMMER] (discussing recognition of “the principle of divisibility” with regard to exclusive licensees under section 201(d)(2) of the 1976 Copyright Act).


4. Id.; See generally David Halberstadter & Katherine McDaniel, Copyright Licensee Must Have Owner’s Approval to Sublicense, L.A. DAILY J., Mar. 22, 2002 [hereinafter HALBERSTADTER] (discussing the Gardner court’s ruling requiring consent from copyright owners by licensees wishing to sublicense copyrighted material).

5. Gardner, 279 F.3d at 781.

6. See Exclusive Copyright Licensees May Not Sub-License or Assign Their Rights Without Copyright Owners’ Consent, Federal Court of Appeals Affirms, So Nike’s Exclu-
The passage of the 1976 Act, many in the entertainment industry assumed that this default rule operated to the contrary.\textsuperscript{7} Creators and licensees in the entertainment industry signed countless license agreements after 1978 that said nothing about the retransfer rights of licensees.\textsuperscript{8} Because the entertainment industry is headquartered under the jurisdiction of the Ninth Circuit, \textit{Gardner} will have a profound effect on exclusive licensees in the entertainment industry.

The implications of \textit{Gardner} to the entertainment industry would not be so troubling if the decision itself stood on firmer legal ground and was better aimed to achieve Congress' policy goals. Instead, it will likely disrupt business in the entertainment industry where instability might have been avoided. While \textit{Gardner} clarifies the ownership status of an exclusive licensee, it does so in a way that undermines the purposes of copyright law. The decision misreads the statute, it ignores prior decisions, and it improperly analogizes to patent law. The decision also operates under the false assumption that federal copyright law must decide the case, when state contract law would better govern the issue. These considerations suggest that the United States Supreme Court should grant certiorari and correct this decision, or else Congress may need to revisit the issue and amend the 1976 Act.

This paper will look first at the background for the decision, tracing the origins of the doctrine of indivisibility from early common law through the Copyright Act of 1909 ("1909 Act") until its partial abolishment under the 1976 Act. Then it will describe how the \textit{Gardner} decision partially revives the doctrine. The paper will demonstrate how this partial preservation of the doctrine undermines the purposes of copyright law and is not good law. Finally, the paper will discuss the effect of the decision on the entertainment industry and suggest possible future courses of action that might remedy the problems created by \textit{Gardner}.

\textsuperscript{7} See generally e-mail from Lon Sobel, Attorney, Entertainment Law Reporter, to Peter S. Menell, Professor of Law, University of California, Berkeley 2 (Aug. 24, 2002, 10:28 AM) (on file with author) (hereinafter \textit{SOBEL}) (discussing how for many years a large number of deals in the entertainment industry made no mention of assignability and this leaves many distributors vulnerable to challenges of invalid copyright transfers); see generally \textit{HALBERSTADTER}, supra note 4 (discussing how exclusive licensors in the motion picture, software, advertising and merchandising industries "may well have intended the licensee to have the ability to sublicense or assign certain rights to others [and] the inability to do so may even undermine the very purpose of the agreement").

\textsuperscript{8} \textit{SOBEL}, supra note 7, at 2.
I. BACKGROUND

To critique the Gardner decision, it is first necessary to understand the doctrine of indivisibility. U.S. copyright law seeks to promote the arts by providing artists with the impetus to create, but at the same time not squelch, the creative process with overly burdensome ownership rules. To further this goal, judges in the United States in the early part of the twentieth century developed the "doctrine of indivisibility." According to this doctrine, the author of a work was entitled to a single copyright, which included a bundle of rights that could not be divided or assigned in parts. The transfer of anything less than the entire bundle constituted a license rather than an assignment and licensees did not enjoy the full rights of a copyright proprietor. Judges looked to early English copyright law and an American patent case as the basis for the doctrine.

A. The Doctrine of Indivisibility Under the Copyright Act of 1909

The doctrine of indivisibility first entered into U.S. statutory copyright law in the 1909 Act. Under the 1909 Act, the doctrine operated to protect alleged infringers from harassment by successive lawsuits. Because the licensor remained the copyright proprietor, only she could sue potential infringers. This created problems in some cases for owners of exclusive licenses who could not protect their property interests. Over time, the rules were revised such that exclusive licensees could bring infringement suits as long as they were joined by the copyright proprietor in the suit. But the distinction between an assignment and a license under the 1909 Act still meant that only assignees, not licensees, could resell or sublicense their rights unless a contract stated otherwise.

9. See Gardner, 279 F.3d at 778 (citing Harris v. Emus Records Corp., 734 F.2d 1329, 1334 (9th Cir. 1984)).
10. See generally Nimmer, supra note 2, at § 10.01[A] (discussing the roots of the concept of "indivisibility" of copyright).
12. Nimmer, supra note 2, at § 10.01[A].
15. Nimmer, supra note 2, at § 10.01[A].
16. Id.
17. Id. at § 10.01[C][4].
As technological advances changed the nature of many artistic industries, the doctrine of indivisibility began to hinder new artistic industries. When legislators wrote the 1909 Act, they mainly wished to protect the right of reproduction. At that time, the primary value of a book was in the right to publish. As the motion picture industry developed, book authors could derive more money from the sale of a novel’s motion picture rights than its book rights. Likewise, more money could be made recording and performing songs than selling copies of sheet music. The term “copyright” came to encompass a broad range of separately marketable rights as television, legitimate stage productions, phonograph records, motion pictures, and performing rights societies emerged. The doctrine of indivisibility began to hinder rather than encourage the development of these new artistic industries because the doctrine would not allow copyright owners to assign separate rights to different assignees depending upon who was in the best position to exploit each particular right. As a result, a more formal revision of the doctrine became necessary.

B. Revision of the Doctrine of Indivisibility under the Copyright Act of 1976

When legislators revised the 1909 Act in the 1970s, they recognized many of the problems caused by the doctrine of indivisibility in the 1909 Act. It is not entirely clear, however, how far Congress intended to proceed in overhauling the doctrine. In the 1976 Act, legislators defined a “transfer of copyright ownership” to include both an assignment and an exclusive license, “whether or not it was limited in time or place of effect,” but not a nonexclusive license. In § 201(d)(2) of the Act, Congress also provided that “the owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.” In the same section of the 1976 Act, legislators provided that “any of the exclusive rights comprised in a copyright, including any subdivision of the rights specified in section 106,” could be divided.

18. See id. at § 10.01[A].
19. Id.
20. Id.
21. Id.
22. Id.
23. Id.
26. Id.
to replace the doctrine of indivisibility with a more general policy of divisibility.27

This general policy of divisibility clarified many rights for exclusive licensees under the 1976 Act, but left others open for question. For instance, owners of exclusive rights now had standing to sue in their own name so long as they sued for infringement of the particular right that they had been granted.28 Unfortunately, the 1976 Act did not clarify the law on the issue of the right of an exclusive licensee to transfer or sublicense an exclusive license. The 1976 Act gave exclusive licensees the "protection and remedies" of a copyright proprietor.29 Courts and scholars disagree, however, about whether the "rights" of copyright are included in the protection and remedies.

II. CASE SUMMARY

A. Facts and Procedural History

In Gardner, the Ninth Circuit attempted to clarify the law regarding the transfer and sublicensing of exclusive licenses. In the case, Nike, Inc. ("Nike") and Sony Music Entertainment Corporation ("Sony") entered into a licensing agreement in 1992 whereby Nike transferred to Sony the exclusive, perpetual, worldwide rights to use the Nike-created cartoon character, MC Teach in a variety of different copyright-protected ways.30

In exchange for the use of MC Teach, Sony agreed to pay Nike fifteen percent (15%) of the profits earned from the use of MC Teach in merchandise other than records.31 According to the agreement, Nike also owned the copyright in the material and any published copy of the material was to bear the notice: © 1992 Nike, Inc.32 The parties agreed that this was an exclusive license, but the agreement said nothing about whether or not Sony could assign its rights to a third party.33

When Sony assigned all of its rights in the exclusive license to Michael Gardner ("Gardner") on a quitclaim basis in June 1996 and Gardner began use of MC Teach, Nike threatened legal action against Sony, Gardner and Bien Licensing Agency, Inc. ("Bien").34 Gardner and Bien first

27. Gardner, 279 F.3d at 778.
28. Nimmer, supra note 2, at § 10.02[B][1].
30. Gardner, 279 F.3d at 776.
31. Id.
32. Id.
33. Id.
34. Id.
filed a state court suit asking for declaratory relief on a slander of title and intentional interference with economic relations claim.35 Gardner and Bien then agreed to dismiss the two tort causes of action, but left the request for declaratory relief.36 The series of legal actions that ensued included various claims over subject matter jurisdiction with the case eventually landing in the United States District Court for the Central District of California.37 The district court ruled that because the 1976 Act did not allow Sony to transfer its rights under the exclusive license without Nike’s consent, Gardner and Bien did not have a legally cognizable interest in the suit and lacked standing to bring their action.38 Gardner and Bien appealed this ruling, arguing that absent contractual provisions to the contrary, the 1976 Act does allow transfer of rights without the original licensor’s consent.39

B. Ninth Circuit Decision

The Ninth Circuit upheld much of the district court’s decision and ruled that the 1976 Act did not completely abolish indivisibility nor allow for the transfer of exclusive licenses.40 To reach its decision, the Ninth Circuit reviewed the 1909 Act and found that it distinguished between assignees and licensees based upon the doctrine of indivisibility and did not allow for the transfer of either exclusive or nonexclusive copyright licenses.41 The Ninth Circuit emphasized that the doctrine of indivisibility protected alleged infringers from successive legal actions, but caused the problem of licensees lacking standing to sue in infringement actions.42 With regard to transferability, the Ninth Circuit found that the doctrine also struck a balance between the competing interests of “monopolization of works or compositions” and the preservation of the rights of authors and composers that is needed to “stimulate creativity.”43 In reaching its decision, the Ninth Circuit followed its previous holding in *Harris v. Emus Records Corp.*, where the Ninth Circuit looked to the same underlying policy considerations as well as similar rules in patent law and the legisla-

35. *Id.* at 776-77.
36. *Id.* at 777.
37. *Id.*
38. *Id.*
39. *Id.*
40. *Id.* at 781.
41. *Id.* at 777-78.
42. *Id.* at 778.
43. *Id.*
tive history of the 1909 Act to find that a copyright license was not transferable under the 1909 Act.\textsuperscript{44}

The Ninth Circuit recognized that with regard to exclusive licenses, the 1976 Act had “eradicated much of the doctrine of indivisibility.”\textsuperscript{45} According to the Ninth Circuit, § 101 of the 1976 Act includes exclusive licenses but not nonexclusive licenses in the definition of the transfer of copyright ownership, calling “into question the distinctions . . . previously [made] between . . . assignment[s] and . . . exclusive licenses under the doctrine [of indivisibility].”\textsuperscript{46} In addition, § 201(d)(2) of the 1976 Act provides that “any of the exclusive rights . . . in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred . . . and owned separately.”\textsuperscript{47} The court said that this recognizes explicitly, for the first time, statutory authority for the divisibility of copyright.\textsuperscript{48} According to the Ninth Circuit, the 1976 Act thus solved the problem of exclusive licensees not being able to sue for infringement of assigned rights in their own name, but left open the question of whether or not an exclusive licensee could re-sell or sublicense.\textsuperscript{49}

The decision in \textit{Gardner} rested on the appropriate interpretation of 17 USC § 201.\textsuperscript{50} According to the court, when read without § 201(d)(2) but in conjunction with the § 101 definition of transfer of copyright ownership that includes exclusive licenses, § 201(d)(1) might be interpreted to mean that exclusive licensees such as Sony could transfer a fraction ownership without permission from the copyright owner.\textsuperscript{51} However, the language of § 201(d)(2) is more specific than § 201(d)(1) and § 101, and gives owners of exclusive rights only the “protection and remedies” of the copyright owner under the 1976 Act, not the benefits of transferring or sublicensing the copyrights.\textsuperscript{52} The Ninth Circuit therefore held that because Congress

\textsuperscript{44} \textit{Id.} In \textit{Harris}, singer Emmylou Harris brought a copyright infringement action against the record company that purportedly acquired the license to her song through a bankruptcy sale. Harris sued because the record company was releasing her songs without paying her a royalty fee. The U.S. District Court for the Central District of California ruled that a copyright license is not transferable and does not become part of a bankruptcy estate because the licensee does not have full ownership rights in the property. 734 F.2d 1329, 1331-36 (9th Cir. 1984).

\textsuperscript{45} \textit{Gardner}, 279 F.3d at 778.

\textsuperscript{46} \textit{Id.}


\textsuperscript{49} \textit{Id.} at 779.

\textsuperscript{50} \textit{Id.}

\textsuperscript{51} \textit{Id.}

\textsuperscript{52} \textit{Id.} at 780.
did not explicitly address the issue, a copyright licensee does not have the right to transfer its rights under an exclusive license without consent from the owner.\footnote{Id.}

In coming to its decision, the Ninth Circuit addressed modern policy considerations and found them to mirror those stated in \textit{Harris} under the 1909 Act.\footnote{See id. at 780.} According to the court, "placing the burden on the licensee" to obtain the licensor's explicit consent for a transfer in a contract negotiation allowed the copyright owner to "monitor the use of the copyright."\footnote{Id. at 781.} Without this protection for the copyright owner, use of the copyrighted material could be transferred to a sublicensee on the verge of bankruptcy or to a sublicensee who wished to use the copyrightable material in a manner inconsistent with the owner's objectives.\footnote{Id.} The Ninth Circuit held that its interpretation of the 1976 Act reflected its purpose in striking a good balance between the need for free alienability and the necessity to maintain the owners and creators' rights and control.\footnote{Id.}

According to the court, state law also did not govern the case because state contract law in this instance interfered with federal copyright law.\footnote{Id.}

III. DISCUSSION

While the \textit{Gardner} decision clarifies the status of exclusive licensees under the 1976 Act through its partial revitalization of the doctrine of indivisibility, the decision itself stands on shaky legal ground and does not further Congress' policy goals. The major legal flaws in the case stem from the Ninth Circuit's questionable statutory interpretation, disregard of prior decisions, and misguided analogies to patent law. Furthermore, the Ninth Circuit might have easily relied on state contract law to decide the case. Coupled with the negative effects of the decision in the entertainment industry, this suggests that either Congress should amend the 1976 Copyright Act or the U.S. Supreme Court should hear the case.

A. The Ninth Circuit's Questionable Statutory Interpretation

The first major questionable point regarding the \textit{Gardner} decision relates to the Ninth Circuit's statutory interpretation in the decision. When courts look at statutes they examine several factors including the "text,
historical evidence, and the text's evolution." This leads the interpreter to a preliminary view of the statute, which she tests by applying multiple criteria such as "fidelity to the text, historical accuracy, and conformity to contemporary circumstances and values." In this model, judges begin by looking for clear text, but even seemingly clear text can be trumped by the other considerations of historical evidence or the text's evolution. The challenge the Ninth Circuit faced was that neither the text, the historical evidence, nor the text's evolution appears to offer absolutely conclusive evidence as to the ownership status of an exclusive licensee. However, considering all of these elements together, the Ninth Circuit should have decided to abolish the doctrine of indivisibility.

1. Statutory Text

The statutory interpretation in Gardner should begin with an analysis of the statutory text. The first problem in Gardner is that the Copyright Act of 1976 is silent as to the specific rights of exclusive licensees. After looking at the specific words regarding exclusive licensing, judges consider the statute as a whole. The Ninth Circuit held that the more specific words "all of the protection and remedies" in § 201(d)(2) meant that exclusive licensees only possessed the right to bring infringement actions. However, an alternative interpretation of this phrase might be that an exclusive licensee must possess the full rights of ownership because otherwise exercising "all of the protection and remedies accorded to the copyright owner" would be futile. Protection implies the grant of some right

60. Id.
61. See id. ("Each criterion is relevant, yet none necessarily trumps the others. Thus while an apparently clear text, for example, will create insuperable doubts for a contrary interpretation if the other evidence reinforces it, an apparently clear text may yield if other considerations cut against it.").
62. See id. at 354 (The practical reasoning model outlined by Eskridge and Frickey begins "with the prevailing Supreme Court assumption that the statutory text is the most authoritative interpretative criterion. The text is most often the starting point for interpretation, and textual arguments carry the greatest argumentative weight.").
64. See Eskridge, supra note 59, at 355 ("Textual analysis should further consider how the statutory provision at issue coheres with the general structure of the statute, since other provisions in the statute might shed light on the one being interpreted.").
65. Gardner, 279 F.3d at 779-81.
66. See 17 U.S.C. § 201(d)(2); Fellmeth, supra note 63, at ¶ 22.
one can protect.\textsuperscript{67} Therefore, if the 1976 Act gives the exclusive licensee the full right to protect ownership rights, the Act also gives the licensee the actual full ownership rights.\textsuperscript{68} This interpretation reads more consistently with § 201(d)(1)'s statement that full "ownership" of copyright can be transferred in whole or in part.

2. Historical Considerations

Historical considerations further support the abolition of the doctrine of indivisibility. When examining historical considerations, courts look to authoritative historical evidence such as the legislative history of the statute.\textsuperscript{69} Interpreters may then employ the technique of "imaginative reconstruction" when no specific legislative history addresses the issue.\textsuperscript{70} There are two approaches to imaginative reconstruction: one that requires asking what the enacting legislature would have thought about the issue before the court if the legislature did not possess foresight into the future and another that tries to anticipate what the legislature would have done if it could anticipate events that transpired following enactment of the statute.\textsuperscript{71} Legal scholars suggest that as time passes it becomes more important to consider what legislatures would have done if they possessed foresight into the future.\textsuperscript{72}

In \textit{Gardner}, the Ninth Circuit did not directly address the legislative history of the statute, except to state that it disagreed with Nimmer's interpretation of its history. According to Nimmer, the legislative history states that § 201(d)(2) of the 1976 Act provides "explicit statutory recognition of the principle of divisibility of copyright."\textsuperscript{73} The legislature thus abolished indivisibility with regards to exclusive licenses.\textsuperscript{74} The Ninth Circuit, by contrast, argues that because Congress did not "explicitly address the issue in the 1976 Act and [limited the] language of Section 201(d)(2) to 'protection and remedies, ... the law remains" the same under the 1976 Act.\textsuperscript{75}

\begin{itemize}
\item \textsuperscript{67} See Fellmeth, \textit{supra} note 63, at ¶ 22.
\item \textsuperscript{68} See id. ("... by Nike's own admission, even the protection and remedies of 501(b) were rights in a sense. This point seems more semantic than substantive. Is not every protection a right insofar as it is a right to protection?").
\item \textsuperscript{69} Eskridge, \textit{supra} note 59, at 356.
\item \textsuperscript{70} Id. at 357 (citing RICHARD A. POSNER, THE FEDERAL COURTS: CRISIS AND REFORM 286-93 (1985) and Richard R. Posner, Statutory Interpretation—In the Classroom and in the Courtroom, 50 U. CHI. L. REV. 800, 817 (1983) for a more thorough discussion of Judge Posner's technique of "imaginative reconstruction").
\item \textsuperscript{71} Eskridge, \textit{supra} note 59, at 357.
\item \textsuperscript{72} Id. at 357-58.
\item \textsuperscript{73} Nimmer, \textit{supra} note 2, at § 10.02[A].
\item \textsuperscript{74} Id.
\item \textsuperscript{75} Gardner, 279 F.3d at 780.
\end{itemize}
The Ninth Circuit appears to give priority to its textual analysis over an analysis of the legislative history. However, legislative history can weigh against textual analysis, especially in light of varying analysis of the text.\textsuperscript{76}

There are several alternatives to the Ninth Circuit’s analysis that look specifically at Congress’ intent where the legislative history does not specifically address the issue. First, if Congress expressed the unequivocal intent to favor divisibility of copyrights in the 1976 Act, it would be inconsistent with Congress’ intent to maintain the doctrine of indivisibility in the sole instance of an exclusive licensee’s right to transfer and sublicense.\textsuperscript{77} Second, Congress would have stated that it intended § 501(b) rights to be the only protection and remedies conferred on an exclusive licensee if that were the case.\textsuperscript{78} Congress could also have explicitly granted infringement if it wanted to limit the rights granted to an exclusive licensee.\textsuperscript{79} Finally, Congress demonstrated that it intended to maintain the doctrine of indivisibility for nonexclusive licenses because it “expressly excluded nonexclusive licenses from ‘transfer of copyright ownership.’”\textsuperscript{80} Congress’ different language regarding exclusive and nonexclusive license suggests that Congress intended to completely eliminate the doctrine of indivisibility with regards to exclusive licenses under the 1976 Act.\textsuperscript{81}

None of these alternative interpretations of Congress’ intent suppose that the legislature possessed foresight into the future. Even if the Ninth Circuit did not want to use any of these arguments, it might have relied on the second form of imaginative reconstruction whereby it could look at what the legislature would have done had the legislature been able to anticipate events following enactment of the statute. Inasmuch as twenty-four years have passed since the 1976 Act went into effect, it would not have been unreasonable for the Ninth Circuit to examine the negative effects of the statute, in this case on the entertainment industry, and base its

\textsuperscript{76} See generally Eskridge, \textit{supra} note 59, at 355-56 (discussing how “other factors will strongly cut against the apparent meaning of the text” in some instances and when this occurs “the interpreter might reevaluate her belief that the text is really all that clear and...might be willing to override plain meaning to subserve the other important values involved in statutory interpretation”).


\textsuperscript{78} Fellmeth, \textit{supra} note 63, at ¶22.

\textsuperscript{79} \textit{Id.}

\textsuperscript{80} Kang, \textit{supra} note 77, at 373.

\textsuperscript{81} \textit{Id.}
decision to some degree on the fact that Congress surely would not have intended such ill effects.

3. Evolution of the Text and Surrounding Circumstances for the Statute

After examination of the legislative history, the next line of inquiry in statutory interpretation is based upon an evolution of the text and/or surrounding circumstances for the statute. In this line of inquiry, a court looks at "social and legal circumstances not anticipated when the statute was enacted." However, this line of inquiry is not appropriate for Gardner because the revisions in the 1976 Act were themselves in reaction to changing circumstances. For the most part, these changes were technological and business developments in the entertainment industry. The problems that arose stemmed from the assumption of contracting parties that an exclusive licensee could assign and sublicense his or her license. The Gardner decision itself dismantled this assumption. Had the Ninth Circuit ruled in a manner consistent with these contractors’ interpretation of the 1976 Act, there would not be the problems originally overlooked by the legislature.

Current values, such as constitutional values, related statutory policies, and fairness, are also lumped together with evolutive considerations in statutory interpretation inquiries. In Gardner, the Ninth Circuit turned to constitutional goals in its policy considerations. The Ninth Circuit concluded that reviving the doctrine of indivisibility would strike the right balance between creating incentives for creators while also leaving intellectual property alienable. This is misguided reasoning because the assumption in the entertainment industry for twenty-four years was that licenses were alienable. The entertainment industry continued to thrive

82. Eskridge, supra note 59, at 358-59.
83. Id. at 359.
84. See generally Nimmer, supra note 2, at § 10.01[A] (discussing how the 1909 Act did not anticipate that rights other than reproduction might predominate).
85. See supra text accompanying note 7.
86. Gardner, 279 F.3d at 781 (holding "that exclusive licenses are only assignable with the consent of the licensor").
87. Eskridge, supra note 59, at 359.
88. See Gardner, 279 F.3d at 781.
89. Id.
90. See generally Sobel, supra note 7, at 2 (discussing how the entertainment industry's entire distribution scheme, which assumed alienability, could be undermined by such a reading).
during these years and there is no evidence that abolishing the doctrine of indivisibility would create a disincentive for creators.

B. The Gardner Court's Misinterpretation of Prior Decisions

The Ninth Circuit should not have decided Gardner in favor of Nike. Even if statutory interpretation was unclear, prior decisions were not. Although Gardner is a case of first impression regarding exclusive licensees, various courts have ruled indirectly on the issue. The most relevant case, In re Patient Education Media, Inc., involved the grant of a worldwide, perpetual nonexclusive license to a debtor who eventually filed for bankruptcy.91 When the debtor tried to assign the license to a third party in a selloff of its assets, the copyright owner filed suit.92 The court indicated that while an exclusive licensee may transfer his rights, a nonexclusive licensee may not because he is not the owner.93 The holding referred to a nonexclusive license. In ruling on nonexclusive licenses, the court established that an exclusive licensee was "entitled to all the rights and protection of the copyright owner . . . under 201(d)(2)" of the 1976 Act.94 The Gardner court dismissed the Patient Education Media court's ruling on exclusive licenses as mere dicta,95 but coupled with other decisions, the Ninth Circuit should, instead, have used this as support to prevent revival of the doctrine of indivisibility.96

Other cases offer even stronger precedent for ruling in favor of full ownership rights for exclusive licensees. In Leicester v. Warner Bros.,97 an artist granted perpetual, irrevocable, exclusive rights to a developer to make reproductions for specified purposes.98 The agreement also stipulated that the artist would not reproduce the work in another project.99 When the developer granted a license to Warner Brothers movie studio to use the art in a movie, the artist sued for copyright infringement.100 The court ruled that this license to the developer was exclusive and therefore

92. Id. (citing In re Patient Education Media, Inc., 210 B.R. at 239-240).
93. Id. (citing In re Patient Education Media, Inc., 210 B.R. at 240).
94. Id.
95. Id. at ¶ 16.
96. See generally id. at ¶ 15-20 (discussing prior court decisions that suggested exclusive licenses were transferable).
98. Id. at 7.
99. Id. at 8-9.
100. Id. at 7.
the developer could sublicense it without the artist’s consent. The Gardner court ignored this ruling and in doing so, “overturned precedent only two years old.” The Gardner court did not offer any explanation for this, although scholars suggest that the court might have wanted to distinguish the right to assign from the right to sublicense an exclusive license. This does not seem particularly plausible however, given that the Leicester case involved a sublicense.

Finally, in Library Publications, Inc. v. Medical Economics Co., the U.S. District Court for the Eastern District of Pennsylvania interpreted § 201(d) in much the same way as the court did in Patient Education Media and Leicester. Library Publications involved an alleged breach of a trade book publisher and distributor’s oral, nonexclusive license with another publisher to distribute a particular book worldwide. The licensee publisher sued the licensor publisher when the licensee attempted to undersell the licensor by offering the book at a cheaper cost to a large retail outlet. After the licensor refused to supply the licensee with any more books, a lawsuit ensued and the district court ruled in favor of the licensor. The decision would appear to favor Nike in Gardner, however, the district court ruled in favor of the licensor only because an exclusive license cannot be granted orally. Had the license agreement been in writing, the district court would have deemed it an exclusive license, freely transferable in whole or in part. Hence, the Ninth Circuit ignored precedent in multiple cases when it upheld the indivisibility of exclusive licenses.

C. The Ninth Circuit’s Misguided Analysis of Patent Law

In addition to ignoring prior decisions, the Ninth Circuit in Gardner also drew upon weak analogies to patent law. The court cited Harris, which cited In re CFLC, Inc. and Unarco Industries, Inc. v. Kelley

101. Id. at 9-10.
102. Fellmeth, supra note 63, at ¶ 19.
103. Id.
104. Id.
106. Fellmeth, supra note 63, at ¶ 20.
108. Id. at 1232-33.
109. Id. at 1233-34.
110. FELLMETH supra note 63, at ¶ 20 (citing Library Publ’n, 548 F. Supp. 1231, at 1234).
112. 89 F.3d 673 (9th Cir. 1996).
Co. in its opinion. In both these cases, the court's analogies are weak because the cases deal with nonexclusive licenses rather than exclusive licenses. Thus the cases do not offer as much guidance as the Ninth Circuit intimated.

Analogizing to patent cases that dealt with exclusive licenses would have led to the opposite conclusion. Patent rights, like copyrights, are divisible. However, in patent cases, courts distinguish between assignments and licenses based upon “the extent to which [patent] rights [are] transferred.” A grantee is considered to be an owner of a patent “if all substantial rights under the patent [are] granted.” The characterization or label of the transfer does not matter. An exclusive licensee will be treated like the owner of a patent assignment with the right to sublicense without consent of the original patent owner, as long as all of the substantial rights are transferred to the licensee. Thus, analogies to patent law suggest that the Ninth Circuit should have ruled in favor of the divisibility of exclusive licenses in copyright law.

D. Alternative Theories Under State Contract Law

Finally, even if the Ninth Circuit could not find for Gardner based upon federal copyright law, the court should have left the question of the assignability of exclusive licenses to state contract law. Federal law generally preempts state law when there is a conflict between state and federal law. In Gardner, however, it is not clear that the two are in conflict. Federal copyright and patent law seek to reward patent and copyright owners only enough to ensure that they continue to create protected

113. 465 F.2d 1303 (7th Cir. 1972).
114. Gardner, 279 F.3d at 780-81.
115. See Kang, supra note 77, at 374 (discussing the difficulty of equating “the policy considerations underlying nonexclusive licenses with policy considerations for exclusive licenses”).
116. Id.
117. Id.
118. Id. (citing Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc., 248 F.3d 1333, 1342 (9th Cir. 2001)).
119. Id. (citing Intellectual Prop. Dev., Inc., 248 F.3d at 1344).
120. Id.
121. Id.
122. Id.
123. See Gardner, 279 F.3d at 781. “State law controls issues of contractual interpretation, including agreements that pertain to copyrighted material, unless state law interferes with federal copyright law or policy.” (citing S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1088 (9th Cir. 1989)).
works. The free assignability of a license without a nonassignment clause does not necessarily have any bearing on whether a patentee or copyright owner receives adequate compensation for their creative endeavors. For instance, a licensee may sublicense an exclusive right to another party because the licensee does not have the resources to adequately exploit the license himself. In this case, the copyright owner may actually receive more royalties from allowing the licensee to sublicense at his discretion. In this instance, the goals of federal law would not necessarily weigh against the goals of state law to encourage the free assignability of licenses.

Without preemption by federal copyright law, the case could have been decided under state contract law. Under state contract law, the default rule would shift so that the assumption would be that licensees could transfer their licenses as long as that was the original intent of the contract. Since state law favors the free assignability of licenses in the absence of contractual language, the burden would be on licensors to include nonassignment clauses if they feared licensees might assign the license to a party less able to market or produce the licensed work and make royalty payments. Under state law, license assignments could be voided on public policy grounds if licensees assigned the licenses to parties who could not effectively exploit the licenses. Since licensees would still be in contractual privity with licensors, licensees would remain liable for nonperformance or inadequate performance by assignees. If the sublicensee did not perform to a level of reasonable expectations, the licensee would be liable to the owner for breach of contract. Licensors might even prefer this arrangement because sublicensees would not be able to indemnify licensees and therefore owners could sue both licensees and sublicensees for breach of contract. Licensors would also still be able to

124. See Fellmeth, supra note 63, at ¶ 83; See generally Merges, et al., supra note 1, at 12-18 (discussing the economic incentives of copyright law).
125. See generally Fellmeth, supra note 63, at ¶ 57-62 (discussing the advantages of allowing assignments of licenses without permission from original licensors).
126. See Fellmeth, supra note 63, at ¶ 62.
127. Id.
128. See generally Fellmeth, supra note 63, at ¶ 54 (discussing the operation of assignment of licenses under state contract law).
129. Id.
130. Id.
131. Id. at ¶ 68.
132. Id. at ¶ 60.
133. See id. at ¶ 62.
134. Id.
collect damages, but they would be for breach of contract rather than copyright infringement.\textsuperscript{135}

The benefit of allowing state contract law to govern assignability of licenses is in the greater flexibility of this system. By allowing the assignability of licenses, licensees could adjust to market forces or even recruit outside assistance to help more fully exploit their rights under the license.\textsuperscript{136} The only downside might be in harm to the owner’s reputation from scandalous or improper use of the owner’s license.\textsuperscript{137} However, this problem could be avoided without the negative effects that will ensue in the entertainment industry due to the \textit{Gardner} decision, if licensors would just include nonassignment clauses in future contracts.\textsuperscript{138}

Leaving the question of assignability to state contract law would not leave licensors’ rights unprotected. Common law will void an assignment of rights under three conditions. First, the assignment will be voided if it causes “substantial detriment to the obligor.”\textsuperscript{139} State common law would therefore protect the licensor in any instance where the assignment increased the risk to the licensor or prevented the licensor from obtaining a return on the exploitation of the license.\textsuperscript{140} Second, no assignment can violate public policy.\textsuperscript{141} And third, no licensee can assign rights that are so personal to an owner that they would discourage the creation of intellectual property.\textsuperscript{142} Thus, under state common law, judges might have more discretion to not only look at the original intent of licensees and licensors, but also examine individual outcomes of assignments on a case-by-case basis.

IV. NEGATIVE PRACTICAL IMPLICATIONS IN THE ENTERTAINMENT INDUSTRY

Although \textit{Gardner} clarifies the law with respect to the default rule regarding the assignability of exclusive licenses, for many years the assumption in the entertainment industry was that exclusive licenses could be as-
signed.\textsuperscript{143} The decision is therefore likely to cause much instability in the more immediate future.\textsuperscript{144}

The \textit{Gardner} decision has several basic practical implications for both the immediate and the more distant future. By changing the default rule with regard to proprietary rights for owners of exclusive licenses, \textit{Gardner} leaves licensees with “the burden of negotiating clauses in their exclusive license agreements” that will allow these licensees to assign or sublicense their rights.\textsuperscript{145} As a result, it is now imperative that record and production companies negotiate for transfer rights when they license “underlying works, such as spec scripts, books, plays and songs.”\textsuperscript{146} In the event that a record or production company goes bankrupt, a trustee will want to sell, as one of its assets, TV programs, movies or recordings based on underlying licensed works.\textsuperscript{147} After \textit{Gardner}, the trustee must obtain permission from a licensor in order to do this if such terms are not negotiated into the original agreement.\textsuperscript{148}

Unfortunately for many licensees, for many years after passage of the 1976 Act, the assumption in the entertainment industry was that complete divisibility had replaced the doctrine of indivisibility with regard to exclusive licenses.\textsuperscript{149} Based upon this assumption, large numbers of movies have been made through exclusive license agreements that say nothing about assignability.\textsuperscript{150} \textit{Gardner} could now authorize “owners of copyrights to underlying works to challenge the distribution rights of every movie whose distribution rights were transferred” to a new distributor.\textsuperscript{151} This would include transfers “by sale, as a result of bankruptcy, and [possibly even] merger.”\textsuperscript{152} The decision also does not appear to make an ex-

\begin{itemize}
\item \textsuperscript{143} \textit{See supra} text accompanying note 7.
\item \textsuperscript{144} \textit{See generally} SOBEL, \textit{supra} note 7. (discussing how following the \textit{Gardner} decision, “owners to copyrights to underlying works [may] challenge the current distribution rights to every movie whose distribution rights were transferred to a new distributor”).
\item \textsuperscript{145} EXCLUSIVE COPYRIGHT, \textit{supra} note 6, at ¶ 8.
\item \textsuperscript{146} \textit{Id.}
\item \textsuperscript{147} \textit{Id.}
\item \textsuperscript{148} \textit{See id.}
\item \textsuperscript{149} \textit{See supra} text accompanying note 7.
\item \textsuperscript{150} \textit{See HALBERSTADTER, supra} note 4, at ¶ 14. (“But often, the exclusive right to producer a motion picture based on a copyrighted novel or to distribute an existing television series is memorialized in a “short form” agreement that does not specifically address the licensee’s right to transfer all or a portion of its rights.”).
\item \textsuperscript{151} SOBEL, \textit{supra} note 7.
\item \textsuperscript{152} \textit{Id.}
\end{itemize}
ception for copyrights to underlying works that were granted in perpetuity.\textsuperscript{153}

The ramifications of \textit{Gardner} could be tremendous because of historical shifts in the film industry over the past twenty-four years, following passage of the 1976 Act. In the 1980s, Hollywood’s studios switched from making their own feature movies to becoming distributors of “filmed entertainment.”\textsuperscript{154} This meant that they no longer derived revenue just from big screen theater releases, but from distribution of several versions of the copyrighted work in multiple formats including the wide screen, VHS, cable television, and through music videos.\textsuperscript{155} What was once just a theater movie, in the 1980s became a home video, television program, music video, a commercial, a hit video game, and a host of other popular ancillary products.\textsuperscript{156} In order to better distribute this “filmed entertainment,” in the 1980s and 1990s, many studios merged with television, cable, and broadcasting entities to form more lucrative distribution alliances.\textsuperscript{157} \textit{Gardner} could give tremendous power to copyright owners of underlying works, but the decision could also disrupt much of the studios distribution system with an onslaught of renegotiations or infringement litigation.

V. POSSIBLE SOLUTIONS FOR AVOIDING THE NEGATIVE RAMIFICATIONS OF THE \textit{GARDNER} DECISION IN THE ENTERTAINMENT INDUSTRY

There are a few ways to avoid the negative ramifications of \textit{Gardner}, although each of them may be problematic. Immediately following the \textit{Gardner} decision, the Motion Picture Association of America (“MPAA”) filed an Amicus Brief in support of petition for rehearing and suggestion for rehearing en banc.\textsuperscript{158} In its brief, the MPAA argued that the Ninth Circuit “misread sections of 201(d)(1) and (2) by overlooking the first sentence of clause (2) and its legislative history and by creating a restriction where none existed.”\textsuperscript{159} Despite the MPAA’s efforts, the Ninth Circuit rejected its brief.

\textsuperscript{153} \textit{Id.}
\textsuperscript{155} \textit{Id.}
\textsuperscript{156} \textit{Id.} at 132-37.
\textsuperscript{157} \textit{Id.} at xiii-xiv.
\textsuperscript{158} Brief of Amicus Curiae Motion Picture Association of America, Inc. in Support of Petition for Rehearing and Suggestion for Rehearing En Banc, Gardner v. Nike, 279 F. 3d 774 (9th Cir. 2002) (No. 00-56404).
\textsuperscript{159} \textit{Id.} at 5.
Congress could amend the 1976 Act to better clarify its meaning, or the Gardner decision could be appealed to the Supreme Court. To remedy the Act’s weaknesses, Congress could amend the 1976 Act by adding the words “ownership rights” to § 201(d)(2) so that it would read: “The owner of any particular exclusive right is entitled to the extent of that right, to all of the ownership rights, protection, and remedies accorded to the copyright owner by this title.” This would clarify that ownership rights, including transfer and sublicensing, were intended to be included in a transfer of an exclusive license along with protection and remedies. The amendment, however, may raise some Takings clause issues. Amending the Copyright Act as such at this point may be seen by some licensors as taking property already defined as their own.

VI. CONCLUSION

While the Gardner decision may serve policy considerations by clarifying the ownership status of exclusive licenses negotiated from this point forward, Gardner’s most significant implications are for license agreements negotiated prior to the decision. The decision will have profound negative ramifications on the entertainment industry for the large number of license agreements negotiated prior to Gardner, but following implementation of the 1976 Act. These adverse affects could have been avoided. The decision itself was misguided in that the Ninth Circuit’s statutory interpretation is questionable, the Ninth Circuit ignored prior decisions, the Ninth Circuit’s analogies to patent law were weak, and the issues in the case might have been better left to state contract law. The im-

160. U.S. CONST. amend. V; According to the Fifth Amendment of the U.S. Constitution: “Nor shall private property be taken for public use, without just compensation.” Although the Takings Clause originally applied to real property, the Supreme Court has held that intangible property, such as a copyright, can have the same characteristics as real property and thus is protected under the Takings Clause. If Gardner establishes that exclusive licensees are not true owners of copyrights, then an amendment to the 1976 Act might be viewed as a “taking” from original copyright proprietors. As long as there is some conceivable public character to the taking it will be deemed a public use. Some form or compensatory payment or additional royalty fee might need to be incorporated into an amendment to satisfy this prong of the Takings Clause test. See generally Laurie Messerley, “Taking” Away Music Copyrights: Does Compulsory Licensing of Music on the Internet Violate the Fifth Amendment’s Takings Clause?, CFIF.ORG, http://www.cfif.org/5_8_2001?Freeline/current/free_line_copyright.html (available as of Dec. 18, 2002) (describing questions that must be addressed by a court under the Takings Clause before the seizing of intellectual as opposed to real property); See also Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1000-1001 (1984) (laying out the test as to what would constitute a taking of intellectual property rights under the Fifth Amendment).
lications of Gardner could be rectified by the Supreme Court or an amendment to the 1976 Act.