

BRIEFING PAPER:
***Gardner v. Nike*, 279 F. 3d 774 (9th Cir. 2002)**

I. INTRODUCTION

On January 21, 2002, in *Gardner v. Nike, Inc.*, the Ninth Circuit held that under the Copyright Act of 1976 and the doctrine of indivisibility, the owner of an exclusive license could neither assign nor sublicense his rights in a cartoon character to a third party. While owners of exclusive licenses enjoyed the “protections and remedies” of copyright ownership, these rights did not include the right to resell or transfer a copyright. Therefore, because a sublicensee lacked valid ownership rights, he did not have the standing to sue in court for declaratory relief in the face of an infringement action.

The *Gardner* decision was a case of first impression that addressed the issue of ownership rights for exclusive licensees as opposed to assignees under the 1976 Act. By establishing that exclusive licenses would still be distinguished from assignments under the new act, the Ninth Circuit clarified the default rule with regards to transfer and ownership of exclusive licenses. According to *Gardner*, the onus is now on licensees to secure the rights of transfer and sublicensing in contract negotiations with their original licensors. The Ninth Circuit ruled that this interpretation of the 1976 Act would strike a comfortable balance between the policy considerations of encouraging alienability and divisibility and the necessity of maintaining owners’ rights and control. While the decision may serve policy considerations regarding licenses negotiated from this point forward, *Gardner*’s most significant implications are for license agreements negotiated prior to the decision. The decision is not good policy because of the more immediate

BRIEFING PAPER:

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

negative ramifications it will have in the entertainment industry for license agreements negotiated prior to *Gardner*, but following implementation of the 1976 Act.

II. THE EVOLUTION OF THE DOCTRINE OF INDIVISIBILITY

The goal of U.S. Copyright law is to promote the arts by providing enough incentives for artists to create, but at the same time, not stifle creativity through oppressive ownership regimes. With this goal in mind, judges in the United States looked to early English copyright law and American patent cases to develop the “doctrine of indivisibility.” Under the doctrine of indivisibility, the author of a work was entitled to a single copyright, which included a bundle of rights that was not divisible or assignable in parts. The transfer of anything less than the entire bundle of rights constituted a license rather than an assignment and licensees did not enjoy the full rights of the copyright proprietor. This doctrine served artists and creators fairly well as it was first conceived, but over time, as technological advances created new entertainment industries and the businesses of many artistic industries evolved, it became increasingly evident that the doctrine was in need of revision. Ostensibly, to many in the entertainment industry, the 1976 Copyright Act appeared to abolish the doctrine with regards to exclusive licenses; however, the *Gardner* decision has now revived the doctrine.

A. The doctrine of indivisibility under the Copyright Act of 1909

The doctrine of indivisibility, as it was first established under the 1909 Act, was designed to protect alleged infringers from harassment by successive lawsuits. Because the licensor remained the copyright proprietor, only he or she could sue potential infringers. This created problems in some cases for owners of exclusive licenses, who

BRIEFING PAPER:

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

could not protect their property interest, but as time went on, 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.

While a revision of joinder rules solved exclusive licensees problems protecting their licenses, the more serious problem with the doctrine developed as technological advances changed the nature of many artistic industries. When legislators wrote the 1909 Act, the primary right that artists and creators wished to protect was that of reproduction. The primary value of a book was in the right to publish it. When the motion picture industry matured, book authors could derive more money from 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 these new artistic industries.

In an attempt to deal with the complications that arose under indivisibility, judges would sometimes modify the doctrine. Even before the 1909 Act, some courts attempted to give assignment status to licenses where the rights granted did not extend for the full term of the copyright, although later cases indicated that these transfers would still be treated as licenses. In other cases, courts would sometimes allow assignments limited to particular geographic areas within the United States. A more recent case ruled against this theory, identifying the right as a license, not an assignment. Under the 1909 Act,

BRIEFING PAPER:
Gardner v. Nike, 279 F. 3d 774 (9th Cir. 2002)

scholars also suggest that some courts looked to the manifest intent of the grantor to determine whether a transfer was a license or a grant, but not all courts followed this approach.

The doctrine of indivisibility began to break down more severely when courts began assigning separate divisibility to the various divisions in the 1909 Act. Thus, some courts broke Section 1 of the 1909 Act into separately assignable subdivisions and further suggested that the types of work in Section 5 of the 1909 Act could be assigned separately. Again, not all courts followed this policy and the policy did not entirely work because this breakdown of rights was not entirely analogous to the division of rights in commercial transfers.

The most substantial limitation to the doctrine of divisibility probably surfaced in the 1970 case *Goodis v. United Artists Television, Inc.*, In *Goodis*, an author received a valid copyright with just a copyright notice in a magazine's name where the magazine had purchased only the right of first publication and the author did not have any intention to donate his work to the public. Hence, notice in the name of just a licensee was enough for a licensor to receive a copyright and the doctrine of indivisibility was not applicable to the issue of claiming copyright. The decision said nothing about the licensees standing to sue, but even without the *Goodis* and other decisions limiting the doctrine, divisibility could be circumvented by a grantor assigning all of his rights to the assignee and then in a two-step process, having that grantee grant back the rights the grantor wished to keep. In terms of the official substantive law under the 1909 Act, the distinction between an assignment and a license had practical implications in four areas. Only the copyright

BRIEFING PAPER:

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

proprietor had standing to sue, thus licensees could not bring their own suits against infringers, although owners of exclusive licenses could overcome this through joinder procedures as long as the copyright proprietor was cooperative. In terms of the right to claim copyright, the doctrine of indivisibility caused the most problems in situations where an original author had not previously acquired statutory copyright and a licensee published the work for the first time. Since the 1909 Act demanded that copyright be obtained by publication bearing a copyright notice in the name of the copyright owner, an author could unwittingly inject his or her work into the public domain if the first publication of the work was in the name of a licensee such as a magazine publisher or motion picture producer. *Goodis* demonstrates how courts ignored the doctrine of indivisibility in some of these instances. Earlier courts such as the one in *Geisel v. Poynter Products, Inc.* simply found that based upon custom and usage, magazine publishers in such instances automatically obtained all beneficial and legal rights in every medium.

In terms of the recording of assignments, under the 1909 Act, Section 30 made no mention of licenses, however the recording office collected papers related to copyright licenses and courts appear to have respected constructive notices for licenses as well as assignments. Finally, as described in *Gardner*, the 1909 Act allowed assignees, but not licensees to resell or sublicense their rights unless a contract states otherwise.

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 underlying problems with the doctrine of indivisibility in the 1909 Act, although it is not

BRIEFING PAPER:

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

entirely clear how far the legislature 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 non-exclusive license. In section 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. Read together, these sections of the 1976 Act appeared to replace the doctrine of indivisibility with a more general policy of divisibility.

Under this new divisibility, the 1976 Act still left open for question, among other things, the distinction between an exclusive license and a non-exclusive license. As Nimmer points out, most non-exclusive licenses can be described as exclusive licenses if they do not interfere with another exclusive license and are limited to a particular time and place where the licensee will operate. For example, the exclusive right of a newsstand dealer to distribute a given edition of a particular newspaper at a particular corner on a particular afternoon would now constitute ownership and any other dealer attempting to distribute in the same time and place could be sued for infringement of a distribution right.

Despite this general problem of distinguishing an exclusive license and a non-exclusive license, the 1976 Act clarified other rights under the new policy of divisibility. For instance, owners of exclusive rights now had standing to sue in their own name so

BRIEFING PAPER:

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

long as they sued for infringement of the particular right they had been granted. Fears of losing a work to the public domain because of a publication that did not bear notice of the copyright proprietor could be dismissed because copyright now adhered to works as soon as they became fixed in a tangible medium of expression. Finally, in terms of recordation and constructive notice, no distinction applied any longer between an assignment or any type of license.

Where divisibility under the 1976 Act caused the most problems in failing to clarify the law was on the issue of the right to transfer or resell an exclusive license. The 1976 Act gave exclusive licensees the “protections and remedies” of a copyright proprietor, however, different courts and scholars would argue as to whether the “rights” of copyright are included in the protections and remedies.

III. REVIVAL OF THE DOCTRINE OF INDIVISIBILITY IN *GARDNER V. NIKE, INC.*

The *Gardner* decision was the Ninth Circuit's attempt to add clarity to the law regarding the transfer of exclusive licenses, where the 1976 Act was silent. In *Gardner*, the Ninth Circuit held that a sublicensee did not have standing to sue either a licensor or licensee for declaratory relief designed to prevent a copyright infringement action. The Ninth Circuit reasoned that because only an assignment and not an exclusive license was transferable, the sublicensee could not independently bring its own suit.

In order to reach this conclusion, the Ninth Circuit looked to underlying policy issues under the 1909 Act. In particular, the Ninth Circuit found that the doctrine of indivisibility struck a needed balance between the competing interests of monopolization

BRIEFING PAPER:

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

of works or compositions and the preservation of the rights of authors and composers needed to stimulate creativity. In addition to looking at these policy issues, the Ninth Circuit also examined similar rules in patent law, the legislative history of the 1909 Act, and a previous decision, *Harris v. Emus records Corp.*, whereby a copyright license was not transferable under the 1909 Act.

Although the Ninth Circuit acknowledged certain revisions to the doctrine of indivisibility in the 1976 Act, the court would not go so far as to completely abolish indivisibility in favor of divisibility. On this point, the Ninth Circuit directly contradicted *Nimmer* and other circuit court cases. In particular, the Ninth Circuit held that the more specific terms, “protection and remedies” in section 201(d)(2) of the 1976 Act limited a licensee’s rights to that of bringing an infringement action in the licensee’s own name, but did not give the exclusive licensee the right to transfer or resell the license without permission from the original licensor. Although *Gardner* will clarify the law on this particular point for the future, for many years the assumption in the entertainment industry has been to the contrary and the decision is therefore likely to cause much instability in the more immediate future.

IV. PRACTICAL IMPLICATIONS OF THE *GARDNER* DECISION IN THE ENTERTAINMENT INDUSTRY

The *Gardner* decision has several basic practical implications for the immediate and more distant future. First, by changing the default rule with regards to proprietary rights for owners of exclusive licenses, *Gardner* leaves licensees with the burden of negotiating clauses in their exclusive license agreements that will allow them to assign or sublicense

BRIEFING PAPER:

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

their rights. This means that it is now important for record and production companies to negotiate for transfer rights when they license underlying works such as songs, plays, spec scripts, and books. In the event that a record or production company goes bankrupt, a trustee will want to sell, as one of its assets, movies or recordings based on underlying licensed works. After *Gardner*, the trustee will have to get permission from a licensor in order to do this if such terms are not negotiated into the original agreement.

Unfortunately, for many licensees, despite the fact that *Gardner* has clarified the law for license agreements negotiated in the future, 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 regards to exclusive licenses. Based upon this assumption, large numbers of movies have been made through exclusive license agreements that say nothing about assignability. *Gardner* could now authorize owners of copyrights in underlying works to challenge the distribution rights of every movie whose distribution right were transferred to a new distributor. This would include transfers by sale, as a result of bankruptcy, and possibly even merger. The decision also does not appear to make an exception for copyrights to underlying works that were granted in perpetuity.

The ramifications of *Gardner* could be tremendous because of historical shifts in the film industry over the past 24 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." This meant that they no longer derived revenue just from big screen theater releases, but from distribution of several versions of the

BRIEFING PAPER:

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

copyrighted work in multiple formats including the wide screen, VHS, cable television, and through music videos. 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. 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. *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.