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Sublicenses By Exclusive Licensees Of Copyrights - Copyright "Clarification" May Change The Law

A change in the rules on copyright licensing may be coming in the near future and from an unexpected and unanticipated source. The rules deal with whether the owner of an exclusive copyright license may sublicense such right without the approval of the licensor. The clear and unequivocal answer in the Ninth Circuit has long been, "No." *See*, *Gardner v. Nike, Inc.*, 279 F.3d 774 (9th Cir. 2002). The answer in other circuits is somewhat less clear. Most licensors, however, have long sought contractual clarity by providing for "assignment" or "license" provisions in any contract for copyrights, trademarks or patents. Congress, however, may soon be changing the Ninth Circuit's answer at a time when few may even be aware of the pending change.

On August 2, 2010, the Senate passed the Copyright Cleanup, Clarification, and Corrections Act of 2010, S. 3689. The bill, according to Senator Leahy who introduced it, is designed to improve the copyright laws by making changes in three categories: 1) to make the Copyright Office's operations more efficient, 2) to clarify issues of copyright law and 3) to make numerous technical corrections.

There are several somewhat intriguing features about the Bill. First, it was introduced without any fanfare or public notice and without any hearings or report from Congress or the Copyright Office. Second, it was introduced during the summer months when people are less likely to be observing Congressional activity. Third, it was passed by a voice vote on the same day introduced. Of course, it must now go to the House for further action which may give some time for further review and reflection and possibly even public input.

The Bill does live up to its title in most respects and many of these minor changes should be welcomed. For example, Section 2, dealing with "Copyright Office Procedures" would allow copies of copyright transfers to be recorded online if accompanied by an electronic certification of authenticity. At the present time, documents must bear either original ink signatures or be accompanied by a sworn certification, both of which may only be accomplished by filing a hard copy. This will bring Copyright Office online filings in line with longstanding PTO practices.

The Bill corrects numerous technical issues such as re-alphabetizing definitions of terms in "Definition," Section 101 of the Copyright Act. It also repeals an antiquated and expired Section 601 of the Copyright Act which had regulated the effect of failing to comply with the no longer applicable provisions of the Copyright Act, in effect since 1891, that had required the manufacturing of books and certain other works within the territorial boundaries of the United States. In fact, one "clarification" is a real clarification in expressly stating, what many had already believed was the case, that the distribution of phonorecords prior to January 1, 1978, the effective date of the Copyright Act of 1976, did not publish any of the recorded material, whether "musical, dramatic, or literary." Such was previously clearly understood only with respect to musical works.

The Bill, however, seems to depart from "clarification" and veers into the realm of "change" with its

proposed amendment to Section 201(d)(2) which currently provides for the transfer of any of the exclusive rights under copyright and which further provides, "The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title." The Bill would add, immediately following the quoted language, "..., including the right to transfer or license the exclusive right to another person in the absence of a written agreement to the contrary."

The currently worded provision, enacted as part of the Copyright Act of 1976, was designed to overturn the rule of indivisibility of copyright that was generally applied under the Copyright Act of 1909, effective before January 1, 1978. Under "indivisibility," the owner of a copyright could sell the entire copyright, but individual rights under copyright could only be licensed. This led to the common law rule that sublicenses of such copyright licenses, even exclusive copyright licenses, required the express permission of the licensor. Many believed that Section 201(d)(2) had, thus, already dispensed with the requirement for such sublicensing permission. See generally, Nimmer on Copyrights, Section 10.02, criticizing the outcome of *Gardner v. Nike*. The Ninth Circuit disagreed and reaffirmed, in *Gardner v. Nike*, the traditional rule that all sublicenses required the licensor's approval, even where the original license was of an exclusive right under copyright. In short, the Bill attempts to reverse this presumption about sublicenses. If enacted, then absent an expressly worded provision in the original exclusive copyright license, the licensee may, without encumbrance, "transfer or license the exclusive right."

Whether or not one agrees or disagrees with the proposed outcome, one may seriously question whether this is a mere "clarification." Since the Ninth Circuit is the only appellate circuit that appears to have taken a clear stand on this issue, the Bill would at least constitute a "change," not a clarification, of the law of a key judicial circuit. One may also question whether such change should be made during the summer months on a voice vote without public notice or input. Even more curiously, it is not clear whether the proposed change would achieve its desired result since the provision could potentially be interpreted to allow the "transfer or license (of) the exclusive right to another person" but not necessarily the transfer or license of a non-exclusive part of that exclusive right.

The eventual outcome of the Bill may, or perhaps should, be merely academic since most attorneys already include express sublicensing provisions in their contracts that allow or restrict sublicenses or further transfers and often impose substantially detailed conditions on how such sublicensing may be accomplished. The summer surprise, however, may more properly be viewed as a suggestion, if not a warning, that attorneys should continue to insist on clearly worded assignment and sublicensing provisions in any and all agreements they draft in order to avoid being surprised by potentially conflicting statutory presumptions.

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