

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

I. INTRODUCTION

Under the Copyright Act of 1909 (“1909 Act”) and the doctrine of indivisibility, owners of exclusive and nonexclusive copyright licenses did not enjoy the same rights and protections as assignees. A licensee could not bring an infringement suit, transfer the license, or sublicense. The Copyright Act of 1976 (“1976 Act”) revised the 1909 Act, for the first time explicitly giving owners of exclusive licenses the “protection and remedies” of copyright owners; however, the 1976 Act remained silent as to whether owners of exclusive licenses could transfer or sublicense their licenses. As discussed below, *Gardner v. Nike* clarifies the Ninth Circuit’s position regarding the transfer and sublicense of exclusive license by confirming a district court decision that prevents a licensee from transferring a license absent the copyright owner’s consent.

II. FACTS AND PROCEDURAL HISTORY

Appellee Nike, Inc. (“Nike”) and Appellant 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:

on and in the packaging of phonograph records (the ‘Records’), in publicity, advertising and allied exploitation of Records, in television programs or motion pictures embodying the musical compositions embodied on the records, on educational materials and on clothing....

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.

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. The parties agreed

that this was an exclusive license, but the agreement said nothing in regards to Sony's right to assign its rights according to the exclusive license.

When Sony assigned all of its rights in the exclusive license to Appellant 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"). Appellants first filed a state court suit asking for declaratory relief on a slander of title and intentional interference with economic relations claim. Appellants then agreed to dismiss the two tort causes of action, but left the request for declaratory relief. In a motion for summary judgment, Sony asserted that it was permitted to transfer its rights to use the MC Teach character under New York or California law, but the state court denied this motion. Nike then filed a motion to dismiss for lack of subject matter jurisdiction and eventually removed the action to District Court, arguing that federal law governed the transfer of rights under the licensing agreement. Because Nike's removal petition was untimely, the District Court remanded the action back to state court and state court dismissed the action without prejudice for lack of subject matter jurisdiction in November 1999.

The present action commenced on December 3, 1999 when Appellants filed a motion in District Court against Nike and Sony for declaratory relief stating that the transfer of rights from Sony to Gardner was valid. In June 2000, Nike then filed a motion for summary judgment claiming that the Appellants did not have standing to sue and Appellants filed a motion for summary adjudication. In August 2000 the District Court granted Nike's motion for summary judgment and denied Appellant's motion for summary adjudication. The District Court ruled that both Nike and Appellant's motions should be determined based upon whether Sony could transfer its rights under an exclusive license without the original licensor's consent under the 1976 Act. Because the

1976 Act did not allow Sony to transfer its rights under the exclusive license without Nike's consent, the District Court ruled that the Appellants did not have a legally cognizable interest in the suit and lacked standing to bring their action. Appellants appealed this ruling in the present action, arguing that the 1976 Act does allow transfer of rights without the original licensor's consent and absent contractual provisions to the contrary.

III. THE COURT'S ANALYSIS

A. The Copyright Act of 1909

According to the Ninth Circuit, under the Copyright Act of 1909 ("1909 Act"), neither exclusive nor nonexclusive copyright licenses were transferable. A distinction was made between assignees and licensees (the later of which could not resell or sublicense rights acquired without express authorization to do so) based upon the doctrine of indivisibility. Under the doctrine of indivisibility, copyright owners could not assign copyrights in parts because they possessed an indivisible "bundle of rights." Thus, assignment of anything less than the entire bundle of rights constituted a license and the licensee lacked the standing to bring infringement actions or register the license.

The Ninth Circuit argues in *Gardner* that in terms of policy considerations, the doctrine was problematic because while it protected alleged infringers from successive legal actions, it denied licensees basic protections in bringing infringement actions and registering their licenses. With regards to transferability, the doctrine served society better by striking a balance between the competing interests of monopolization of works or compositions and the preservation of the rights of authors and composers needed to stimulate creativity. Looking to these underlying policy considerations as well as similar rules in patent law and the legislative history of the 1909 Act, the Ninth Circuit held in a previous decision, *Harris v. Emus Records Corp.*, 734 F.2d 1329,1333 (9th Cir. 1984),

that a copyright license was not transferable under the 1909 Act.

B. The Copyright Act of 1976

With regards to exclusive licenses, the 1976 Act eradicated much of the doctrine of indivisibility. 17 U.S.C. § 101 includes exclusive licenses but not nonexclusive licenses in the definition of the transfer of copyright ownership, calling into question the distinctions previously made between assignments and exclusive licenses under the doctrine of indivisibility. In addition, 17 U.S.C. § 201(d)(2) provides that any of the exclusive rights in a copyright, including subdivision or the rights specified by 17 U.S.C. § 106 can be transferred and owned separately, recognizing explicitly for the first time statutory authority for the divisibility of copyright. The 1976 Act thus solves the problem of exclusive licensees not being able to sue for infringement of assigned rights in their own name, but leaves open the question of whether or not an exclusive licensee can re-sell or sublicense.

D. Effect of the Copyright Act of 1976 on an Exclusive Licensee's Right to Transfer

The decision in *Gardner* rests on the appropriate interpretation of 17 U.S.C. § 201. One the one hand, 17 U.S.C. § 201(d)(1) states that:

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.

At the same time, 17 U.S.C. § 201(d)(2) provides:

2) Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately. 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.

Read without § 201(d)(2) but in conjunction with the § 101 definition of transfer of copyright ownership that includes exclusive licenses, § 201(d)(2) might be interpreted to mean that exclusive licensees such as Sony could transfer a fraction ownership without permission from the copyright owner. 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. The Ninth Circuit therefore holds in *Gardner* that because Congress 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.

C. Policy Considerations

In coming to its decision, the Ninth Circuit addressed modern policy considerations and found them to mirror those stated by the Ninth Circuit in *Harris* under the 1909 Act. According to the Ninth Circuit, placing the burden on the licensee to obtain the licensor’s explicit consent for a transfer in a contract negotiation allows the copyright owner monitor the use of the copyright. Without this protection for the copyright owner, use of the copyrighted material could go to a sublicensee on the verge of bankruptcy or to a sublicensee who wished to use the Material in a manner inconsistent with the owner’s objectives. The Ninth Circuit held that its interpretation of the 1976 Act in *Gardner* reflects its purpose in striking a good balance between the need for free alienability and divisibility and the necessity to maintain the owners and creators’ rights and control.

According to the Ninth Circuit, state law also did not govern the case because state law in this instance with regard to contractual interpretation interfered with federal copyright law.

IV. CONCLUSION

The Ninth Circuit found that the 1976 Act did not change the law regarding the assignability of exclusive rights. Therefore, according to the court, federal law governed *Gardner* and the District Court was correct in granting summary judgment because Appellants lacked standing to bring declaratory relief action.