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CHAPTER 8
COPYRIGHT AND CONTRACT

In Chapter 1 you learned about the significant economic role of industries that depend heavily on copyright to sustain their business models. These industries rely on the existence and enforcement of more or less intricate contractual arrangements to order their affairs. An effective understanding of copyright law therefore requires an appreciation of the many dimensions of the intersection of copyright and contract. To begin, there is the basic need for enforceable contracts to transfer title or interests in the intangible asset of a copyright itself. Contracts can also embody licenses that authorize a licensee to engage in an activity that would otherwise constitute infringement. Many contract issues relating to contract formation and interpretation are governed by state law. Other issues are governed by copyright-specific rules, some arising from the statute and others developed by courts.

The first part of this chapter introduces the basic rules that govern contracts and licenses involving copyrights that arise from the Copyright Act. It also addresses implied licenses and the revision "privilege" granted by the Copyright Act to the creators of collective works.

Because of the lengthy duration of copyrights and the ever changing technological landscape, the language used in contracts can present interpretive problems as new means of exploiting a copyrighted work evolve. The second part of this chapter explores the tools for interpreting contract language in light of changing technologies and the underlying goals of copyright law.

The chapter then turns to an increasingly common practice: the ubiquitous use of shrinkwrap and clickwrap agreements. Some copyright owners seek to use these agreements to reorient the Copyright Act's default rules by restricting the activities that the purchaser or user may engage in, even if those activities otherwise would be authorized by fair use or other provisions of the Copyright Act. Certain licenses, such as Open Source and Creative Commons licenses, seek to reset the default rules provided by the Copyright Act by using rights granted under the Act to permit more copying and modification of copyrighted works. Both practices raise important questions about the nature of license obligations and require consideration of when a violation of the license terms constitutes copyright infringement rather than a breach of contract.

The chapter concludes with an exploration of the equitable doctrine of copyright misuse. Certain types of overreaching by copyright owners in their contracts can constitute a misuse of copyright. When a court holds that a copyright owner has engaged in misuse, the copyright itself is unenforceable until the conduct constituting misuse ceases. Thus, misuse is one means of limiting certain contract practices.

A. Modes of Transfer

Section 106 of the Act grants a "bundle of rights" to the author of the work. Each right in the bundle may be transferred and owned separately. The owner of any particular right is entitled to the full protection and remedies afforded copyright owners under the Act. *See* §201(d)(2). An author may transfer an interest in the copyrighted work in a number of ways.

1. Writing and recording "transfers" of copyright

Section 101 of the Copyright Act defines a "transfer of ownership" as "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." 17 U.S.C. §101. Section 204 of the Copyright Act prescribes a particular form for the effective transfer of copyright ownership rights. This section states in part:

> §204. Execution of transfers and other documents
>
> (a) A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

In essence, §204 is a statute of frauds requirement, providing that any purported transfer of a copyright interest must be stated in writing, signed by the owner of the right being transferred. Because of the broad definition of "transfer of ownership" contained in §101, the Copyright Act's writing requirement applies not only to a complete transfer of copyright ownership, but also to exclusive licenses of some or all of the §106 rights and to the use of a copyright as security for a loan.

As you learned in your first-year Contracts class, putting agreements in writing is good practice: it requires the parties to articulate and clarify their thinking, minimizes misunderstandings, serves important evidentiary purposes, and emphasizes the seriousness of the promises undertaken. Courts have resisted suggestions that the Copyright Act's writing requirement should bend to arguments about industry custom:

> Section 204's writing requirement is not unduly burdensome; it necessitates neither protracted negotiations nor substantial expense. The rule is really quite simple: If the copyright holder agrees to transfer ownership to another party, that party must get the copyright holder to sign a piece of paper saying so. It doesn't have to be the Magna Charta; a one-line pro forma statement will do.

Effects Assocs., Inc. v. Cohen, 908 F.2d 555, 557 (9th Cir.1990) (rejecting defendant's "argument that . . . Moviemakers do lunch, not contracts").

Section 205 of the Act authorizes recordation of transfers with the Copyright Office and specifies procedures for recordation. While recording a transfer with the Copyright office is not required, important benefits flow from proper and timely recording. Recordation provides constructive notice of the facts stated in the document so long as the document or attached materials identify the work in question and the work has been registered. Not only will such recordation provide information to potential licensees seeking to use a work, but recordation also establishes priority of ownership in the event of conflicting claims.

Section 205(d) sets forth the order for determining which claim prevails between two conflicting transferees. As a preliminary matter, the transfer first executed and recorded within one month of its execution (or within two months if executed outside the U.S.), and that satisfies the requirements of §205(c) (registration of the work and proper identification of the work) prevails. The first transfer will still prevail if, notwithstanding expiration of the time frame, it is nevertheless recorded before a later transfer. The later transfer will prevail if the recipient (1) properly recorded it before the earlier transfer was recorded, (2) took the transfer in good faith, for valuable consideration, or on the basis of a promise to pay a royalty, and (3) had no notice of the earlier transfer. Finally, §205 provides that whether recorded or not, a nonexclusive license prevails over a conflicting transfer of copyright ownership if the license is in writing and signed by the owner of the rights or her duly authorized agent, so long as the license was taken (1) in good faith before the conflicting transfer was recorded and (2) without notice of the conflicting transfer.

Notes & Questions

1. Recall that the rights granted by section 106 are intangible; accordingly exclusive possession is difficult to secure and police. A copyright owner may grant many people the same right, such as the right to reproduce the copyrighted work. We typically refer to such grants as non-exclusive licenses. If a copyright owner grants license to one party that purports to be exclusive, what stops the copyright owner from granting a license to another party? Should an exclusive licensee simply trust that the copyright owner will not engage in subsequent transfers? The ability to record a transfer of ownership, including an exclusive license, with the Copyright Office is an important mechanism for policing grants of exclusivity.

2. In today's information economy, many companies' major assets are primarily intangible. Just like their counterparts with tangible assets, these firms may need to raise money. If so, they may offer their intangible assets, including their copyrights, as security for a loan. If the firm fails to repay the loan, the secured party can "repossess" the collateral (the property serving as security). Because the Copyright Act defines a "transfer" to include the grant of a security interest (a "hypothecation" in the language of the Act), such a grant can be recorded with the Copyright Office. While state law, specifically Article 9 of the Uniform Commercial Code (UCC) as enacted by a state, governs the creation and enforcement of many, if not most, security interests, authorities generally agree that to perfect a security interest in a copyright, the secured party should file with the Copyright Office.

There are some instances in which a state UCC financing statement filing may be required. The Copyright Act provides that recording a transfer gives constructive notice only if the copyright has been registered. 17 U.S.C. §205(c)(2). The Ninth Circuit has held that because the Copyright Act provides "constructive notice" only for registered copyrights, the UCC governs perfection and priority of security interest in unregistered copyrights. *In re World Auxiliary Power Company*, 303 F.3d 1120 (9th Cir. 2002). Outside of the Ninth Circuit, however, such state filings may be insufficient. Ideally, then, a lender should always require that a copyright registration be filed before concluding the secured transaction. In some cases this is difficult because the work itself is in flux; for example, software under development changes daily. In those cases, filing under "regular" Article 9 rules may be sufficient, but it is not guaranteed.

Unfortunately, there are other complications. One controversial case held that even when the collateral is not the copyright itself, but rather the royalties generated by the copyright, the filing should still be made with the Copyright Office. *See In re National Peregrine, Inc.* 116 B.R. 194 (C.D. Cal. 1990). This conflicts with provisions of Article 9 that would label the royalties "accounts" and permit perfection in them to be achieved by a state law filing.

While various bodies have been working to clarify the relationship between Article 9 and the federal intellectual property laws, none of the efforts has yet borne fruit. In the meantime then, the best advice (at least outside of the Ninth Circuit) is to file in both the Copyright Office and the state location according to the provisions of the UCC to perfect a security interest in the copyright or the royalties generated by a copyright license.

3. In addition to §204's provisions requiring transfers to be written, a copyright also may be transferred by "operation of law." Section 201(d)(1) recognizes transfers by will (which would satisfy the writing requirement) as well as by intestate succession, which is governed by state law. Note, however, that intestate succession to the copyright is distinct from intestate succession to the termination interest, discussed in Chapter 3.C, which is governed by §§203 and 304.

4. In what ways is the Copyright Office recordation system similar to systems for recording transfers of interests in real property? In what ways is it different?

2. Implied licenses

What happens if the writing requirement is not satisfied? Section 101's definition of "transfer of ownership" does not include nonexclusive licenses; therefore, no writing is required for such a license. When should a court imply a nonexclusive license? Other than being nonexclusive, what should the terms of that license be?

Asset Marketing Systems, Inc. v. Gagnon
542 F.3d 748 (9th Cir. 2008), ***cert. denied,*** **129 S.Ct. 2442 (2009)**

SMITH, J.: . . . From May 1999 to September 2003, Gagnon [doing business as "Mister Computer"] was an at-will, independent contractor for [Asset Marketing Systems, Inc. (AMS)], hired to assist with its information technology needs. . . . Gagnon was asked to develop custom software for AMS. AMS was Gagnon's largest client, accounting for 98% of his business. Jay Akerstein, a partner at AMS who later became the Chief Operating Officer, was Gagnon's primary contact. Over the course of their four-year relationship, AMS paid Gagnon over $2 million, $250,000 of which was for custom software development and computer classes. Gagnon developed six computer programs for AMS.

In May 2000, AMS and Gagnon entered a Technical Services Agreement (TSA), which was scheduled to expire on April 30, 2001. The TSA, printed on Mister Computer letterhead, set forth Gagnon's fees and the services to be provided. The services included "Custom Application Programming — Consultant will provide Contractor with specific add-on products to enhance Contractor's current in-house database application," and mentioned nothing about a license. The TSA was not renewed, though the relationship continued.

AMS claims that on June 12, 2002, Gagnon signed a Vendor Nondisclosure Agreement (NDA).[1] The NDA would have given AMS ownership of all intellectual property developed for AMS by Gagnon. Gagnon claims that the document is a forgery and that his signature cannot be authenticated.

In June 2003, Gagnon proposed that AMS execute an Outside Vendor Agreement (OVA). The OVA included a Proprietary Rights clause providing:

> Client agrees that all designs, plans, specifications, drawings, inventions, processes, and other information or items produced by Contractor while performing services under this agreement will be the property of Contractor and will be licensed to Client on a non-exclusive basis as will any copyrights, patents, or trademarks obtained by Contractor while performing services under this agreement. On request and at Contractor's expense, Client agrees to help Contractor obtain patents and copyrights for any new developments. This includes providing data, plans, specifications, descriptions, documentation, and other information, as well as assisting Contractor in completing any required application or registration. Any source code or intellectual property will remain the property of Contractor. Trademarks, service marks, or any items identifying said Company shall remain the Company's said property. Contractor will allow Company non exclusive, unlimited licensing of software developed for Company.

Akerstein declined to execute the OVA, but countered with a redlined version of the OVA, which substantially rewrote the Proprietary Rights clause to read:

> Contractor agrees that all designs, plans, specifications, drawings, inventions, processes, and other information or items produced by Contractor while performing services under this agreement will be the sole property of Client. Any source code or intellectual property agreed to and documented as Contractor's will remain the property of Contractor.

By the end of June 2003, AMS had decided to terminate Gagnon's services. AMS extended an employment offer to Gagnon, but he declined to accept the offer. AMS and Gagnon then discussed an exit strategy, and by late July, the parties had set a target exit date of September 15, 2003.

In August 2003, Gagnon responded to Akerstein's redlined OVA draft with a letter asserting that his "position has always been that Asset Marketing Systems shall be entitled to unlimited software licensing as long as my company had a business relationship with Asset Marketing Systems." The parties never executed the OVA.

In a letter to AMS dated September 18, 2003, Gagnon demanded $1.75 million for AMS to have the right to continue to use the programs and $2 million for Gagnon's agreement not to sell or disclose the programs to AMS's competitors.

In a letter dated September 23, 2003, AMS terminated its relationship with Gagnon. According to AMS, a consultant identified numerous problems with Gagnon's work. It also stated:

> Recently, we had discussed employee and intellectual property issues which have

[1] The NDA was located and produced six months into the litigation.

> yet to be resolved. Despite the foregoing, I learned that we did not have copies of the source code for the software we developed and that copies of our SalesLogix software and our entire database may be maintained by you and your agents offsite.

The letter then demanded:

> In connection with that separation, you must immediately provide any and all copies of the source code for all software developed by and on behalf of Asset Marketing Systems immediately. You are not authorized to utilize that software which we believe is owned and all copyrights belong to Asset Marketing Systems. Furthermore, despite your claimed ownership in that copyright, we believe that Asset Marketing Systems' trade secrets are embedded and utilized throughout that software which would preclude use by you as well.
>
> We also demand that you return to us any copies of the SalesLogix software or Asset Marketing databases, programs or other materials that may have come into your possession during our relationship. . . .

In October 2003, Gagnon sent AMS a cease and desist letter, asserting that the use of the programs was unauthorized. . . . Gagnon demanded that AMS certify that it had undertaken to remove "all original and derivative source code" and all related files for the programs from AMS computers.

AMS responded by asserting that Gagnon could not unilaterally stop AMS from continuing to use and update the programs because it had an irrevocable license to use, copy, and modify the programs based on the course of conduct of the parties over the past two-and-a-half years. . . .

Gagnon alleges that AMS's continued use of the six programs constitutes copyright infringement because the programs were used by AMS without its obtaining a license or Gagnon's permission. AMS asserts three defenses to Gagnon's copyright infringement claim: an implied license, a transfer of copyright ownership via the NDA, and 17 U.S.C. §117. We hold that AMS has an implied unlimited license for the programs, and we do not reach the other defenses asserted by AMS.

Though exclusive licenses must be in writing, 17 U.S.C. §204, grants of nonexclusive licenses need not be in writing, and may be granted orally or by implication. *Foad Consulting Group, Inc. v. Azzalino*, 270 F.3d 821, 825-26 (9th Cir. 2001). We have previously considered the grant of an implied license in the context of movie footage and architectural drawings. *Id.; Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 558 (9th Cir. 1990).

In *Effects Associates*, a movie producer hired Effects Associates to create certain special effects for a movie. Though the film footage containing the special effects was used without the producer's obtaining a written license from Effects Associates, we found that an implied license had been granted because the footage was created at the producer's request with the intent that it be used in the film with no warning that use of the footage would constitute infringement. We determined that "[t]o hold that Effects did not at the same time convey a license to use the footage . . . would mean that plaintiff's contribution to the film was 'of minimal value,' a conclusion that can't be squared with the fact that Cohen paid Effects almost $56,000 for this footage." *Id.* at 559.

Thus, we have held that an implied license is granted when "(1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it,[4] and (3) the licensor intends that the licensee-requestor copy and distribute his work." *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 776 (7th Cir. 1996) (citing *Effects*, 908 F.2d at 558- 59) (footnote added). We apply the same analysis we did in *Effects* to implied licenses for computer programs. The last prong of the *Effects* test, however, is not limited to copying and distribution; instead we look at the protected right at issue — here, whether Gagnon intended that AMS use, retain, and modify the programs.

1. AMS Requested the Creation of the Programs

Gagnon argues that AMS never specifically requested that he create the programs, but "rather relayed its needs to Mr. Gagnon and he satisfied them by providing either computer hardware or computer software at his discretion." We find this interpretation of "request" to be strained. Gagnon did not create the programs on his own initiative and market them to AMS; rather, he created them in response to AMS's requests. Moreover, after prototype software was developed, he made changes to the programs in response to Akerstein and other AMS employees' requests. No genuine issue of material fact remains as to whether AMS requested the programs.

2. Gagnon Created the Software for AMS and Delivered It

Though Gagnon argues that the programs could be converted for use by another company, Gagnon admitted that the programs were created specifically for AMS and that AMS paid for the work related to drafting of the programs as well as some related costs. It is, therefore, undisputed that Gagnon created these programs for AMS.

The remaining question is whether Gagnon delivered the programs to AMS. We agree with the district court that Gagnon delivered them when he installed them onto the AMS computers and stored the source code on-site at AMS. Gagnon argues that even if he had installed the programs onto the AMS computers, he never delivered the source code so that AMS could modify the code. If AMS did not have the right to modify the code, it may have infringed Gagnon's copyright by exceeding the scope of its license. Gagnon primarily points to AMS's inability to locate the code on its own computer systems after his services were terminated to show that AMS did not possess the code. But, as we explain below, Gagnon's conduct manifested an objective intent to give AMS an unlimited license at the time of creation; thus, when he stored the source code at AMS, the code was delivered.

3. Gagnon's Intent as Manifested by His Conduct

Gagnon argues that he never intended that AMS would retain and modify the programs he delivered. Gagnon misunderstands the inquiry into intent, and we conclude that his conduct did manifest an intent to grant a license. The relevant intent is the licensor's objective intent at the time of the creation and delivery of the software as manifested by the parties' conduct. *See Effects*, 908 F.2d at 559 n. 6 (noting that "every objective fact concerning the transaction" supported the finding that an implied license existed). The First and Fourth Circuits consider the following factors to determine such

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[4] Though delivery of a copy of software does not compel the conclusion that Gagnon granted AMS a license, it is a relevant factor that we may consider. *See* 17 U.S.C. §202; *Effects,* 908 F.2d at 558 n. 6 (recognizing that delivery is not dispositive, but "one factor that may be relied upon in determining that an implied license has been granted").

an intent:

> (1) whether the parties were engaged in a short-term discrete transaction as opposed to an ongoing relationship; (2) whether the creator utilized written contracts . . . providing that copyrighted materials could only be used with the creator's future involvement or express permission; and (3) whether the creator's conduct during the creation or delivery of the copyrighted material indicated that use of the material without the creator's involvement or consent was permissible.

[*John G. Danielson, Inc. v. Winchester–Conant Props., Inc.*, 322 F.3d 26, 41 (1st Cir. 2003).] We find this approach to be persuasive.

Gagnon and AMS had an ongoing service relationship in which Gagnon provided technical support for all computer-related problems at AMS; he also created certain custom software applications at AMS's request. The relationship of the parties indicates neither an intent to grant nor deny a license without Gagnon's future involvement.

Several documents exist, however, that reflect the parties' objective intent: the TSA, signed by both parties, the OVA submitted by Gagnon, and Gagnon's letter objecting to Akerstein's proposed changes to the OVA.[6] Courts have looked to contracts, even if unexecuted, as evidence of the intent of the party submitting the contract. *See Johnson v. Jones*, 149 F.3d 494, 501 (6th Cir.1998) (finding no license where architect submitted contracts containing express provision that drawings could not be used by others except with agreement and compensation).

The TSA, signed by both parties in 2000 and printed on Mister Computer letterhead, stated only that Gagnon "will provide" AMS "specific add-on products." Nothing in the TSA indicates Gagnon's understanding or intent that continued use of the custom application programming undertaken by Gagnon would be prohibited after the TSA terminated. . . . Like the special effects creators in *Effects Associates*, Gagnon was well paid for his services. Under the circumstances, it defies logic that AMS would have paid Gagnon for his programming services if AMS could not have used the programs without further payment pursuant to a separate licensing arrangement that was never mentioned in the TSA, and never otherwise requested at the time. This is especially so because custom software is far less valuable without the ability to modify it and because the TSA was set to expire in one year; one would expect some indication of the need for future licensing if the custom programs were to become unusable after the TSA expired.

The OVA submitted by Gagnon, but never executed, did not evidence any intent by Gagnon to limit AMS's use of the programs. Gagnon argues that the clause, "Client agrees that [intellectual property] produced by Contractor while performing services under this agreement will be the property of Contractor and will be licensed to Client on a non-exclusive basis as will any copyrights, patents, or trademarks obtained by Contractor while performing services under this agreement . . . ," means that his license was conditioned on a continuing relationship with AMS. We disagree. The clause "while performing services under this agreement" modifies the production of the intellectual property and the obtainment of copyrights. Furthermore, the contract then expressly

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[6] We do not consider the NDA, allegedly signed by Gagnon, because Gagnon contests its validity and argues that his signature was forged, creating a factual dispute inappropriate for resolution on summary judgment.

stated, "Contractor will allow Company non-exclusive, unlimited licensing of software developed for Company," eliminating any ambiguity.

Moreover, Gagnon and AMS did not discuss a licensing agreement until their relationship was ending. Gagnon delivered the software without any caveats or limitations on AMS's use of the programs. Even if Gagnon and his employees maintained the software and had primary control over the code, they programmed on-site at AMS on AMS computers to which key AMS personnel had access — conduct that does not demonstrate an intent to retain sole control. The first time Gagnon expressed a contrary intent was in his letter to Aker[stein] sent after AMS had decided to terminate Gagnon's services. . . .

4. Scope and Irrevocability of Implied License

For the reasons outlined, we hold that Gagnon granted AMS an unlimited, nonexclusive license to retain, use, and modify the software. Furthermore, because AMS paid consideration, this license is irrevocable. *See Lulirama Ltd., Inc. v. Axcess Broad. Servs., Inc.*, 128 F.3d 872, 882 (5th Cir.1997). "[A] nonexclusive license supported by consideration is a contract." *Lulirama*, 128 F.3d at 882; *see also Effects*, 908 F.2d at 559 n. 7 (an implied license is a "creature of law, much like any other implied-in-fact contract"). If an implied license accompanied by consideration were revocable at will, the contract would be illusory. . . . .

NOTES AND QUESTIONS

1. As *AMS* shows, parties do not always put their arrangements in writing. Is it good policy for courts to imply a nonexclusive license?

Are there other instances in which courts should imply licenses? Recall *Aalmuhammed v. Lee*, excerpted in Chapter 2.B.2. While the court there rejected Aalmuhammad's claim of joint authorship, it was clear that Aalmuhammed had contributed copyrightable expression to the film *Malcolm X*. It was also clear that the film's producers had neglected to secure a work made for hire agreement from Aalmuhammad, as authorized by §101(2). Is that an appropriate circumstance under which to imply a license?

2. Does the *AMS* decision set out appropriate criteria for determining under what circumstances such a license should be implied? In particular, the court treated delivery of tangible copies embodying the copyrighted work as a factor bearing on whether to imply a license. Does that make sense? Remember that copyright ownership is distinct from ownership of the underlying object in which the copyrightable expression is fixed. *See* 17 U.S.C. §202.

3. Recall *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993), discussed in Chapter 2.A, in which the court held that a RAM copy, created by loading software from a hard disk into the CPU of a computer, satisfies the fixation requirement. Based on an extension of the *MAI* reasoning, routine activities such as forwarding e-mail and downloading documents from the web would each involve multiple acts of copying. Could courts hold that such activities are protected by an implied license? *See* Mark A. Lemley, *Dealing with Overlapping Copyrights on the Internet*, 22 U. Dayton L. Rev. 547 (1997). Would that be different than determining that a particular copying activity was fair use?

4. How should courts define the scope of an implied license? Should it be based on the parties' conduct? Industry practice? Should a court hold that an implied nonexclusive license to use a protected work encompasses all of the §106 rights?

5. The court in *AMS* determined that under contract law, because consideration was paid, the license should be irrevocable. Do you agree with that determination? The case law on duration and revocability of implied licenses is muddled. At least one court has held that an unspecified duration means a minimum duration of 35 years should be implied. *See Rano v. Sipa Press, Inc.*, 987 F.2d 580, 585 (9th Cir. 1993). *But see Korman v. HBC Florida, Inc.*, 182 F.3d 1291 (11th Cir. 1999) (holding that the Copyright Act does not impose a minimum 35 year term); *Walthal v. Rusk*, 172 F.3d 481 (7th Cir. 1999) (same). Which rule makes more sense? If the Copyright Act does not impose a minimum 35 year term, should an implied license nonetheless be subject to termination after 35 years under §203?

6. Sometimes even when there is a written contract courts must imply other terms of the contract. Silence on the issue of whether sublicensing is permitted is one example. A sublicense is a grant by a licensee to a third party, permitting that third party (the sublicensee) to engage in acts authorized by the initial grant from the copyright owner. Although an exclusive license constitutes a transfer of ownership, at least one court has ruled that an exclusive licensee is not equivalent to a copyright owner. *Gardner v. Nike, Inc.*, 279 F.3d 774 (9th Cir. 2002). In that case the Ninth Circuit held that an exclusive licensee may not transfer the licensed rights without the consent of the original licensor because "§201(d)(2) only conferred the 'protections and remedies' afforded a copyright owner under the 1976 Act, not the rights." *Id.* at 779. A logical implication from *Gardner* is that rights obtained pursuant to any license, including an exclusive license, may not be sublicensed without authorization from the copyright owner. Would such a rule be good policy?

B. New Uses and Old Language

The dispute in *Tasini* case arose in part because of technological change. CD-ROMs and massive networked databases did not exist at the time many of the articles at issue in *Tasini* were created. Understanding what constituted a "revision" in the new technological landscape challenged the parties and the Court. Interpreting the scope of a privilege can be equally difficult when that privilege is granted by contract. Unless the contract transfers "all right, title, and interest," selecting the language to memorialize the parties' intentions is a task to be undertaken with great care. The typical goal in contract drafting is to avoid ambiguity because ambiguity can foster litigation. If the contract is clear concerning the parties' respective rights and obligations, it is less likely that a dispute will arise and, if it does, that resort to the courts to interpret the contract will be necessary. Avoiding ambiguity may be simple enough for the uses of a particular copyrighted work contemplated by the parties, but, as you now know, copyrights can last for a very long time. What happens when the relevant technologies and distribution methods change? The two cases that follow illustrate this problem and explore the various contract interpretation methods employed by the courts.

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

LEVAL, J.: Boosey & Hawkes Music Publishers Ltd., an English corporation and the assignee of Igor Stravinsky's copyrights for "The Rite of Spring," brought this action alleging that the Walt Disney Company's foreign distribution in video cassette and laser disc format ("video format") of the film "Fantasia," featuring Stravinsky's work, infringed Boosey's rights. . . .

I. Background

During 1938, Disney sought Stravinsky's authorization to use The Rite of Spring (sometimes referred to as the "work" or the "composition") throughout the world in a motion picture. Because under United States law the work was in the public domain, Disney needed no authorization to record or distribute it in this country, but permission was required for distribution in countries where Stravinsky enjoyed copyright protection. In January 1939 the parties executed an agreement (the "1939 Agreement") giving Disney rights to use the work in a motion picture in consideration of a fee to Stravinsky of $6000.

The 1939 Agreement provided that

> In consideration of the sum of Six Thousand ($6,000.) Dollars, receipt of which is hereby acknowledged, [Stravinsky] does hereby give and grant unto Walt Disney Enterprises, a California corporation . . . the nonexclusive, irrevocable right, license, privilege and authority to record in any manner, medium or form, and to license the performance of, the musical composition hereinbelow set out. . . .

Under "type of use" in ¶3, the Agreement specified that

> The music of said musical composition may be used in one motion picture throughout the length thereof or through such portion or portions thereof as the Purchaser shall desire. The said music may be used in whole or in part and may be adapted, changed, added to or subtracted from, all as shall appear desirable to the Purchaser in its uncontrolled discretion. . . . The title "Rites of Spring" or "Le Sacre de Printemps," or any other title, may be used as the title of said motion picture and the name of [Stravinsky] may be announced in or in connection with said motion picture.

The Agreement went on to specify in ¶4 that Disney's license to the work "is limited to the use of the musical composition in synchronism or timed-relation with the motion picture.". . .

Finally, ¶7 of the Agreement provided that "the licensor reserves to himself all rights and uses in and to the said musical composition not herein specifically granted" (the "reservation clause").

Disney released Fantasia, starring Mickey Mouse, in 1940. The film contains no dialogue. It matches a pantomime of animated beasts and fantastic creatures to passages of great classical music, creating what critics celebrated as a "partnership between fine music and animated film." The soundtrack uses compositions of Bach, Beethoven, Dukas, Schubert, Tchaikovsky, and Stravinsky, all performed by the Philadelphia Orchestra under the direction of Leopold Stokowski. As it appears in the film soundtrack, The Rite of Spring was shortened from its original 34 minutes to about 22.5; sections of the score were cut, while other sections were reordered. For more than five decades Disney exhibited The Rite of Spring in Fantasia under the 1939 license. The film has been re-released for theatrical distribution at least seven times since 1940, and although Fantasia has never appeared on television in its entirety, excerpts including portions of The Rite of Spring have been televised occasionally over the years. Neither Stravinsky nor Boosey has ever previously objected to any of the distributions.

In 1991 Disney first released Fantasia in video format. The video has been sold in foreign countries, as well as in the United States. To date, the Fantasia video release has generated more than $360 million in gross revenue for Disney.

Boosey brought this action in February 1993. The complaint sought (1) a declaration that the 1939 Agreement did not include a grant of rights to Disney to use the Stravinsky work in video format; (2) damages for copyright infringement in at least 18 foreign countries. . . .

II. Discussion . . .

1. *Whether the "motion picture" license covers video format.* Boosey contends that the license to use Stravinsky's work in a "motion picture" did not authorize distribution of the motion picture in video format, especially in view of the absence of an express provision for "future technologies" and Stravinsky's reservation of all rights not granted in the Agreement. Disputes about whether licensees may exploit licensed works through new marketing channels made possible by technologies developed after the licensing contract — often called "new-use" problems — have vexed courts since at least the advent of the motion picture.

In *Bartsch v. Metro-Goldwyn-Mayer, Inc.,* we held that "licensee[s] may properly pursue any uses which may reasonably be said to fall within the medium as described in the license." 391 F.2d 150, 155 (2d Cir. 1968) (Friendly, J. (quoting Nimmer)). We held in Bartsch that a license of motion picture rights to a play included the right to telecast the motion picture. We observed that "[i]f the words are broad enough to cover the new use, it seems fairer that the burden of framing and negotiating an exception should fall on the grantor," at least when the new medium is not completely unknown at the time of contracting. *Id.* at 154, 155.

The 1939 Agreement conveys the right "to record [the composition] in any manner, medium or form" for use "in [a] motion picture." We believe this language is broad enough to include distribution of the motion picture in video format. At a minimum, *Bartsch* holds that when a license includes a grant of rights that is reasonably read to cover a new use (at least where the new use was foreseeable at the time of contracting), the burden of excluding the right to the new use will rest on the grantor. The license "to record in any manner, medium or form" doubtless extends to videocassette recording and we can see no reason why the grant of "motion picture" reproduction rights should not include the video format, absent any indication in the Agreement to the contrary. If a new-use license hinges on the foreseeability of the new channels of distribution at the time of contracting — a question left open in *Bartsch* — Disney has proffered unrefuted evidence that a nascent market for home viewing of feature films existed by 1939. The *Bartsch* analysis thus compels the conclusion that the license for motion picture rights extends to video format distribution.

We recognize that courts and scholars are not in complete accord on the capacity of a broad license to cover future developed markets resulting from new technologies. The Nimmer treatise describes two principal approaches to the problem. According to the first view, advocated here by Boosey, "a license of rights in a given medium (*e.g.*, 'motion picture rights') includes only such uses as fall within the unambiguous core meaning of the term (*e.g.*, exhibition of motion picture film in motion picture theaters) and excludes any uses that lie within the ambiguous penumbra (*e.g.*, exhibition of motion picture on television)." Nimmer, §10.10[B] at 10-90; *see also Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 853-54 (9th Cir. 1988) (holding that license to use musical score in television production does not extend to use in videocassette release); *Rey v. Lafferty*, 990 F.2d 1379, 1390-91 (1st Cir. 1993) (holding that license to portray Curious George in animations for "television viewing" does not extend to videocassette release). Under this approach, a license given in 1939 to "motion picture" rights would include only the core uses of "motion picture" as understood in 1939 — presumably theatrical distribution — and would not include subsequently developed methods of distribution of a motion picture such as television videocassettes or laser discs. *See* Nimmer §10.10[B] at 10-90.

The second position described by Nimmer is "that the licensee may properly pursue any uses that may reasonably be said to fall within the medium as described in the license." *Id.* at 10-91. Nimmer expresses clear preferences for the latter approach on the ground that it is "less likely to prove unjust." *Id.* As Judge Friendly noted in *Bartsch*, "[S]o do we." 391 F.2d at 155.

We acknowledge that a result which deprives the author-licensor of participation in the profits of new unforeseen channels of distribution is not an altogether happy solution. Nonetheless, we think it more fair and sensible than a result that would deprive a contracting party of the rights reasonably found in the terms of the contract it negotiates. This issue is too often, and improperly, framed as one of favoritism as between licensors and licensees. Because licensors are often authors — whose creativity the copyright laws intend to nurture — and are often impecunious, while licensees are often large business organizations, there is sometimes a tendency in copyright scholarship and adjudication to seek solutions that favor licensors over licensees. . . .

In our view, new-use analysis should rely on neutral principles of contract interpretation rather than solicitude for either party. Although *Bartsch* speaks of placing the "burden of framing and negotiating an exception . . . on the grantor," 391 F.2d at 155, it should not be understood to adopt a default rule in favor of copyright licensees or any default rule whatsoever. What governs under *Bartsch* is the language of the contract. If the contract is more reasonably read to convey one meaning, the party benefitted by that reading should be able to rely on it; the party seeking exception or deviation from the meaning reasonably conveyed by the words of the contract should bear the burden of negotiating for language that would express the limitation or deviation. This principle favors neither licensors nor licensees. It follows simply from the words of the contract.

The words of Disney's license are more reasonably read to include than to exclude a motion picture distributed in video format. Thus, we conclude that the burden fell on Stravinsky, if he wished to exclude new markets arising from subsequently developed motion picture technology, to insert such language of limitation in the license, rather than on Disney to add language that reiterated what the license already stated.

Other significant jurisprudential and policy considerations confirm our approach to new-use problems. We think that our view is more consistent with the law of contract than the view that would exclude new technologies even when they reasonably fall within the description of what is licensed. Although contract interpretation normally requires inquiry into the intent of the contracting parties, intent is not likely to be helpful when the subject of the inquiry is something the parties were not thinking about. . . . Especially where, as here, evidence probative of intent is likely to be both scant and unreliable, the burden of justifying a departure from the most reasonable reading of the contract should fall on the party advocating the departure.[4]

Neither the absence of a future technologies clause in the Agreement nor the presence of the reservation clause alters that analysis. The reservation clause stands for no more than the truism that Stravinsky retained whatever he had not granted. . . .

Random House v. Rosetta Books, LLC
150 F. Supp. 2d 613 (S.D.N.Y. 2001), aff'd, 283 F.3d 490 (2d Cir. 2002)

STEIN, J.: . . . In the year 2000 and the beginning of 2001, Rosetta Books contracted with several authors to publish certain of their works — including *The Confessions of Nat Turner* and *Sophie's Choice* by William Styron; *Slaughterhouse-Five, Breakfast of Champions, The Sirens of Titan, Cat's Cradle,* and *Player Piano* by Kurt Vonnegut; and *Promised Land* by Robert B. Parker — in digital format over the internet. On February 26, 2001 Rosetta Books launched its ebook business, offering those titles and others for sale in digital format. The next day, Random House filed this complaint accusing Rosetta Books of committing copyright infringement and tortiously interfering with the contracts Random House had with Messrs. Parker, Styron and Vonnegut by selling its ebooks. It simultaneously moved for a preliminary injunction prohibiting Rosetta from infringing plaintiff 's copyrights.

A. Ebooks

Ebooks are "digital book[s] that you can read on a computer screen or an electronic device." Ebooks are created by converting digitized text into a format readable by computer software. The text can be viewed on a desktop or laptop computer, personal digital assistant or handheld dedicated ebook reading device. . . .

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[4] We note also that an approach to new-use problems that tilts against licensees gives rise to antiprogressive incentives. Motion picture producers would be reluctant to explore and utilize innovative technologies for the exhibition of movies if the consequence would be that they would lose the right to exhibit pictures containing licensed works. *See Bartsch,* 391 F.2d at 155.

Nor do we believe that our approach disadvantages licensors. 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.

Included in a Rosetta ebook is a book cover, title page, copyright page and "eforward" all created by Rosetta Books. Although the text of the ebook is exactly the same as the text of the original work, the ebook contains various features that take advantage of its digital format. . . .

B. Random House's licensing agreements

While each agreement between the author and Random House differs in some respects, each uses the phrase "print, publish and sell the work in book form" to convey rights from the author to the publisher.

1. Styron Agreements

Forty years ago, in 1961, William Styron granted Random House the right to publish *The Confessions of Nat Turner*. Besides granting Random House an exclusive license to "print, publish and sell the work in book form," Styron also gave it the right to "license publication of the work by book clubs," "license publication of a reprint edition," "license after book publication the publication of the work, in whole or in part, in anthologies, school books," and other shortened forms, "license without charge publication of the work in Braille, or photographing, recording, and microfilming the work for the physically handicapped," and "publish or permit others to publish or broadcast by radio or television . . . selections from the work, for publicity purposes. . . ." Styron demonstrated that he was not granting Random House the rights to license publication in the British Commonwealth or in foreign languages by crossing out these clauses on the form contract supplied by Random House.

The publisher agreed in the contract to "publish the work at its own expense and in such style and manner and at such a price as it deems suitable." The contract also contains a non-compete clause that provides, in relevant part, that "[t]he Author agrees that during the term of this agreement he will not, without the written permission of the Publisher, publish or permit to be published any material in book or pamphlet form, based on the material in the work, or which is reasonably likely to injure its sale." Styron's contract with Random House for the right to publish *Sophie's Choice,* executed in 1977, is virtually identical to his 1961 contract to publish *The Confessions of Nat Turner*.

2. Vonnegut Agreements

Kurt Vonnegut's 1967 contract granting Random House's predecessor-in-interest Dell Publishing Co., Inc. the license to publish *Slaughterhouse-Five* and *Breakfast of Champions* follows a similar structure to the Styron agreements. Paragraph #1 is captioned "grant of rights" and contains those rights the author is granting to the book publisher. Certain rights on the publisher's form contract are crossed out, indicating that the author reserved them for himself. One of the rights granted by the author includes the "[e]xclusive right to publish and to license the Work for publication, after book publication . . . in anthologies, selections, digests, abridgements, magazine condensations, serialization, newspaper syndication, picture book versions, microfilming, Xerox and other forms of copying, either now in use or hereafter developed."

Vonnegut specifically reserved for himself the "dramatic . . . motion picture (silent and sound) . . . radio broadcasting (including mechanical renditions and/or recordings of the text) . . . [and] television" rights. Unlike the Styron agreements, this contract does not contain a non-compete clause.

Vonnegut's 1970 contract granting Dell the license to publish *The Sirens of Titan, Cat's Cradle,* and *Player Piano* contains virtually identical grants and reservations of rights as his 1967 contract. However, it does contain a non-compete clause, which provides that "the Author . . . will not publish or permit to be published any edition, adaptation or abridgment of the Work by any party other than Dell without Dell's prior written consent." . . .

[The court then described the Parker Agreements, which are similar to the Styron and Vonnegut Agreements.]

C. Ownership of a Valid Copyright

Two elements must be proven in order to establish a prima facie case of infringement: "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." *Feist Publications, Inc. v. Rural Tel. Serv. Co.,* 499 U.S. 340 (1991). . . . In this case, only the first element— ownership of a valid copyright — is at issue, since all parties concede that the text of the ebook is identical to the text of the book published by Random House. . . .

1. Contract Interpretation of Licensing Agreements — Legal Standards

Random House claims to own the rights in question through its licensing agreements with the authors. Interpretation of an agreement purporting to grant a copyright license is a matter of state contract law. . . . All of the agreements state that they "shall be interpreted according to the law of the State of New York." . . .

In New York, a written contract is to be interpreted so as to give effect to the intention of the parties as expressed in the contract's language. . . . The court must consider the entire contract and reconcile all parts, if possible, to avoid an inconsistency. . . .

These principles are in accord with the approach the U.S. Court of Appeals for the Second Circuit uses in analyzing contractual language in disputes, such as this one, "about whether licensees may exploit licensed works through new marketing channels made possible by technologies developed after the licensing contract — often called 'new use' problems." *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.,* 145 F.3d 481, 486 (2d Cir. 1998). The two leading cases in this Circuit on how to determine whether "new uses" come within prior grants of rights are *Boosey* and *Bartsch v. Metro-Goldwyn-Mayer, Inc.,* 391 F.2d 150 (2d Cir. 1968), decided three decades apart. . . .

2. Application of Legal Standards

Relying on "the language of the license contract and basic principles of interpretation," *Boosey,* 145 F.3d at 487 n.3, as instructed to do so by *Boosey* and *Bartsch,* this Court finds that the most reasonable interpretation of the grant in the contracts at issue to "print, publish and sell the work in book form" does not include the right to publish the work as an ebook. At the outset, the phrase itself distinguishes between the pure content — *i.e.* "the work" — and the format of display — "in book form." The *Random House Webster's Unabridged Dictionary* defines a "book" as "a written or printed work of fiction or nonfiction, usually on sheets of paper fastened or bound together within covers" and defines "form" as "external appearance of a clearly defined area, as distinguished from color or material; the shape of a thing or person." *Random House Webster's Unabridged Dictionary* (2001), available in searchable form at *http://www.allwords.com*.

Manifestly, paragraph # 1 of each contract — entitled either "grant of rights" or "exclusive publication right" — conveys certain rights from the author to the publisher. In that paragraph, separate grant language is used to convey the rights to publish book club editions, reprint editions, abridged forms, and editions in Braille. This language would not be necessary if the phrase "in book form" encompassed all types of books. That paragraph specifies exactly which rights were being granted by the author to the publisher. Indeed, many of the rights set forth in the publisher's form contracts were in fact not granted to the publisher, but rather were reserved by the authors to themselves. For example, each of the authors specifically reserved certain rights for themselves by striking out phrases, sentences, and paragraphs of the publisher's form contract. This evidences an intent by these authors not to grant the publisher the broadest rights in their works.

Random House contends that the phrase "in book form" means to faithfully reproduce the author's text in its complete form as a reading experience and that, since ebooks concededly contain the complete text of the work, Rosetta cannot also possess those rights. While Random House's definition distinguishes "book form" from other formats that require separate contractual language — such as audio books and serialization rights — it does not distinguish other formats specifically mentioned in paragraph # 1 of the contracts, such as book club editions and reprint editions. Because the Court must, if possible, give effect to all contractual language in order to "safeguard against adopting an interpretation that would render any individual provision superfluous," *Sayers,* 7 F.3d at 1095, Random House's definition cannot be adopted. . . .

Random House also cites the non-compete clauses as evidence that the authors granted it broad, exclusive rights in their work. Random House reasons that because the authors could not permit any material that would injure the sale of the work to be published without Random House's consent, the authors must have granted the right to publish ebooks to Random House. This reasoning turns the analysis on its head. First, the grant of rights follows from the grant language alone. . . . Second, non-compete clauses must be limited in scope in order to be enforceable in New York. . . . Third, even if the authors did violate this provision of their Random House agreements by contracting with Rosetta Books — a point on which this Court does not opine — the remedy is a breach of contract action against the authors, not a copyright infringement action against Rosetta Books. . . .

Not only does the language of the contract itself lead almost ineluctably to the conclusion that Random House does not own the right to publish the works as ebooks, but also a reasonable person "cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business," *Sayers,* 7 F.3d at 1095, would conclude that the grant language does not include ebooks. "To print, publish and sell the work in book form" is understood in the publishing industry to be a "limited" grant. *See Field v. True Comics,* 89 F. Supp. 611, 613-14 (S.D.N.Y. 1950); *see also* Melville B.

Nimmer & David Nimmer, *Nimmer on Copyright*, §10.14[C] (2001) (citing *Field*).

In *Field v. True Comics*, the court held that "the sole and exclusive right to publish, print and market *in book form*" — especially when the author had specifically reserved rights for himself — was "much more limited" than "the sole and exclusive right to publish, print and market *the book*." 89 F. Supp. at 612 (emphasis added). In fact, the publishing industry generally interprets the phrase "in book form" as granting the publisher "the exclusive right to publish a hardcover trade book in English for distribution in North America." 1 *Lindey on Entertainment, Publishing and the Arts* Form 1.01-1 (2d ed. 2000) (using the Random House form contract to explain the meaning of each clause). . . .

3. Comparison to Prior "New Use" Caselaw

The finding that the five licensing agreements at issue do not convey the right to publish the works as ebooks accords with Second Circuit and New York case law. Indeed, the two leading cases . . . that found that a particular new use was included within the grant language — *Boosey,* 145 F.3d 481 (2d Cir. 1998), and *Bartsch,* 391 F.2d 150 (2d Cir. 1968) — can be distinguished from this case on four grounds.

First, the language conveying the rights in *Boosey* and *Bartsch* was far broader than here. . . . Second, the "new use" in those cases— *i.e.* display of a motion picture on television or videocassette — fell squarely within the same medium as the original grant. *See Boosey,* 145 F.3d at 486 (describing videocassettes and laser discs as "subsequently developed methods of distribution of a motion picture"). . . .

In this case, the "new use" — electronic digital signals sent over the internet — is a separate medium from the original use — printed words on paper. Random House's own expert concludes that the media are distinct because information stored digitally can be manipulated in ways that analog information cannot. Ebooks take advantage of the digital medium's ability to manipulate data by allowing ebook users to electronically search the text for specific words and phrases, change the font size and style, type notes into the text and electronically organize them, highlight and bookmark, hyperlink to specific parts of the text, and, in the future, to other sites on related topics as well, and access a dictionary that pronounces words in the ebook aloud. The need for a software program to interact with the data in order to make it usable, as well as the need for a piece of hardware to enable the reader to view the text, also distinguishes analog formats from digital formats. . . .

The third significant difference between the licensee in the motion picture cases cited above and the book publisher in this action is that the licensees in the motion picture cases have actually created a new work based on the material from the licensor. Therefore, the right to display that new work — whether on television or video — is derivative of the right to create that work. In the book publishing context, the publishers, although they participate in the editorial process, display the words written by the author, not themselves.

Fourth, the courts in *Boosey* and *Bartsch* were concerned that any approach to new use problems that "tilts against licensees [here, Random House] gives rise to antiprogressive incentives" insofar as licensees "would be reluctant to explore and utilize innovative technologies." *Boosey,* 145 F.3d at 488, n.4; *see also Bartsch,* 391 F.2d at 155. However, in this action, the policy rationale of encouraging development in new technology is at least as well served by finding that the licensors — i.e., the authors — retain these rights to their works. In the 21st century, it cannot be said that licensees such as book publishers and movie producers are ipso facto more likely to make advances in digital technology than start-up companies. . . .

NOTES AND QUESTIONS

1. Which of these two cases has the better reasoning? Are these cases inconsistent, or does each case simply turn on the language of the contract at issue? If you had represented Random House in drafting and negotiating the author agreements, how would you have drafted the grant of rights provision to encompass ebooks? Remember, at the time those agreements were negotiated the computer industry was in its infancy.

2. As you know, a copyright owner is granted different rights under §106, including the right to reproduce the work, the right to prepare derivative works, the right to distribute copies of the work to the public, and the rights to publicly perform and display the work. The exact bundle of rights granted to a licensee can be extremely important, particularly as technology changes. If a licensee is granted the right to publicly perform the work, what happens when technologically enhanced means of engaging in that performance also result in copies being made? Should a license to make such copies ever be implied? Is that what the *Boosey & Hawke*s court did? For a helpful discussion of this problem, see Mark A. Lemley, *Dealing with Overlapping Copyrights on the Internet*, 22 U. Dayton L. Rev. 547 (1997).

3. Contract interpretation is typically, although not always, governed by state law. There are many canons of construction that you learned in first-year Contracts class. For example, in certain situations the contract is said to be construed against the drafter. Should state law rules of contract interpretation apply to copyright contracts? Which approach to contract construction do the *Boosey & Hawkes* and *Random House* courts adopt?

Recall that in *CCNV v. Reid*, 490 U.S. 730 (1989), the Supreme Court held that a federal common law of agency, as opposed to the principles of agency law applied in each of the separate states, should be used to determine if the creator of a work is an employee. Are the arguments for using *federal* common law canons of contract interpretation as strong as the arguments for using a uniform federal agency test?

4. The problems associated with changing technologies and "old" contracts create a strong incentive on the part of the transferee simply to obtain the entire copyright. That way, there can be no dispute concerning what rights the transferee possesses. Subject only to termination rights, the transferee of "all right, title, and interest" in a particular copyright can exercise all of the rights of a copyright owner. Under what circumstances might a transferee be willing to accept less than the entire copyright?

5. Often members of the copyright industries (publishers, record companies, motion picture studios, and computer software companies) begin their contract negotiations seeking complete transfer of copyright ownership. For example, the publishers of this casebook sent the authors their standard publishing agreement, which contained the following copyright clause:

> The Authors grant the Publisher all right, title, and interest in and to the Work

> including the copyright thereto. The Authors acknowledge that as a result of this grant of ownership, the Publisher has throughout the world the exclusive right, among others, to reproduce the Work in any form or medium (now known or hereafter devised), to prepare derivative works based on the Work, to distribute copies of the Work in any form or medium (now known or later devised) to the public by sale or other transfer of ownership, or by license, rental, lease or lending, and to perform and display the Work publicly.

Drafting the copyright clause in contracts (also referred to as the grant of rights clause) is, in part, an exercise in the possible. The authors of this casebook countered the original clause with this proposed clause:

> The Authors grant the Publisher the exclusive right to reproduce the Work in print form and to prepare derivative works based upon the Work in print form. The Authors also grant to Publisher the exclusive right to distribute the Work in print form and any authorized derivative works thereof in print form to the public by sale or other transfer of ownership, or by license, rental, lease, or lending.

After negotiations, the parties finally agreed to the following clause:

> The Authors grant the Publisher all right, title, and interest in and to the Work including the copyright thereto except that Authors expressly retain all exclusive rights to the Work in non-print form (including, but not limited to, electronic versions). The Authors acknowledge that as a result of this grant of ownership, the Publisher has throughout the world the exclusive rights, among others, to reproduce the Work in print form, to prepare derivative works based upon the Work in print form, and to distribute copies of the Work in print form to the public by sale or other transfer of ownership, or by license, rental, lease, or lending. The Authors further acknowledge that this grant to the Publisher of the ownership of the copyright to the Work includes the copyright to all derivative works in print form based upon the Work. Publisher shall have the right of first refusal of all remaining exclusive rights to the Work, including electronic rights, and the Authors agree to grant the Publisher all such rights, by separate instrument on mutually agreed terms, when Publisher develops a system for electronic distribution of the Work.

What did each of the parties give up? Given their initial positions, why might each side have agreed to this clause?

6. The problems of contract drafting can concern not just the phrasing of the grant of rights clause, but also the geographic scope of the grant. Is it sufficient for a license to grant rights “throughout the world”? Does your answer depend on how confident you are about the prospects for space travel in the next 120 years?