

**UCLA**

**UCLA Entertainment Law Review**

**Title**

"How High Is Up": Interstitial Dilemmas in Nonexclusive Copyright Licensing Cases in the Ninth Circuit

**Permalink**

<https://escholarship.org/uc/item/4r31x1kw>

**Journal**

UCLA Entertainment Law Review, 11(2)

**ISSN**

1073-2896

**Author**

Zeitz, Boryana

**Publication Date**

2004

**DOI**

10.5070/LR8112027064

**Copyright Information**

Copyright 2004 by the author(s). All rights reserved unless otherwise indicated. Contact the author(s) for any necessary permissions. Learn more at <https://escholarship.org/terms>

Peer reviewed

# “How High Is Up”: Interstitial Dilemmas in Nonexclusive Copyright Licensing Cases in the Ninth Circuit

**Boryana Zeitz\***

## TABLE OF CONTENTS

I. INTRODUCTION.....	429
II. THE POST-ERIE ERA OF INTERSTITIAL LAW-MAKING....	433
A. <i>The General Framework</i> .....	433
B. <i>The Two Roads in the Land of Copyright Interstices</i> .	435
C. <i>Licensing Contracts in the Context of Preemption and Interstitial Law-Making</i> .....	437
III. THE “GAP” OF NONEXCLUSIVE COPYRIGHT LICENSES: THE INTERSTITIAL APPROACH IN <i>FOAD CONSULTING V. MGA</i> .....	440
IV. THE “GAP” OF NONEXCLUSIVE COPYRIGHT LICENSES: THE TEXTUAL INTERPRETATION APPROACH IN <i>RANO V. SIPA</i> .....	449
V. THE COMMON INTERSTITIAL GROUNDS .....	452
VI. CONCLUSION .....	453

## I. INTRODUCTION

Courts have been accused of engaging in the puzzling exercise of defining “how high is up”<sup>1</sup> in cases involving implied copyright licenses, an exercise marked both by futility and underlying confusion. The frivolity ends with the originality of labels because the issue is one of

---

\* Managing Editor, UCLA Law Review, Volume 51; J.D. candidate, UCLA School of Law, 2004; B.A., Colgate University, 1999. I would like to thank Prof. David Nimmer for his guidance and support in the development of this Comment.

<sup>1</sup> *Foad Consulting Group, Inc. v. Musil Govan Azzalino*, 270 F.3d 821, 833 (9th Cir. 2001) (Kozinski, J., concurring).

more solemn concern, namely, how to fill gaps in the Copyright Act regarding nonexclusive implied licenses.

An example might help to set up the implied license conundrum. In a typical scenario, the architect Roublev gets hired by Megabucks to create the architectural plans of an amusement complex. The contract between Roublev and Megabucks doesn't mention a word about the copyright for the plans. Roublev produces several preliminary plans but only one of them carries a copyright warning. Alas, Roublev's whimsical designs don't quite suit Megabucks' fancy, and the two end their collaboration with a fight. Megabucks pays Roublev half of the agreed upon sum and hires a new, more conventional, architect. For the sake of expediency and pending city approvals, the new architect uses part of Roublev's original design. Enraged and underpaid, Roublev sues Megabucks for copyright infringement.

Assuming that the relationship between Megabucks and Roublev doesn't fit the contours of "a "work made for hire,"<sup>2</sup> initial copyright ownership over the architectural plans vests in Roublev as their author.<sup>3</sup> In a contract devoid of any provisions regarding transfer of copyright ownership or license,<sup>4</sup> Megabucks' only defense to infringement is to claim an implied nonexclusive license to use Roublev's plans.

Nonexclusive licenses are interstitial creatures, emerging from the gaps of the Copyright Act. The Act suggests close to nothing about their creation, scope or termination apart from the fact that they exist. The existence of nonexclusive licenses is "negatively implied from the fact that a 'transfer of copyright ownership,' which by definition does not include nonexclusive licenses, must be by written document."<sup>5</sup> In turn, nonexclusive licenses may be granted orally or by implication.<sup>6</sup>

---

<sup>2</sup> Section 101 of the Copyright Act provides two definitions of a "work made for hire": either a work prepared by an employee within the scope of his or her employment or a work specially ordered or commissioned in nine enumerated categories, on the condition that the parties agreed in writing that the work shall be considered a work made for hire. 17 U.S.C. § 101 (2002). The architectural plans in the contractual scenario between Roublev and Megabucks do not fall under any of those nine categories. Furthermore, Roublev is most likely not considered an "employee" under the multifactor test currently used to supply that definition. *See* *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989) [hereinafter "CCNV"].

<sup>3</sup> Under the Copyright Act, copyright ownership vests initially in the author of the work. 17 U.S.C. § 201(a) (2002).

<sup>4</sup> Had Megabucks or Roublev had reasonably skilled attorneys, they could have avoided the problem altogether by providing for a transfer of copyright ownership in writing since the Copyright Act contemplates transfers in the form of "an assignment, mortgage, exclusive license, or any other conveyance . . ." *Id.* at § 101.

<sup>5</sup> MELVILLE B. NIMMER & DAVID NIMMER, 3 NIMMER ON COPYRIGHT §10.03 (A)(7) [hereinafter NIMMER ON COPYRIGHT].

<sup>6</sup> *See id.*

The rest of the parameters are to be charted by the courts. As with any other interstice in a federal statute, the courts are faced with two basic choices when dealing with statutory silences regarding copyright contracts: either to borrow state contract law to fill in the gap left by Congress or to devise a federal rule to address the issue. As examined later in this Comment, Supreme Court pronouncements in recent years have tilted that choice in the direction of borrowing state law. Given the failure of the Copyright Act to define the numerous contractual terms it contains and the absence of a body of federal common law of contracts, resorting to state law to fill in the statutory silences relating to nonexclusive licenses and other copyright contracts appears inevitable. Nevertheless, reliance on state contract law is constrained by the doctrine of conflict preemption,<sup>7</sup> which invalidates the application of a state law, which, in turn, “stands as an obstacle”<sup>8</sup> to compliance with the Copyright Act’s provisions, and more broadly, with its purposes and objectives.

Therefore, it would seem that the federal courts would turn to crafting federal common law only in cases where adapting state law as the federal rule of decision would bring about conflict with the existing federal scheme. Nevertheless, recent cases dealing with nonexclusive licenses have gone in both directions—automatic reliance on state law as a “gap filler” or creation of a federal common law rule, independent of applicable state law. The aim of this Comment is twofold. The immediate and narrower purpose is to examine two controversial Ninth Circuit opinions dealing with the creation and termination of nonexclusive copyright licenses, respectively, and suggest different reasoning than that used by these courts. Since nonexclusive licenses can arise any time an architect,<sup>9</sup> a writer<sup>10</sup> or another professional is hired to create a copyrighted work and tend to be litigated frequently, the importance of coherent judicial analysis cannot be underestimated. More broadly, this Comment will attempt to delve into the mechanisms that produce two different approaches to filling the interstices of the Copyright Act and argue, taking up the limited case of nonexclusive licenses, that what lies at the bottom of that distinction is likely a question of perception. As illustrated later, courts tend to resort to state law whenever they view their task as purely interstitial and, alternatively, feel

---

<sup>7</sup> For a more detailed discussion of the preemption doctrine, see *infra* Part I (2).

<sup>8</sup> *Crosby v. Nat’l Foreign Trade Council*, 530 U.S. 363, 373 (2000) (citing *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941)).

<sup>9</sup> See, e.g., *Johnson v. Jones*, 149 F.3d 494 (6th Cir. 1998); *I.A.E., Inc. v. Shaver*, 74 F.3d 768 (7th Cir. 1996).

<sup>10</sup> See, e.g., *Lulirama Ltd., Inc. v. Axxess Broad. Servs., Inc.*, 128 F.3d 872 (5th Cir. 1997); *Oddo v. Ries*, 743 F.2d 630 (9th Cir. 1984).

more inclined to devise federal common law rules when they see themselves as interpreters of the federal text.

Ultimately, the difference between the two scenarios—congressional silence on one hand and congressional ambiguity or lack of clarity on the other—appears to be one of degree, or at least not substantial enough to justify two distinct approaches. Arguably, in both cases, courts seek to effectuate the meaning and objectives of the Copyright Act,<sup>11</sup> which may or may not be adequately served by the application of state law. If that is the case, a common ground of analysis might aid in harmonizing these seemingly divergent approaches and steer the courts away from automatic reliance either on state law or on judicial creativity.

This Comment will proceed in four parts. Part II will discuss the current framework of interstitial law-making, with an eye to the interplay between state law and federal common law in the copyright area. Part III will analyze the use of state contract law as the method of choice when filling the interstices of the Copyright Act regarding creation of implied licenses and also will examine the issues arising from that analysis. Part IV will examine the alternative approach of crafting federal common law rules in response to an interpretation of an ambiguous provision from the Copyright Act regarding termination of non-exclusive licenses and will highlight the pitfalls of that type of analysis. The final part will attempt to harmonize to a degree the two approaches and suggest a more nuanced preemption analysis<sup>12</sup> as a starting point to a more coherent method to interstice filling in the copyright context.

---

<sup>11</sup> Extensive discussion of the appropriate judicial role in statutory interpretation, from strict textualism to greater judicial creativity, is beyond the scope of this Comment. For an introduction to the lively academic debate on the subject, see RICHARD H. FALLON ET AL., HART & WECHSLER'S *THE FEDERAL COURTS AND THE FEDERAL SYSTEM* 705-09 (5th ed. 2003).

<sup>12</sup> The term is borrowed from Mark A. Lemley, who argues that the current doctrine of preemption doesn't sufficiently protect the intellectual property interests in the "indifferent world of contract." See Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 145 (1999).

Using preemption doctrine against contracts is something like swinging a sledgehammer at a gnat: you are likely to hit the target, but you may do some serious damage to the things around it. More likely though . . . you might decide not to swing the hammer at all, for fear of hitting the wrong thing.

## II. THE POST-*ERIE* ERA OF INTERSTITIAL LAW-MAKING

### A. *The General Framework*

In *Erie R.R. v. Tompkins*,<sup>13</sup> the Supreme Court announced the end of the era in which the federal courts had the power to craft their own “general law” rules in response to the majority of issues presented to them.<sup>14</sup> Several years later, the Court qualified the *Erie* message by holding that, unless Congress specified otherwise, the federal courts have the option to either adopt state law as the content of the federal rule or to develop a uniform rule in areas of established national functions.<sup>15</sup> The resulting approach to federal common-law-making<sup>16</sup> can generally be broken down into a two-stage inquiry: do the federal courts possess the “competence” to declare the governing law because the issue in front of them is “substantially related to an established program of government operation”<sup>17</sup> and, if that is the case, how are they going to exercise their “power of choice?”<sup>18</sup>

The second prong is ambiguous as to what criteria courts should use to decide whether to resolve the issue by independent federal formulation or by borrowing applicable state law. Earlier opinions seemed to afford the federal courts a fair degree of latitude in formulating federal common law to advance federal policy:<sup>19</sup>

[T]his is not to say that wherever we have occasion to decide a federal question which cannot be answered from federal statutes alone we may not resort to all of the source materials of the common law . . . . Were we bereft of the common law, our federal system would be impotent.<sup>20</sup>

<sup>13</sup> 304 U.S. 64 (1938).

<sup>14</sup> See Paul J. Mishkin, *The Variousness of “Federal Law”: Competence and Discretion in the Choice of National and State Rules for Decision*, 105 U. PA. L. REV. 797, 798 (1957). The replaced “general law” doctrine had previously dominated under the holding of *Swift v. Tyson*. See *id.* What followed the *Erie* decision was not an abolition of federal common law power but rather channeling and restricting that power into areas of national concern. See Henry J. Friendly, *In Praise of Erie – And of the New Federal Common Law*, 39 N.Y.U. L. REV. 383, 405 (1964). “The clarion yet careful pronouncement of *Erie*, ‘There is no federal general common law,’ opened the way to what, for want of a better term, we may call specialized federal common law.” *Id.* (quoting *Erie R.R.*, 304 U.S. at 78).

<sup>15</sup> See *Clearfield Trust Co. v. United States*, 318 U.S. 363 (1943).

<sup>16</sup> In referring to “federal common law,” I have followed Thomas Merrill’s definition in that it encompasses “any federal rule of decision that is not mandated on the face of some authoritative federal text.” Thomas W. Merrill, *The Common Law Powers of Federal Courts*, 52 U. CHI. L. REV. 1, 5 (1985).

<sup>17</sup> Mishkin *supra* note 14, at 800.

<sup>18</sup> *Id.* at 810.

<sup>19</sup> See *Clearfield Trust*, 318 U.S. at 363; *D’Oench, Duhme & Co. v. FDIC*, 315 U.S. 447 (1942); *Bd. of Comm’rs v. United States*, 308 U.S. 343 (1939).

<sup>20</sup> *D’Oench* 315 U.S. 447, 469-70 (Jackson, J., concurring).

Later precedent channeled the creation of interstitial federal common law into effectuating congressionally enacted schemes<sup>21</sup> and developed factors to consider when deciding whether to craft a federal common law rule or incorporate state law as the federal rule of decision.<sup>22</sup> In recent years, the Supreme Court has declared a new presumption in favor of incorporating state law to fill in the gaps of statutory schemes unless there is a significant conflict between the implicated federal policy and state law.<sup>23</sup> It is unclear how far reaching

---

<sup>21</sup> See *Textile Workers Union v. Lincoln Mills*, 353 U.S. 448, 450-51 (1957). Courts have followed *Lincoln Mills* to create federal common law under ERISA, the Sherman Antitrust Act and other federal statutes. See, e.g., *Firestone Tire & Rubber Co. v. Bruch*, 489 U.S. 101, 110 (1989) (“courts are to develop a ‘federal common law of rights and obligations under ERISA-regulated plans’” (quoting *Pilot Life Ins. Co. v. Dedeaux*, 481 U.S. 41, 56 (1987))); *Nat’l Soc’y of Prof’l Eng’rs v. United States*, 435 U.S. 679, 688 (1978) (“Congress . . . did not intend the text of the Sherman Act to delineate the full meaning of the statute or its application in concrete situations. The legislative history makes it perfectly clear that it expected the courts to give shape to the statute’s broad mandate by drawing on common-law tradition.”).

<sup>22</sup> In *United States v. Kimbell Foods, Inc.*, 440 U.S. 715, 728-29 (1979), the Supreme Court delineated three factors that federal courts must balance: 1) the need for a nationally uniform body of law; 2) whether application of state law would frustrate specific objectives of the federal program; and 3) the extent to which application of a federal rule would disrupt commercial relationships predicated on state law. In choosing to adopt state rules, the *Kimbell* court began to tip the interstitial equation in favor of “borrowing” state law. For an extensive discussion, see Paul Lund, *The Decline of Federal Common Law*, 76 B.U. L. Rev. 895, 977 (1996).

<sup>23</sup> More recent Supreme Court decisions can be construed as sending “mixed” messages about the general presumption in favor of borrowing state law to fill in the interstices of federal statutes. In *Miss. Band of Choctaw Indians v. Holyfield*, 490 U.S. 30, 43 (1989), the Court stated, “Congress sometimes intends that a statutory term be given content by the application of state law” (citing *De Sylva v. Ballentine*, 351 U.S. 570, 580 (1956)). “We start, however, with the general assumption that “in the absence of a plain indication to the contrary, . . . Congress when it enacts a statute is not making the application of the federal act dependent on state law.” *Id.* (quoting *Jerome v. United States*, 318 U.S. 101, 104 (1943)). Perhaps this pronouncement was anchored mostly in the nature of the federal statute in question, the Indian Child Welfare Act of 1978, which was concerned with the rights of Indian families vis-à-vis state authorities. See *id.* at 45. A couple of years later, the Court contradicted the presumption against borrowing state law in *Kamen v. Kemper Fin. Servs.*, 500 U.S. 90 (1991), by declaring its preference for state law to fill the interstices of federal schemes:

Where a gap in the federal securities laws must be bridged by a rule bearing on the allocation of governing power within the corporation, federal courts should incorporate state law into federal common law unless the particular state law in question is inconsistent with the policies underlying the federal statute.

*Id.* at 91. The presumption expressed in *Kamen* may be construed to apply more strongly in the corporate law area because of the type of rationale the Court used to support it—the idea that private parties may have entered into legal relationships with the expectations that those relationships will be governed according to state law. See *id.* at 98. Nevertheless, the Court seemed to have affirmed the presumption in favor of adopting state law as the federal rule of decision in *O’Melveny & Myers v. FDIC*, 512 U.S. 79 (1994). However, some com-

this presumption is and whether it should be followed more rigorously in some areas of the law and not in others.

### B. *The Two Roads in the Land of Copyright Interstices*

One of the seminal illustrations of the reliance on state law to provide the content of Copyright Act “gaps” remains the 1956 *De Sylva v. Ballentine* decision.<sup>24</sup> The controversy over renewal rights in *De Sylva* necessitated construction of the word “children” which the 1909 Copyright Act failed to define.<sup>25</sup> Undisputedly, federal courts have the “competence” to apply a federal common law rule in cases involving filling the interstices of copyright statutes both because such issues closely relate to a “complete scheme” of federal legislation and because they are within the exclusive jurisdiction of the federal courts.<sup>26</sup> In exercising its “discretion” over the interstitial endeavor, the Court chose to “borrow” state law to define “children” rather than adopt a uniform rule:

The scope of a federal right is, of course, a federal question, but that does not mean that its content is not to be determined by state, rather than federal law . . . . This is especially true where a statute deals with a familial relationship; there is no federal law of domestic relations, which is primarily a matter of state concern.<sup>27</sup>

Nevertheless, the Court indicated that applicable state law would not be “borrowed” in the event it defined the word “children” “in a way entirely strange to those familiar with its ordinary usage.”<sup>28</sup> Despite this limitation, there must have been sufficient momentum in the direction of uniformity in the years that followed *De Sylva* because the current Act includes a definition of “children.”<sup>29</sup> Surprisingly enough,

---

mentators have suggested that what appeared to be a federal issue in *O'Melveny* was actually an issue governed by state law. See Lund, *supra* note 22, at 995.

<sup>24</sup> 351 U.S. 570 (1956).

<sup>25</sup> The 1909 Copyright Act provided for renewal of a copyright upon expiration and, in the event that the author is dead at that time, vests that renewal right in the author's widow and “children.” *Id.* at 571-72. For the renewal provisions in the current Act, see 17 U.S.C. § 304(a) (2002).

<sup>26</sup> See Mishkin, *supra* note 14, at 821.

<sup>27</sup> *De Sylva*, 351 U.S. at 580. In his concurrence, Justice Douglas voiced his preference for giving the word “children” a uniform meaning: “[T]he statutory policy of protecting dependents would be better served by uniformity, rather than by the diversity which would flow from incorporating into the Act the laws of forty-eight States.” *Id.* at 583 (Douglas, J., concurring). The concern for uniformity has had a limited following in the post-*Erie* era to the extent it reflects an abstract desire for symmetry in the law from a federal perspective. See Mishkin, *supra* note 14, at 813; Theresa C. O'Loughlin, Note, *Adopting State Law as the Federal Rule of Decision: A Proposed Test*, 43 U. CHI. L. REV. 823, 839 (1976).

<sup>28</sup> *De Sylva*, 351 U.S. at 581.

<sup>29</sup> 17 U.S.C. § 101 (2002).

the adoption of a federal definition of the term didn't end this interstitial story. The court in *Stone v. Williams*<sup>30</sup> held that the statutory definition of "children" applied only to the termination provisions in section 203 of the Copyright Act, while state law still governed the definition of "children" under the renewal provisions in section 304(a) of the same Act.<sup>31</sup> If nothing else, this definitional duality illustrates the extent to which, even in the face of uniformity, state law is allowed to permeate the interstices of the Copyright Act.

In contrast, the Court in *Community for Creative Non-Violence v. Reid*<sup>32</sup> chose to apply a uniform common law definition to supply meaning to "employee," "employer," and "scope of employment," which remained undefined in section 101 of the current Act<sup>33</sup>:

In past cases of statutory interpretation, when we have concluded that Congress intended terms such as "employee," "employer," and "scope of employment" to be understood in light of agency law, we have relied on the general common law of agency, rather than on the law of any particular State, to give meaning to these terms.<sup>34</sup>

Even though the Court framed its discussion in terms of "statutory interpretation," the task at hand seemed no different than that in *De Sylva* since in both cases the Court filled in definitional gaps of the Copyright Act. Rather, the distinction in the approaches seems to revolve largely around the availability of federal common law to supply those definitions: in *De Sylva*, the absence of a federal law of familial relations tipped the scale in favor of incorporating state law, while in *Community for Creative Non-Violence*, the established general common law of agency precluded resorting to state law of agency. Furthermore, the Court in *Community for Creative Non-Violence* emphasized that it was particularly appropriate to establish a federal common law rule "given the Act's express objective of creating national, uniform copyright law by broadly pre-empting state statutory and common-law copyright regulation."<sup>35</sup> Ultimately, the post-*De Sylva* statutory development and the holding in *Community for Creative Non-Violence* both have swung the pendulum in the direction of uniformity, rather

---

<sup>30</sup> 970 F.2d 1043 (2d Cir. 1992).

<sup>31</sup> *Id.* at 1064-65. In choosing to preserve the state law definition of "children" for the purposes of section 304(a), the *Stone* court relied on the legislative history of that section which stated that the section preserves the language of the 1909 Act renewal provision "without any change in substance." *Id.* at 1064 (emphasis in original).

<sup>32</sup> 490 U.S. 730 (1989).

<sup>33</sup> 17 U.S.C. § 101 (2002).

<sup>34</sup> *CCNV*, 490 U.S. at 740.

<sup>35</sup> *Id.*

than “variousness.”<sup>36</sup> While it seems clear that the possibility of developing a uniform federal rule should be considered in the copyright interstitial context, the question remains as to how viable that option is in the absence of already existing body of federal common law.

### C. *Licensing Contracts in the Context of Preemption and Interstitial Law-Making*

Copyright contracts, various aspects of which remain undefined in the current Act,<sup>37</sup> seem to pose an interstitial task closer to the one in *De Sylva v. Ballentine* than to that in *CCNV v. Reid*. In the absence of federal common law of intellectual property contracts, it appears the first resort in filling the silences with content should be state contract law. Yet, the application of state law in the copyright context is limited by two sets of preemption doctrines—express statutory preemption and conflict preemption.

Section 301 of the current Act,<sup>38</sup> which codifies one of these doctrines, preempts any rights under common or state law that are equivalent to copyright and that extend to works coming under the scope of the federal copyright law.<sup>39</sup> Contract claims in general are not

<sup>36</sup> The term is borrowed from Paul Mishkin’s seminal piece on when state law should be incorporated as the federal rule of decision. See Mishkin, *supra* note 14.

<sup>37</sup> For example, the Copyright Act doesn’t define who is competent to enter into a copyright contract, what constitutes a rescission of an existing contract, etc. See 17 U.S.C. § 101 (2002).

<sup>38</sup> 17 U.S.C. § 301 (2002); H.R. REP. NO. 94-1497, at 129-33 (1976). The copyright preemption doctrine before the 1976 Copyright Act was in disarray, marked, on one hand, by dual protection under state common law for unpublished works and the 1909 Copyright Act after publication and, on the other hand, by divergent pronouncements by the Supreme Court on how much of state law protection of intangibles is preempted. Courts wavered between divergent approaches— from recognition of broad common law power to regulate intangible interests in *Int’l News Serv. v. Assoc. Press*, 248 U.S. 215 (1918) (upholding the common law doctrine of misappropriation as a means of protecting intellectual property), through invalidating state law protection of articles unprotected by patent or copyright law in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) to narrowing the scope of the preemption doctrine in *Goldstein v. California*, 412 U.S. 546 (1973) (upholding California’s anti-piracy statute) and *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) (holding that Ohio’s trade secret law was not preempted by federal patent law).

<sup>39</sup> The courts have structured the statutory preemption analysis to encompass an equivalency requirement and a subject matter requirement. Under the equivalency requirement, state law claims containing an extra element in addition to the exclusive rights of reproduction, performance, distribution or display, are generally not preempted. Generally, legitimate claims brought under breach of trust or contract, conversion, passing off or defamation and infringement of privacy or publicity rights pass the preemption muster. See MARSHALL LEAFFER, *UNDERSTANDING COPYRIGHT LAW*, (3d ed. 1999). In general, contracts contain such an extra element—the bargained-for exchange—and, thus, state contract law claims survive “explicit” statutory preemption. Some courts have taken the expansive

preempted by section 301 because the “extra element” they contain, the bargained for exchange, marks them as not equivalent to most copyright claims. Conflict preemption, in turn, “arises when ‘compliance with both federal and state regulations is a physical impossibility,’ or where state law ‘stands as an obstacle to the accomplishments and execution of the full purposes and objectives of Congress.’”<sup>40</sup>

In some instances, the conflict is evident because it results from direct contradiction between state contract law and the terms of the statute. For example, a state contract law that recognizes Megabucks’ hiring of Roublev as creating a work for hire and conferring copyright ownership over the architectural plans to Megabucks would be expressly preempted because it conflicts with section 101 of the Copyright Act.<sup>41</sup> In contrast, other provisions, where such conflict presumably doesn’t exist, specify that they may be altered by contract.<sup>42</sup>

Frequently, however, the Copyright Act does not provide such express guidance regarding conflicts with state law, and the courts are left to define the “parameters of implicit conflict preemption.”<sup>43</sup> It is the

---

view that contract rights in general might not be equivalent to any of the section 106 rights and thus, might not be preempted by section 301. See *ProCD v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996). “A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create ‘exclusive rights.’” *Id.* “But are the rights created by contract ‘equivalent to any of the exclusive rights within the general scope of copyright’? Three courts of appeals have answered ‘no.’” *Id.* (citing *Nat’l Car Rental Sys. v. Computer Assocs. Int’l*, 991 F.2d 426, 433 (8th Cir. 1993); *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990); *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988)). After taking a closer look at the three appellate cases cited by the ProCD court, Nimmer concluded that “it thus appears that the rule safeguarding contract causes of action against copyright preemption is less than categorical.” NIMMER ON COPYRIGHT, *supra* note 5, at § 1.01[B][1][a].

<sup>40</sup> *Pac. Gas and Elec. Co. v. State Energy Res. Conservation and Dev. Comm’n*, 461 U.S. 190, 204 (1983). The courts have identified a third type of preemption, field preemption, where “‘the scheme of federal regulation [is] so pervasive as to make reasonable inferences that Congress left no room for the States to supplement it.’” *Foley v. Luster*, 249 F.3d 1281, 1287 (11th Cir. 2001) (quoting *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947)).

<sup>41</sup> Section 101 provides for two categories of “work for hire”: either a “work prepared by an employee within the scope of his or her employment” or a specially ordered or commissioned work in one of nine enumerated categories, provided that the parties expressly agree in writing that “the work shall be considered a work made for hire.” See 17 U.S.C. § 101 (2002). In the above sketched hypothetical, Roublev is neither an employee nor has he stated in writing that his work shall be considered a work for hire. For in-depth analysis of when a work is created by an employee within the scope of employment, see *CCNV v. Reid*, 490 U.S. 730 (1989).

<sup>42</sup> See Lemley, *supra* note 12, at 142 n.133.

<sup>43</sup> *Id.* at 142. Lemley further suggests that the task involves “an attempt to figure out whether each particular provision of the Copyright Act is merely a default rule that the parties are free to ignore, or whether it instead reflects a part of the balance of interests in federal policy that should not be upset.” See *id.* While viewing any provision of the Copyright Act as just a default which can potentially be ignored would undermine the legitimacy

case-by-case implicit conflict preemption analysis which becomes particularly relevant to the interstitial endeavor because when the statutory mandate is either entirely clear or complete there is no need to fill its gaps with state law and, thus, no point in assessing the potential for conflict.

Therefore, it would seem that state contract law which does not implicitly impede the effectuation of the Copyright Act's meaning and purposes could be applied to provide substance to statutory silences or ambiguities in regards to copyright contracts. As one court put it, "We rely on state law to provide the canons of contractual construction, but only to the extent such rules do not interfere with federal copyright law or policy."<sup>44</sup> Nevertheless, in cases involving copyright licenses, some courts have opted for applying federal common law, even in the absence of conflict preemption.<sup>45</sup>

What considerations sway the courts in the direction of applying federal common law versus state law in filling the more or less visible interstices of the Copyright Act? Is there consistency in their approach and should there be? One possibility is that the courts, at least in some cases, implicitly attempt to provide uniform meaning to the ambiguities or silences of the Copyright Act, more in line with the *CCNV v. Reid* pronouncements.<sup>46</sup> Another possibility turns on a less substantive and more methodological distinction. As an analysis of two Ninth Circuit opinions on creation and termination of nonexclusive licenses will illustrate, the distinction might revolve around whether the courts perceive their role as filling the interstices of the Copyright Act or as interpreting it, and also on the depth of the conflict preemption analysis. An examination of the two cases highlights what can go wrong in the interstitial endeavor—either immediate resort to state law, with superficial consideration of the policies behind the Copyright Act and even of precedent of common-law-making, or hasty reliance on the common-law-making abilities of the court, in disregard of what might be relevant state law.

---

and preemptive force of the federal statute, the implicit conflict preemption leaves room for interpretation and, with that, for judicial discretion.

<sup>44</sup> *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989).

<sup>45</sup> In discussing the transferability of nonexclusive copyright licenses, which the Copyright Act doesn't address, the court in *Harris v. Emus Records Corp.*, 734 F.2d 1329 (9th Cir. 1984), turned to patent law to determine that the transferability is governed by federal law. *See id.* at 1333; *see also* *SQL Solutions, Inc. v. Oracle Corp.*, 1991 WL 626458 (N.D. Cal. 1991).

<sup>46</sup> *See e.g.*, *Miss. Band of Choctow Indians v. Holyfield*, 490 U.S. 30, 43 (1989) ("We start, however, with the general assumption that in the absence of a plain indication to the contrary . . . Congress when it enacts a statute is not making the application of the federal act dependent on state law.").

### III. THE "GAP" OF NONEXCLUSIVE COPYRIGHT LICENSES: THE INTERSTITIAL APPROACH IN *FOAD CONSULTING V. MGA*

The controversy in *Foad Consulting v. Musil Govan Azzalino (MGA)*<sup>47</sup> required the court to fill in the Copyright Act's silence with regard to the creation of implied copyright licenses. Foad Consulting, an engineering firm, was hired by the developer GenCom to create a "preliminary concept development plan" for a shopping mall.<sup>48</sup> Pursuant to a contract, Foad prepared the plan which was submitted by GenCom to the city as part of its application. Subsequently, GenCom and Foad entered into a second contract, under which Foad agreed to create "final engineering drawings" for the project and to process the various plans through the city's offices. After it received the city's approval, GenCom transferred its rights to develop the project to another developer, who in turn hired another engineering and architectural firm, MGA. MGA prepared the final site plans for the project and, in so doing, copied much of Foad's revised plot plan. After MGA circulated the final site plans to the city as well as to the potential tenants, Foad sued MGA for copyright infringement. After judgment for the defendants under the merger doctrine, Foad Consulting appealed.

After recognizing that the Copyright Act allows for the creation of implied copyright licenses but fails to specify how, the *Foad* court declared that it would fill the "gap" with state law without providing any rationale or authority for its choice.<sup>49</sup> Later in the opinion, in deciding whether to apply California's parol evidence rule to the contract between Foad and MGA, the court engaged in the omitted preemption analysis. The preemption analysis was not only late<sup>50</sup> but also quite puzzling since the court chose to substantiate its preference for state law<sup>51</sup> with a case which went in the opposite direction. The very case the court cited, *PM Group Life Ins. Co v. W. Growers Assurance*

---

<sup>47</sup> 270 F.3d 821 (9th Cir. 2001).

<sup>48</sup> See *id.* at 824.

<sup>49</sup> See *id.* at 826.

<sup>50</sup> Judge Kozinski derided the effort to figure out "whether the implied license previously found to exist is nonetheless defeated by parol evidence" as making "about as much sense as calculating how high is up." See *id.* at 833 (Kozinski, J., concurring).

<sup>51</sup> See *id.* at 827. "As a general matter, we rely on state law to fill in the gaps Congress leaves in federal statutes." *Id.* (citing *PM Group Life Ins. Co. v. W. Growers Assurance Trust*, 953 F.2d 543, 546 (9th Cir. 1992)). Some of the other cases the court cited to in its conflict preemption analysis also do not appear entirely on point. For example, *Morseburg v. Balyon*, 621 F.2d 972 (9th Cir. 1980), dealt with preemption under the 1909 Act which had no applicability to the facts of this case; see also *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115 (9th Cir. 1999), cited in *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989), which is widely referred to as an example of a conflict between state contract law and federal policy.

*Trust*,<sup>52</sup> adopted a uniform federal rule to fill in the gaps of the ERISA statute.<sup>53</sup> The *PM Group Life* court further emphasized the power of the federal courts to craft rules in the interstitial endeavor—“[t]he federal courts are empowered to adopt uniform federal common law rules to fill gaps in federal statutes.” As Justice Jackson explained, “Were we bereft of the common law, our federal system would be impotent.”<sup>54</sup>

The preemption analysis that followed purported to analyze whether California’s parol evidence rule, the effect of which is “to lessen the importance of written contracts,” conflicted with the federal copyright law or policy.<sup>55</sup> Yet, the only policy argument the court produced was that the “Copyright Act itself places no particular emphasis on writings in the case of nonexclusive licenses.”<sup>56</sup> Had that not been the case, there might have been no need to discuss how to fill the interstice in the Copyright Act. What was missing was a reflection upon the fact that a liberal application of the parol evidence rule might sanction an implied license of virtually any breadth without considering the protection of the copyright holder and, perhaps, even the failure to compensate him adequately for such a license. In fact, the court proceeded to apply the parol evidence rule in a manner that allowed the implication of a copyright license to reproduce, adapt, and publish Foad’s plans almost solely on the basis of Foad’s failure to disclaim his grant of such a license. Even more questionable was the court’s reliance on the contract’s indemnification clause as a source of an implied licensing grant since, as Judge Kozinski pointed out, “[i]ndemnification is not authorization” but rather protection “against another party’s *unauthorized* actions.”<sup>57</sup> In contrast, the court chose to disregard what can be interpreted as Foad’s unsuccessful attempts at reserving some licensing rights.<sup>58</sup>

---

<sup>52</sup> 953 F.2d 543 (9th Cir. 1992).

<sup>53</sup> *See id.* at 546.

<sup>54</sup> *Id.* at 546, n.3 (citing *D’Oench, Duhme & Co. v. FDIC*, 315 U.S. 447, 470 (1942) (Jackson, J., concurring)).

<sup>55</sup> *Foad Consulting*, 270 F.3d at 828.

<sup>56</sup> *Id.*

<sup>57</sup> *Id.* at 833 (Kozinski, J., concurring).

<sup>58</sup> A legend on Foad’s plan provided that

[a]ll ideas, designs, arrangement and plans indicated or represented by this drawing are owned by, and the property of Foad Consulting Group, Inc. and were created, evolved and developed for use on, and in connection with the specified project. None of such ideas, designs, arrangement or plans shall be used without written permission of Foad Consulting Group, Inc.

*Id.* at 829. While the court correctly pointed out that the Copyright Act protects only the expression of ideas but not the ideas themselves, it can be argued that such a legend can be construed, at least to a degree, to interpret Foad’s contractual intent.

Curiously enough, the court ignored a string of cases which had used federal common law to interpret the creation of implied copyright licenses when it noted that “[s]ome [cases] recognize that the Copyright act permits copyright holders to grant nonexclusive licenses by implication but fail to discuss what law determines whether such license has been granted.”<sup>59</sup> While previous cases on nonexclusive implied licenses failed to boldly declare that they were “devising” federal common law, what else could they have applied if there was almost no mention of applicable state law? In *Effects Associates, Inc. v. Cohen*,<sup>60</sup> the Ninth Circuit implied a nonexclusive license to use special effects footage in circumstances similar to the case at bar, where “no one said anything about who would own the copyright in the footage.”<sup>61</sup> The *Effects Associates* court found the existence of an implied license on the basis of the following factors: that Effects created a work at the defendant’s request and handed it over, intending that the defendant copy and distribute it, and that Effects was paid the sizable sum of \$56,000, which could not justify paying only for a physical copy of the footage as well as for a license to use that footage.<sup>62</sup> Since the court made no reference to state law, it seems that the implied license in *Effects Associates* was a creation of federal law.

The analysis in *Effects Associates* heavily relied on *Oddo v. Reis*,<sup>63</sup> which appeared to approach the implied copyright license issue entirely as an incident to the copyright and, thus, did not address the applicability of state law. In *Oddo*, the court found an implied license based on the fact that by preparing and handing over “a manuscript intended for publication which, if published, would infringe the [licensor] Oddo’s copyright,” Oddo gave the partnership a license to use his articles in the manuscript.<sup>64</sup> Furthermore, by construing the scope of the implied license narrowly and implicitly guarding the interests of the licensor Oddo, the court found that the licensee exceeded that scope and was liable for copyright infringement.<sup>65</sup>

It also appears that virtually every circuit court which subsequently addressed the creation of implied nonexclusive licenses relied on *Ef-*

---

<sup>59</sup> *Id.* at 826, n.9.

<sup>60</sup> 908 F.2d 555, 558-59 (9th Cir.1990).

<sup>61</sup> *Id.* at 556.

<sup>62</sup> *Id.* at 559. “To hold that Effects did not at the same time convey a license to use the footage . . . would mean that plaintiff’s contribution 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.*

<sup>63</sup> 743 F.2d 630 (9th Cir. 1984).

<sup>64</sup> *Effects Associates*, 908 F.2d at 558.

<sup>65</sup> *See Oddo*, 743 F.2d at 634.

*fects Associates* in one degree or another. Such reliance can at least be attributed in part to the fact that prior to *Effects Associates* and *Oddo* courts had taken divergent approaches ranging from refusing to find an implied license in a failed exclusive license<sup>66</sup> to basing such license on “a meeting of the minds.”<sup>67</sup> Finally, *Effects Associates* came along and produced an analysis which could be turned into a familiar 3-prong test, a benchmark of sorts to be compared with and contrasted against.

Two other implied licenses cases involving architects closely followed *Effects Associates*. In *I.A.E., Inc. v. Shaver*,<sup>68</sup> the court relied on the *Effects Associates*' 3-prong inquiry in finding that an architect had granted an implied license to the construction company that hired him:

[T]he Ninth Circuit, in *Effects*, held that an implied nonexclusive licenses has been granted when (1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes the particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requestor copy and distribute his work . . . .<sup>69</sup>

The court further stated that “*Effects* suggests several objective factors to guide the judicial inquiry as to whether an implied license exists.”<sup>70</sup> The court found no need to apply state contract law to the contract between the architect and the construction firm because the contract on its face stated that Shaver was to create architectural drawings and turn them over to the construction firm for \$10,000 in compensation.<sup>71</sup> Under the *Effects Associates* view, therefore, the contract itself supported a finding of an implied license.

Similarly, in *Johnson v. Jones*,<sup>72</sup> the court did not rely on state contract law to substantiate its finding that no implied license had been granted but instead relied on objective indicia of lack of intent, which

---

<sup>66</sup> *Library Publ'ns, Inc. v. Med, Econ. Co.*, 548 F. Supp. 1231 (E.D. Pa. 1982), *aff'd*, 714 F.2d 123 (3d Cir. 1983).

<sup>67</sup> *N.A.D.A. Servs. Corp. v. Bus. Data of Virginia, Inc.*, 651 F. Supp. 44 (E.D. Vir. 1986).

<sup>68</sup> 74 F.3d 768 (7th Cir. 1996).

<sup>69</sup> *Id.* at 776.

<sup>70</sup> *Id.*

<sup>71</sup> *Id.* at 777. “Although Indiana law allows contractual terms to be implied from the intent and actions of the parties, the intent relevant in contract matters is not the parties’ subjective intent but their outward manifestation of it . . . . Here the contract is clear.” *Id.* (citations omitted). In *Shaver*, the court found an implied license on the basis of the following indicia of the parties’ intent: the notation on the architect’s drawings which stated that his designs were to be used for the airport facility being built by the hiring party; the relationship between the architect and the hiring party which suggested that the architect’s contribution was for the building of the airport facility; the architect’s omission of any warning that further use of his designs would constitute copyright infringement and finally, expressing his hope that his work would be used for the airport facility, even when he no longer contributed to the project. *See id.*

<sup>72</sup> 149 F.3d 494 (6th Cir. 1998).

helped to distinguish the case from *Effects Associates* and *Shaver*.<sup>73</sup> Finally, in *Nelson-Salabes, Inc. v. Morningstar Development*,<sup>74</sup> which was decided after *Foad Consulting*, the court looked at the “totality of the circumstances” to determine whether an implied license has been created.<sup>75</sup>

The one court that did rely on state law to construe the existence of an implied copyright license produced a more puzzling analysis. In *Lulirama Ltd. v. Access Broadcast Services, Inc.*,<sup>76</sup> the factual dispute centered around whether the defendant owned copyright to seven advertising jingles created by the plaintiff under the “work for hire” doctrine. Determining that the purported transfer was illegal, the court applied Texas contract law to sever the illegal portions of the agreement and enforce the rest.<sup>77</sup> “Because Lulirama intended to convey to Access all of the rights associated with ownership of the copyrights to the jingles, it of necessity intended to convey the lesser-included set of rights associated with a nonexclusive license to use the jingles.”<sup>78</sup> While construing an attempted grant of an exclusive license as an “effective, albeit, nonexclusive license” may raise “serious questions under contract law,”<sup>79</sup> the court seemed to rely, just as in previous precedent,

---

<sup>73</sup> See *id.*

[N]either *Effects* nor *Shaver* is factually similar to the case at hand. Most importantly, the facts in those cases amply demonstrate that the copyright owners intended that their copyrighted works be used in the manner in which they were eventually used. There is no such demonstration of intent in this case. Without intent, there can be no implied license.

*Id.* at 501-502.

<sup>74</sup> 284 F.3d 505 (4th Cir. 2002).

<sup>75</sup> *Id.* The *Nelson Salabes* court developed its own version of the *Effects Associates* test: [T]he existence of an implied nonexclusive license . . . turns on at least three factors: (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, such as the standard AIA contract, 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 . . . without [his] consent was permissible.

*Id.* at 516.

<sup>76</sup> 128 F.3d 872 (5th Cir. 1997).

<sup>77</sup> *Id.* at 880.

<sup>78</sup> *Id.* at 880-81. The court had previously reached the same result via a different path in *Jacob Maxwell, Inc. v. Veeck*, 110 F.3d 749 (11th Cir. 1997). The *Jacob Maxwell* court read an implied license into a failed attempt at exclusive license, albeit without applying state law. *Id.* at 753. For a more extensive discussion of the two cases, see Scott J. Burnham, *The Interstices of Copyright Law and Contract Law: Finding Terms of An Implied Copyright License in a failed Work for Hire Agreement*, 46 J. COPYRIGHT SOC'Y U.S.A. 333, 352-57 (1999).

<sup>79</sup> See NIMMER ON COPYRIGHT, *supra* note 5, § 10.03 (A)(7).

on the facts and circumstances indicating the licensee's intent to grant rights rather than on the failed exclusive grant itself.<sup>80</sup>

If most of the courts interpreting the creation of implied copyright licenses before *Foad Consulting* applied broader principles of common law rather than state contract law, why didn't they specify that assumption in their analysis? In his concurrence to *Foad Consulting*, Judge Kozinski insisted that the question as to whether federal or state law should govern the creation of implied licenses hadn't been asked before.<sup>81</sup> Yet, the very fact that the construction of nonexclusive licenses entails filling an interstice of the Copyright Act presupposes at least a brief discussion of how to approach the endeavor conceptually. Nevertheless, Judge Kozinski stated that the nonexclusive license implied in *Effects Associates* was an incident of the transfer of the copyrighted work and as such was "a creation of federal law."<sup>82</sup> Since the parties in *Foad Consulting* and *Effects Associates* didn't address copyright ownership at all, the contract between them was not a contract but rather an implied-in-law contract, which was an incident to the copyright.<sup>83</sup>

Under the fiction of "implied-in-law" contracts, courts usually impose liability because "it serves justice" to do so"<sup>84</sup>—the defendant has received something of value "under circumstances that makes it 'unjust' for him to retain it."<sup>85</sup> The court merely phrases the obligation as promissory in the absence of "any words or conduct that are interpreted as promissory."<sup>86</sup> Although Judge Kozinski suggested that a finding of an implied license in cases where, as here, the contract didn't address copyright ownership at all should rest on principles of an implied-in-law contract, he found a license not on a theory of unjust enrichment, but on the basis of the parties' relationship.<sup>87</sup> In that sense, his own analysis didn't materially differ from previous cases which implied licenses from the facts of the contractual relationship.

---

<sup>80</sup> The court cited to the *Effects Associates* 3-prong inquiry and concluded that the "criteria are plainly satisfied". See *Lulirama Ltd. v. Axxcess Broad. Servs., Inc.*, 128 F.3d 872, 879 (5th Cir. 1997). Under the facts of the case, the licensee requested the creation of the jingles and the licensor created and delivered the jingles with the understanding that the licensee would sell them to customers. *Id.*

<sup>81</sup> *Foad Consulting*, 270 F.3d at 832-33.

<sup>82</sup> *Id.* at 833.

<sup>83</sup> See *id.* at 832.

<sup>84</sup> HOWARD O. HUNTER, 1 MODERN LAW OF CONTRACTS § 16.5 (Supp. 2003).

<sup>85</sup> CORBIN ON CONTRACTS § 561 (2001).

<sup>86</sup> *Id.*

<sup>87</sup> "Foad has presented nothing that casts doubt on the conclusion that the relationship between the parties gave rise to an implicit nonexclusive license in GenCom's favor." *Foad Consulting*, 270 F.3d at 838.

It is possible that Judge Kozinski insisted on the implicit application of federal common law in *Foad Consulting* because he had previously done so by following *Oddo* in *Effects Associates*. Faced with a not entirely substantiated reliance on state law to fill in the copyright interstice regarding implied licenses, he might have disguised his pursuit of consistency in the implied-in-law contract argument.

Perhaps the framing of the implied-in-law contract argument further suggests unwillingness to answer the real question: why do courts seem to waver between applying state law versus federal common law in these cases? There are several possibilities. First, it is not entirely clear whether by virtue of the fact that an agreement concerns rights created by federal statute, that agreement should no longer be interpreted according to state law.<sup>88</sup> In *Unarco Industries, Inc. v. Kelley Company*,<sup>89</sup> the court answered the inquiry in the affirmative with regard to assignability of patent licenses:

When an inventor or person holding patent rights desires to license or relinquish any part of the patent monopoly, such person is utilizing the monopoly of rights intended by the framers of the Constitution and the legislation of Congress to reward invention and originality. This monopoly . . . is so intertwined with the sweep of federal statutes, that any question with respect thereto must be governed by federal law.<sup>90</sup>

At the same time, many courts have liberally relied on state contract law because of the inevitable overlap between contract and intellectual property.<sup>91</sup>

Second, in view of the general Supreme Court pronouncements against judicial creation of "special federal rule[s],"<sup>92</sup> the federal courts seem unwilling to declare their common-law-making authority unless they can justify it by pointing to a conflict with state law. This might be especially true in the field of contracts where the majority of the preemption analysis for interstitial purposes occurs on a case-by-case basis.

Yet, one can make the case that federal common law should govern the creation of implied licenses. Implied copyright licenses are very

---

<sup>88</sup> See Aaron Xavier Fellmeth, *Control Without Interest: State Law of Assignment, Federal Preemption, and the Intellectual Property License*, 6 VA. J.L. & TECH. 8, 28 (2001) for an extensive discussion of whether state or federal law should govern assignability of intellectual property licenses.

<sup>89</sup> 465 F.2d 1303 (7th Cir. 1972); see also *In re CFLC, Inc.*, 89 F.3d 673 (9th Cir. 1996); *PPG Indus., Inc. v. Guardian Indus. Corp.*, 597 F.2d 1090, 1093 (6th Cir. 1979).

<sup>90</sup> *Id.* at 1306.

<sup>91</sup> See, e.g., *Fantastic Fakes, Inc. v. Pickwick Intern, Inc.*, 661 F.2d 479, 482-83 (5th Cir. 1981); *Texas Instruments, Inc. v. Hyundai Elec. Indus.*, 42 F. Supp. 2d 660, 671-72 (E.D. Tex. 1999).

<sup>92</sup> *O'Melveny & Myers v. Fed. Deposit Ins. Corp.*, 512 U.S. 79, 79-87 (1994).

much creatures of copyright because their essence is a promise not to sue for copyright infringement.<sup>93</sup> On one hand, it would seem that finding the existence of an implied license would not curtail much of the creator's "monopoly" and incentive to create because the creator would retain all his exclusive rights. On the other hand, if a Roublev creates the work within the context of the almost "work for hire" situation with Megabucks and the scope of that license is construed broadly like in *Foad Consulting*, then Roublev might have very limited ways to exploit his creation outside of the particular contractual situation. Alternatively, if Roublev and Megabucks entirely failed to address copyright ownership and state law rules prescribe a conservative parol evidence rule, Megabucks might end up with no right to use the copyrighted work at all.<sup>94</sup>

The widely cited *Effects Associates*' test might be a starting point for developing a common law test for determining whether an implied copyright license has been created. The *Shaver* court formulated the test in the following way: 1) a person (licensee) requests creation of the work, 2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and 3) the licensor intends that the licensee- requester copy and distribute the work.<sup>95</sup> The first two "prongs" don't seem to clarify much. Without creation, there wouldn't be copyright issues at all and the discussion will take place entirely under contract law. Similarly, the request element can be attributed to virtually countless situations of exchange of goods, services, or property. Nevertheless, the request coupled with delivery serves as an indication of the mutual intent of the parties involved. However, as one commentator pointed out, "delivery without warning most likely shows innocence of the copyright law, not the affirmative granting of a license."<sup>96</sup> Only the third prong, the intent of the licensor, gets to the core of granting a non-exclusive license, and it is that intent that the courts usually try to discern from objective factors—the language of the agreements, the presence of any copyright warning and deposition testimony. At the same time, the intent element misses the mutuality of the agreement. What if the licensor intended to grant such a license only on the condition that he was retained for the whole project, but

---

<sup>93</sup> *Jacob Maxwell, Inc. v. Veeck*, 110 F.3d 749, 753 (11th Cir. 1997).

<sup>94</sup> Potentially, Megabucks may be able to pursue a state breach of contract claim.

<sup>95</sup> *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 776 (7th Cir. 1996) (citing *Effects Associates*, 908 F.2d at 558-59).

<sup>96</sup> See Burnham, *supra* note 78, at 360. Burnham suggested his own version of the *Effects* test, a "use test." "The use test is satisfied if 1) the hiring party has commissioned a work for his use, 2) the hiring party has given value for the work, and 3) the hired party has granted the hiring party no exclusive copyright interest." *Id.* at 362.

the licensee intended to retain him only for part of the project and paid enough compensation to be able to use the copyrighted work even after the licensee was no longer on the project? Additionally, a number of courts have accorded significance to the fact that the licensee paid compensation for use of the copyrighted work.<sup>97</sup> Yet, consideration is one of the features of contract law that copyright law does not require for valid transfers.<sup>98</sup>

An enhanced version of a common law test for creation of implied copyright licenses can be borrowed from patent law's theory of equitable estoppel.<sup>99</sup> Under such a theory, an implied nonexclusive license will require proof that 1) the licensor, through statement or conduct, gave an affirmative grant of consent to use his copyrighted work; 2) the alleged infringer relied on that statement or conduct; and 3) the alleged infringer would be materially prejudiced if the licensor is allowed to proceed with his claim.<sup>100</sup> The affirmative grant element accounts for the intent of the licensor and should be construed according to established principles of contractual interpretation. The reliance of the licensee acknowledges the intent of the licensee—it doesn't seem that in any of the situations where the courts found an implied license the licensee had grounds to believe he was infringing on the copyrighted work. Finally, the material prejudice against the licensee addresses the courts' concern that the licensor, after the fact, might attempt to disclaim his intent and hold the project "hostage".<sup>101</sup> By accounting for the mutual intent of the parties involved, the test seems in line with the general policy behind the Copyright Act, to maintain a balance between the authors' economic incentive to create and the public's access to the copyrighted works.

How might the test apply to situations like the contractual dispute in *Foad Consulting* where the parties made no explicit reference to copyright ownership? Foad's creation of a revised plan with the full knowl-

---

<sup>97</sup> The court in *Oddo*, which *Effects Associates* heavily relied on, explained that "without such a license, Oddo's contribution to the partnership would have been of minimal value." *Oddo v. Ries*, 743 F.2d 630, 634 (9th Cir. 1984).

<sup>98</sup> NIMMER ON COPYRIGHT, *supra* note 5, § 10.03. "The most well-known aspect of Anglo-American contract law is undoubtedly the doctrine of consideration. Notwithstanding that feature of state law, no consideration is necessary under federal law to effectuate a transfer of copyright ownership that does not purport to require consideration." *Id.*

<sup>99</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). Where precedent in copyright cases is lacking, it is appropriate to look for guidance to patent law "because of the historic kinship between patent law and copyright law." *Id.* at 439.

<sup>100</sup> See *Winbond Elecs. Corp. v. Int'l Trade Comm'n*, 2001 U.S. App. LEXIS 25113, 27 (2001); *Wang Labs., Inc. v. Mitsubishi Elecs. Am., Inc.*, 103 F.3d 1571, 1581 (Fed. Cir. 1997).

<sup>101</sup> See *Foad Consulting Group, Inc. v. Musil Govan Azzalino*, 270 F.3d 821, 829 n.12 (9th Cir. 2001).

edge that the plan would be used to obtain city approvals and would be binding on the project can certainly be seen as an affirmative consent to GenCom's use of the plans. Further, the fact that Foad at no point objected to the use and accepted ample compensation for its work suggests both that GenCom relied on Foad's implicit grant to use the copyrighted work and would be at a serious material disadvantage in the event it had no right to use Foad's plans later in the project. One might ask then, if the same outcome is reached both through the application of state contract law and a common law test, why object to the reasoning of the *Foad* court at all. The troubling part is the automatic resort to state law. In light of the absence of an in-depth preemption analysis, it is possible, as Judge Kozinski pointed out,<sup>102</sup> that an expansive parol evidence rule and its applications would not survive implicit conflict preemption because they would undermine the Act's goal of ensuring predictability of copyright transfers. Furthermore, the creation of implied copyright licenses appears to be an interstice in the Copyright Act which the courts have already attempted to fill with a federal common law test by gravitating towards a more uniform approach.

#### IV. THE "GAP" OF NONEXCLUSIVE COPYRIGHT LICENSES: THE TEXTUAL INTERPRETATION APPROACH IN *RANO V. SIPA*

While federal courts, given the recent Supreme Court directives, tend to resist engaging in crafting federal common law rules in cases which involve purely interstitial endeavor,<sup>103</sup> that resistance seems to subside in situations that are perceived as textual interpretations of a federal statute. The difference between the two types of analyses is often one of degree<sup>104</sup> because in both scenarios, Congress hasn't spoken with sufficient clarity or comprehensiveness.

<sup>102</sup> *Id.* at 834. "I am not at all sure whether, in such a case applying California's broad version of the parol evidence rule is consistent with the federal copyright laws, which are designed to ensure certainty and predictability in the transfer of copyright." *Id.* (Kozinski, J., concurring).

<sup>103</sup> As illustrated by a number of the implied license cases preceding *Foad Consulting*, the courts still engage in federal common-law-making without announcing that they are doing so. As Judge Kozinski noted in his concurrence to *Foad Consulting*, "In *Effects Associates*, we imposed a non-exclusive license as an incident of the transfer of the copyrighted work but did not expressly say that it was a creation of federal law. I believe that this was the clear implication of our ruling . . ." *Foad Consulting*, 270 F.3d at 833 (Kozinski, J., concurring).

<sup>104</sup> In *Northwest Airlines, Inc. v. Transp. Workers Union of Am.*, 451 U.S. 77, 86 (1981), the Supreme Court differentiated sharply between "federal common law" and "implied rights of action." Academic circles tend to view that distinction as less pronounced:

The difference between "common law" and "statutory interpretation" is a difference in emphasis rather than a difference in kind. The more definite and explicit the prevailing legislative policy, the more likely a court will describe its lawmaking as statutory inter-

In *Rano v. Sipa*,<sup>105</sup> the court set out to clarify the Copyright Act's provisions regarding termination of nonexclusive licenses. The plaintiff Rano, a professional photographer, had a nonexclusive oral license agreement with Sipa Press for the reproduction and distribution of his photographs. About 8 years into the relationship, Rano informed the president of Sipa that he was changing agencies due to Sipa's failure to pay timely royalties, low sales, poor photography assignments, and an unwillingness to reimburse some expenses. After Rano sent Sipa a request for return of his negatives and a warning not to sell any more of his photographs, Rano sued for copyright infringement.<sup>106</sup>

Even though Rano and Sipa had had a license agreement, Rano alleged that he had terminated that agreement pursuant to California law which allows for termination at will of licenses for unspecified duration.<sup>107</sup> Rano's theory propelled the court into the field of interpretation, since section 203 of the Copyright act governs the termination of transfers.<sup>108</sup> Section 203 confers upon the authors of copyrighted works and their successors a right to terminate any outstanding exclusive and nonexclusive transfers or licenses after a designated period of time. The section, however, failed to provide any explicit guidance in resolving the question at hand, namely, whether nonexclusive licenses could be terminated at the will of either party before the expiration of the specified termination period—thirty-five years or forty years from the execution of the nonexclusive license.

According to the court's reading, section 203 allowed for termination of nonexclusive licenses only during a five year period at the end of thirty-five years from the date of execution of the license "unless they explicitly specify an earlier termination date."<sup>109</sup> Since California's termination at will directly conflicted with this interpretation, the court declared that state law was preempted.<sup>110</sup>

Given the lack of statutory clarity regarding termination of nonexclusive licenses prior to the specified termination period, the *Rano*

---

pretation; the less precise and less explicit the perceived legislative policy, the more likely a court will speak of common law. The distinction, however, is entirely one of degree.

Merrill, *supra* note 16, at 4 (citing Peter Western & Jeffrey S. Lehman, *Is There Life for Erie After the Death of Diversity?*, 78 MICH. L. REV. 311, 332 (1980)).

<sup>105</sup> 987 F.2d 580 (9th Cir. 1993).

<sup>106</sup> *Id.* at 585.

<sup>107</sup> *Id.*

<sup>108</sup> Section 203 of the 1976 Copyright Act governs transfers made after the effective date of the 1976 Act while § 304(c) governs transfers of renewal interests made prior to that date. See 17 U.S.C. §§ 203, 304 (c) (2002).

<sup>109</sup> *Rano*, 987 F.2d at 585.

<sup>110</sup> Nimmer characterized this determination as "stunning, both for its utter support in law and for the breadth of its error." NIMMER ON COPYRIGHT, *supra* note 5, § 11.01.

court felt empowered to supply its own reading of the statute. Traditionally, federal common-law-making in interpretive scenarios has been accorded greater legitimacy than in cases perceived as purely interstitial. However, that legitimacy derives from effectuating the direct or implied intent of the draftsman of the federal text.<sup>111</sup> Yet, in its interpretation, the *Rano* court went directly against that intent.

Quite unambiguously, section 203 was enacted to protect authors from unremunerative transfers, given their “unequal bargaining position . . . resulting in part from the impossibility of determining a work’s value until it has been exploited.”<sup>112</sup> Thus, the termination provision expands rather than curtails the authors’ rights by making thirty-five years the maximum and not the minimum term of a license. Furthermore, the legislature was quite explicit about the relationship between state law and the termination provision:

Nothing contained in this section . . . is intended to extend the duration of any license, transfer or assignment made for a period of less than thirty-five years. If for example, an agreement provides an earlier termination date or lesser duration, or if it allows the author the right of canceling or terminating the agreement under certain circumstances, the duration is governed by the agreement . . .<sup>113</sup>

The court’s conflict preemption analysis was not any less puzzling. On one hand, the court held that state law allowing for contracts of unspecified duration to be terminated at will was in conflict with the statute and, thus, preempted. On the other hand, the court implied that the use of state contract law to provide for a license term of less than thirty-five years was not preempted. One possibility for the anomaly in reasoning is simply poor judicial analysis. Another is that by perceiving the task as solely interpretive, the court placed greater reliance on its own creative construction of the statute on an issue of first impression. Had the court started with a more nuanced conflict preemption analysis and probed deeper into potential conflicts with the statutory purpose, it is likely that the court would have seen no conflict at all in contracts which allow, either expressly or by operation of law, for termination prior to the thirty-five year termination period in section 203.

Putting the *Rano* court’s heavily criticized reading of the statute aside,<sup>114</sup> is termination of nonexclusive copyright licenses ripe for fur-

---

<sup>111</sup> For an extensive analysis of the sources of federal common law’s legitimacy, see Merrill, *supra* note 16, at 47.

<sup>112</sup> H.R. REP. NO. 94-1476. 94th Cong., 2d Sess. 124 (1976).

<sup>113</sup> *Id.* at 128.

<sup>114</sup> The Seventh Circuit strongly disagreed with the *Rano* interpretation in *Walthal v. Rusk*, 172 F.3d 481, 483 (7th Cir. 1999). “To put it mildly, this result is deplored by commentators. If the *Rano* decision were a Broadway show, bad reviews would have forced it to

ther common-law-making rather than preemption analysis performed on a case-by-case basis? Unlike creation of implied copyright licenses where Congress remained silent as to whether such agreements should entirely be governed by state contract law versus a federal construction of sorts, here, the legislation has explicitly asserted the validity of state contractual agreements, which presumably don't undermine the federal policy. Termination at will does not diminish the authors' incentives to create and, even though one commentator has suggested that such a result might be unfair to the licensees,<sup>115</sup> it does not seem to upset the "delicate balance"<sup>116</sup> of the copyright statute. Nevertheless, adopting a common law rule, independent of the applicable state contract law in each scenario, which allows for nonexclusive licenses of unspecified duration to be terminated at will, might be useful in preventing future anomalous case-by-case interpretations. Alternatively, the time has come for the Ninth Circuit to overturn *Rano v. Sipa* and join the other circuits in uniformly applying state contract law allowing for termination at will.

## V. THE COMMON INTERSTITIAL GROUNDS

If the two types of analyses, that of filling the congressional silences and that of resolving the congressional ambiguities relating to provisions of the Copyright Act, are not inherently dissimilar, an attempt at harmonizing them to a degree might provide greater consistency. An appropriate starting point in both cases can be state law. When the analysis involves supplying a missing definition or term of contractual interpretation, at least an initial resort to state law seems logical given the absence of a federal common law of contracts and the general presumption in favor of "borrowing" state law. When the analysis turns on supplying clarity to a contract-related provision of the Copyright Act, looking at the relevant state contract law might steer the court into considering whether Congress intended for this type of contract to be "different" because it is a copyright contract and, as such, implicitly balances the economic incentive of the creators and the

---

close after opening night." *Id.* The court in *Walthal* concluded that "allowing terminations [at will] under Illinois law does not conflict with § 203, but rather is in fact, keeping with the intent of § 203." *Id.* at 485. The same year, the Eleventh Circuit followed the analysis and conclusion of *Walthal* in *Korman v. HBC Florida, Inc.*, 182 F.3d 1291 (11th Cir. 1999).

<sup>115</sup> See Burnham, *supra* note 78, at 389, who argues that termination at will might be unfair to the hiring party, "who may be deprived of all benefits under the license" and further suggests that a court should determine a reasonable term from the facts and circumstances of each case.

<sup>116</sup> David Nimmer, *A Riff on Fair Use in the Digital Millennium Copyright Act*, 148 U. PA. L. REV. 673, 704 (2000).

rights of others to access their works. It is of course possible, as *Rano v. Sipa* illustrates, that even in the face of an unambiguous congressional directive, the court may choose to resort to its own devices and end up with an unfounded outcome.

Assuming that Congress gave no indication that the contract at issue is of a particular copyright nature and, thus, state contract law survives the implicit conflict preemption analysis, the courts should, at least consider the possibility of uniformity. As *CCNV v. Reid* and other interstitial cases have emphasized, giving a uniform meaning to a federal statute was not buried by *Erie* and its progeny. Since copyright protection largely remains within the exclusive jurisdiction of the federal courts, such courts retain the competence and discretion to craft uniform rules if they so see fit. While using state contract law that doesn't undermine the meaning of the Copyright Act to fill in the gaps of the statute often seems perfectly appropriate, that application carries with it the intricacies of "variousness." Using state contract law to fill in the same "gap," as in the example of how implied licenses come about, entails case-by-case examinations of whether such law is implicitly in conflict with the Copyright Act and may, in turn, produce opinions of varying degrees of lucidity. Ultimately, divergence in and of itself, might, in some cases, undermine one of the goals behind the copyright statute: "to protect copyright holders in a comprehensive and uniform way."<sup>117</sup>

## VI. CONCLUSION

At least in the copyright field, there does not seem to be a consistent approach to filling in the gaps of the statutory text or an established set of criteria as to when courts should aim at creating uniform common law rules.<sup>118</sup> Courts have applied the state law of the particular jurisdiction, considered the "brooding omnipresence"<sup>119</sup> of common

<sup>117</sup> *Foley v. Luster*, 249 F.3d 1281, 1287 (11th Cir. 2001).

<sup>118</sup> Various commentators have attempted to compile lists of such criteria but such criteria appear to have greater weight in some substantive areas or circumstances and not in others. See, e.g., Martha A. Field, *Sources of Law: The Scope of Federal Common Law*, 99 HARV. L. REV. 881, 953-61 (1986) (arguing that the factors which guide courts in choosing between state and federal law include: need for national uniformity, United States as a party, developed state law and intrastate uniformity, and feasibility); Jim Greiner, Note, *Federal Common Law and Gaps in Federal Statutes: The Case of ERISA Plan Limitation Periods for Section 502(a)(1)(B) Actions*, 93 MICH. L. REV. 382, 407-416 (1994) (adding the following factors to Prof. Field's list: limited information of the federal courts, expectation interests of private parties, interference in state regulation, better match from federal law, judicial legislation, exclusive federal jurisdiction, distrust of the states, choice of state difficulty and forum shopping).

<sup>119</sup> NIMMER ON COPYRIGHT, *supra* note 5, at n.19.

law, and even fashioned their own rules. At least in some instances, the choice might be influenced by the perception of the judicial task at hand. This insight, while perhaps of limited application, is a starting point of a broader discussion on how to structure the interstitial endeavor. Otherwise, the danger remains that filling the interstices of the Copyright Act might leave a bigger gap than ever intended.