

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

**I. INTRODUCTION**

- A. Brief summary of the Ninth Circuit's holding in *Nike v. Gardner*.
- B. Discussion of the implications of the decision in terms of shifting the burden for a transfer clause in contract negotiations.

C. Thesis: While the *Gardner* 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 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 negative ramifications could have been avoided. The decision itself was misguided in that the Ninth Circuit's statutory interpretation is questionable, the Ninth Circuit ignored *stare decisis* in its decision, and the Ninth Circuit's analogies to patent law were weak. However, unless the United States Supreme Court wishes to hear the case, at this point, the only way to avoid the negative ramifications in the entertainment industry, is for Congress to clarify the issue by passing an amendment to the Copyright Act of 1976. This amendment would give exclusive licensees the specific right to assign and sublicense their exclusive licenses.

**II. BACKGROUND** (see briefing paper for more details)

- A. Evolution of the doctrine of indivisibility
  - 1. The doctrine of indivisibility under the Copyright Act of 1909
  - 2. Revision of the doctrine of indivisibility under the Copyright Act of 1976

**III. THE CASE** (see briefing paper for more details)

- A.. Revival of the doctrine of indivisibility in *Nike v. Gardner*
  - 1. Facts of the case
  - 2. Procedural history of the case
  - 3. The Ninth Circuit's interpretation of the 1976 Act with regards to exclusive licenses
  - 4. Policy Considerations for the decision
    - a) *Harris v. Emus Records Corp*
      - i) Balance between monopolization of works or compositions and the preservation of the rights of authors and composers needed to stimulate creativity.
      - ii) Analogies to patent law
      - iii) State law does not govern because state law in this instance with regard to contractual interpretation interferes with federal copyright law.

**IV. DISCUSSION**

- A. Practical Implications of the *Gardner* Decision in the Entertainment Industry
  - 1. Gardner leaves licensees with the burden of negotiating clauses in their

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exclusive license agreements that will allow them to assign or sublicense their rights.

2. For many years after the 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.

a. Bankruptcy - in cases of bankruptcy, a trustee will now have to get permission from a licensor in order to sell as one of its assets, movies or recordings based on underlying licensed works.

b. Merger - Gardner now authorizes owner of copyrights in underlying works to challenge the distribution rights of every movie whose distribution rights were transferred to a new distributor. This will include transfers of sale by bankruptcy and possibly even merger.

B. The Ninth Circuit did not necessarily have to rule in favor of the doctrine of indivisibility based upon statutory interpretations, prior case law, or analogies to patent law

1. Many commentators and scholars have interpreted Congress's intent regarding 201(d) to be in favor of the divisibility rather than the indivisibility of copyrights.

a. Aaron Xavier Fellmeth suggests that "protections" really are "rights" in the sense that a licensee has the "right to protections" if the licensee has the "protections and remedies of ownership."

b. Congress gave unequivocal intent favoring divisibility of copyrights in the 1976 Act and thus it would not be consistent with the Act to hold that Congress intended to preserve the doctrine of indivisibility just for an exclusive licensee's right to sell or sublicense. Congress would have so stated if it intended the 501(b) rights to be the only protections and remedies conferred on an exclusive licensee. Congress would have explicitly granted infringement if that was all it wanted to grant with regards to the exclusive license.

c. Congress knew how to state that it intended to maintain the doctrine of indivisibility for nonexclusive licenses because it expressly excluded nonexclusive licenses from "transfer of copyright ownership." This differing language by Congress regarding exclusive and nonexclusive licenses suggests that Congress intended to completely eliminate the doctrine of indivisibility with regards to exclusive licenses under the 1976 Act.

2. Courts have ruled consistently with these commentators interpretations of the 1976 Act in other Copyright cases, suggesting that due to *stare decisis* exclusive licensees should be able to assign and sublicense their exclusive licenses.

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- a. *In re patient Education Media, Inc.* - distinguishing assignability between an exclusive and non-exclusive sublicense.
  - b. *Leicester v. Warner Bros.* - the Central District of California held that an exclusive license was assignable (no mention of whether an exclusive license could be sublicensed without consent). The Ninth Circuit was silent on this case in their brief.
  - c. *Library Publications v. Medical Economics Co.* - the owner of an exclusive license can transfer any of the rights in a copyright, but must be in writing, not orally, as was the case here.
3. Under Patent Law, transferability of exclusive licenses without licensor's consent might still be permissible.
- a. The two patent cases cited in the *Gardner* decision dealt with nonexclusive, not exclusive licenses.
    - i. *In re CFLC, Inc.*
    - ii. *Unarco Industries, Inc. v. Kelley, Co.*
  - b. Patent rights are divisible, but the difference between an exclusive license and an assignment is based upon whether or not all substantial rights to the patent were granted. An owner of an exclusive license will be able to sublicense just as an assignee can if all substantial rights are transferred.
- C. Because of the above discussed problems with the *Gardner* decision, Congress should revisit the issue and amend the Copyright Act of 1976 in favor of abolishing the doctrine of indivisibility with regards to exclusive licenses.

**V. CONCLUSION**