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Central Without Internet: Sans Law of Assignment, Federal Preemption, and the Intellectual Property Licence

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Introduction

On August 1, 2006, the U.S. Patent Court for the Central District of California granted summary judgment in favor of Microsoft Corporation against Lucent Technologies, Inc. in a patent dispute.[3] Lucent's MP3 patent, which Microsoft had licensed for its Windows operating system, was found invalid.[4] Lucent had sued Microsoft for breach of contract, claiming that Microsoft had violated the terms of the licence by selling its Windows operating system to customers who had installed third-party software capable of playing MP3 files.[5] The contract terms of Lucent's Patent Licence Agreement with Microsoft, which Microsoft had signed in 1998, provided that Microsoft could sell its Windows operating system to customers who had installed third-party software capable of playing MP3 files only if Microsoft had "reasonable grounds" to believe that the third-party software was licensed to play MP3 files.[6] Microsoft argued that the terms of the licence violated the patent laws of the United States, because the patent was invalid.[7] Microsoft's argument was that the patent was invalid because it was obvious to a person of ordinary skill in the art of the patent, and therefore was not novel.[8] Microsoft argued that the patent was invalid because it was obvious because the patent was a combination of two prior patents, each of which was known to be capable of playing MP3 files.[9] Microsoft argued that the patent was invalid because it was obvious because the patent was a combination of two prior patents, each of which was known to be capable of playing MP3 files.[10] Microsoft argued that the patent was invalid because it was obvious because the patent was a combination of two prior patents, each of which was known to be capable of playing MP3 files.[11] Microsoft argued that the patent was invalid because it was obvious because the patent was a combination of two prior patents, each of which was known to be capable of playing MP3 files.[12] Microsoft argued that the 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another party. To understand how the common law of contracts would treat such an assignment, it is crucial to separate the rights that may be assigned from the duties that may be delegated. The delegation of duties under an assignment agreement receives different and more restrictive treatment under the common law than the assignment of rights. In most license agreements (as in Nike's), the permission to use the intellectual property is the primary right granted to the licensee, and the payment of fees or royalties is the primary duty.

A. Common Law Rules of Delegation of Contractual Duties

57. It would seem intuitive that licensors care little about who pays their royalties, as long as they are paid in accordance with the terms of the contract. This is presumably true *a fortiori* for a fully paid-up license – the licensor has already received his fee, which is everything material that the licensor will receive from the contract. Yet, despite appearances, there are sound reasons for concern about the transfer even of the simple duty to pay royalties. Licensors choose royalty licensees based upon the licensee's perceived ability to exploit the intellectual property effectively and thus to maximize royalties. If royalties are tied to sales (as they usually are), the licensor relies upon its estimation of the licensee's marketing and production ability. If the licensee were to assign the right to exploit the intellectual property to another party with less effective marketing and production machinery, the licensor would suffer and would lose some incentive to create the intellectual property in the first place.

58. Yet, this consideration is by no means compelling. It may be true in some cases that the upshot of a damaging assignment would be to discourage the creation of intellectual property and thereby undermine federal policy. Yet, it is equally (or more) believable that permitting a damaging assignment would result only in discouraging intellectual property owners from licensing their intellectual property without including a nonassignment clause in the agreement. More importantly, this argument neglects the substance of state law. The common law imposes three layers of protection for the obligee of a duty (i.e., the licensor). An assignment of duties that is contrary to public policy or the terms of the agreement is void *ab initio*.[137] In the case of an assignment of an intellectual property license, if such an assignment somehow worked a substantial detriment on the obligee, it could be argued that the assignment would thereby discourage the creation of intellectual property contrary to federal policy. Thus, an assignment to a demonstrably less able party would undermine the exploitation of the licensed rights, diminishing the obligee's returns, and would thereby become void as contrary to public policy. Of course, the licensor would be required to show actual or likely harm by virtue of the assignment, but this seems to be a logical precondition for interfering with the alienation of the licensed right. In the absence of actual or likely harm, there is little reason to allow the licensor to interfere with the licensee's exploitation of its uncontested rights.

59. But even a licensor who neglects to include a nonassignment clause in the license agreement need not rely upon this blunt theory of public policy. In those rare situations in which the licensor specifically chose the licensee because of some unique characteristics that allowed it to fulfill some desire of the licensor (e.g., a reputation of rare prestige or unique production capabilities), the obligations embodied in the license agreement are not assignable under the common law.[138] This would require some showing that the licensor relied upon the unique characteristics of the licensee, but again, this requirement seems reasonable when a licensor seeks to interfere with another party's vested rights.

60. Notwithstanding the assignment, the licensor is further protected by the fact that the licensee would maintain its primary liability to perform the duties imposed by the license agreement. The licensee maintains contractual privity with the licensor, and would therefore remain liable for nonperformance or inadequate performance by the assignee.[139] The obligor may only be released from liability with the binding consent of the obligee, thereby forming a novation of the contract.[140] Thus, assume that an author, *X*, granted a license to a publisher, *Y*, to exploit the author's novel. Suppose that *X* chose *Y* in reliance on *Y*'s enormous publishing and marketing capacity. Because the author's profit from book sales relies upon royalties on the sale of each book, it is in *X*'s best interest for *Y* to promote the book to the maximum extent feasible. Now assume that *Y* delegates its entire publishing and marketing obligations to a much smaller printing house, *Z*. If *Z* is not capable of performing at the capacity that *X* reasonably expects out of *Y*, *X* may annul the assignment. Moreover, even if *Z*'s capacity matches *Y*'s, *Z* must perform at the level of *Y*'s reasonably expected capacity or else *Y* will be liable to *X* for breach of contract.

61. It is also important to note that, if the assignee accepts the benefits under the license agreement, he is bound by the terms of that agreement.[141] Generally, *Z* would be liable to indemnify *Y* in case *Z* breaches the terms of the license agreement. Thus, although there may be a risk of the intellectual property becoming associated in the minds of consumers with the unknown assignee not picked by the intellectual property owner, an assignment could be *more* beneficial to the author, who would potentially benefit from having sources of damages in case of breach – one party directly (*Y*), the other party indirectly (*Z*).

62. Finally, an objection to free assignability of exclusive licenses on the grounds that such assignability may result in acts detrimental to the intellectual property owner is a double-edged sword. Restricting an exclusive licensee's ability to assign or sublicense all or part of its rights to others could create inefficiencies in exploiting the right. Continuing the example above, consider the possibility that market demand exceeds the publisher's printing capacity. It would be illogical and inefficient to prevent the publisher, which is the only party able to exploit the work, from recruiting outside assistance in order to promote the work. Demand would not be met, and profits would be diminished. Indeed, recruiting outside assistance is precisely what Sony did in *Gardner*, and although the copyright owner in that case (Nike) objected to the assignment because it believed that the assignee had breached the terms of the license agreement, such assignments are generally in the interest of the owner where they increase the exclusive licensee's ability efficiently to exploit its rights under the license. Nike could have relied solely on a theory of breach of contract without denying its licensee's ability to exploit its exclusive rights in the manner it thought fit and that did not inherently harm Nike.

B. Common Law Rules of Assignability of Contractual Rights

63. As for the assignment of rights, the licensor may have significant concerns here as well, regardless of the form of payment for the license. A licensee may assign the right to exploit the licensed intellectual property to a competitor of the licensor, thereby damaging the licensor's overall business position in the market. Or the licensee could assign the licensed rights to an unprincipled or scandalous company or individual, so that the licensor's reputation would be damaged. Suppose again that author *X* were to grant an exclusive license to publisher *Y* to print and publish the author's work based upon the publisher's renown and high standing, and its large capitalization. If *Y* determines that it is in its own best economic interests to assign or sublicense its rights to a relatively unknown vanity publisher, *Z*, which has a much smaller capitalization and no reputation of distinction, this arrangement will lower the author's profits and fame potential, which would contradict the spirit of the contract.

64. The identification of the intellectual property with its creator presents a sound reason for rejecting an automatic right to assign or sublicense one's exclusive or nonexclusive license. After all, intellectual property far more than tangible property is identified with its creator.[142] It seems unfair that an assignee of an exclusive license to a copyright or patent, who was not even chosen or approved by the original copyright or patent owner, could blacken the good name of the owner through immoral, illegal, or otherwise objectionable methods of exploiting the protected work. Unless the owner has the inherent right to exercise veto power over any choice of assignee of the licensed rights, the owner is exposed to an unacceptable risk that may chill his interest in instituting an otherwise profitable licensing arrangement.

65. This danger is especially severe when only some of the rights in a copyright or patent are licensed. A patentee or copyright owner may grant several different exclusive use licenses to various licensees, or may limit licenses geographically. For example, the inventor of a certain kind of metal might grant an exclusive license to an automobile manufacturer for use of the metal solely in automobiles, and another exclusive license to an airplane manufacturer for use in airplanes only. Or a software publisher might grant a license to one distributor for the Eastern half only of the United States, and another for the Western half. If one licensee assigns its rights to a third party unapproved by the licensor, the assignee's use of the rights in a detrimental or even scandalous manner may reflect poorly on the licensor or the other licensees.

66. In *Gardner*, Nike made an argument in some ways similar to the two raised above, claiming that, when an owner of intellectual property grants limited rights to an exclusive licensee, "the licensee's use will directly, and perhaps profoundly, affect the continuing value (and even the continued legal validity) of the underlying rights reserved to the owner."[143] In effect, Nike argued that, unless the copyright owner assigns *all* of its interest in the copyright to another party, it should be able to control the identity of the owner of those rights for the sake of protecting the residual rights it reserves to itself. In this view, federal policy forbids allowing state law to undermine the value of an intellectual property right by permitting free assignability.

67. It is generally true that the common law permits a licensee to assign his rights freely in the absence of a contractual restriction to the contrary. However, the common law does not leave the licensor high and dry, as federal courts often seem to assume, in the event that the assignment undermines the licensor's contractual rights. There are three general conditions under which the common law will void an assignment of rights. First, the assignment may not cause substantial detriment to the obligor (i.e., the licensor). This may occur where an assignment would materially change the duties or increase the burden of the obligor, increase the risk to the obligor, impair the obligor's chance of obtaining return performance, or reduce the value of the performance to the obligor.[144] For example, if, under the license agreement, the licensor had agreed to supply a licensee experienced with the licensed intellectual property with all the technical assistance requested in exploiting it, an assignment by the licensee to an inexperienced company in need of much more technical assistance would be void. Significantly, courts have consistently held that this detriment would be presumed to occur if the licensed rights were uniquely personal to the licensee.[145]

68. Second, where an assignment violates some public policy (or, more obviously, where it violates a statute), the assignment will be void.[146] For example, the Uniform Commercial Code forbids the assignment of the right to draw under a letter of credit unless the credit is expressly designated as assignable.[147] Similarly, it is contrary to public policy for a party claiming negligence in the delivery of personal services (such as the care of a physician or attorney) to assign the negligence claim to another party.[148] Thus, in the rare case that the performance of licensed rights is so personal to the licensee that the assignment of the rights would discourage the creation of intellectual property of the type licensed, then the federal public policy would indeed void the assignment insofar as state law takes cognizance – as it must under supremacy principles[149] – of the federal policy.

69. Finally, it must constantly be borne in mind that, in many cases (including Nike's in *Gardner*), the author does have substantial experience in licensing and bargaining power, and can therefore negotiate a suitable nonassignment clause. Thus, the intellectual property owner is adequately protected by a combination of his ability to forbid assignment contractually, and the state law protections against an assignment substantially to his detriment.

C. Common Law Disregard of Nonassignability Clauses

70. Of course, federal courts may fear that, even in the face of a nonassignment clause, some state courts would uphold an assignment of *rights* under the contract (leaving to the assignor the duty to pay royalties or otherwise perform[150]). Historically, the public policy against restraints on alienation of property typically nullified nonassignability clauses .[151] Courts at one time distinguished between freely assignable property rights and personal, nonassignable contractual rights.[152] This distinction would likely have drawn a line between an exclusive license to a copyright or patent – a chose in possession – and a nonexclusive right – a chose in action. Intellectual "property" in the form of patents and copyrights is intangible property granted by federal statute, but the bundle of rights to the property can be owned like a chose in possession, which can be assigned or exclusively conferred by license. On the other hand, a nonexclusive right is merely an executory right not to be sued. The Copyright Act affirms this interpretation in using the term "owner" for an exclusive licensee only. The Patent Act is even explicit on this point, providing that, subject to the other provisions of the Act, "patents shall have the attributes of personal property."[153] In contrast, courts have consistently taken the position that a nonexclusive license is a contractual right that may not be assigned save with the express permission of copyright or patent owner,[154] because it transfers no unique interest in the intellectual property. A nonexclusive license is merely an undertaking by the intellectual property owner that he will not sue the licensee for infringement if the licensee performs the activities defined in the license. It is therefore inherently contractual (i.e., it is a promise not to take a certain action against a certain person). An exclusive license, by contrast, does much more; it transfers certain sticks (or all of the sticks) in a bundle of statutory rights to the licensee. In short, it is a transfer of intangible property, and as property, it is presumptively assignable under state law.

71. But this objection is no longer relevant, as it is based upon a long superannuated understanding of the common law.[155] Courts routinely uphold the Restatement (Second) of Contracts rule that an explicit contractual provision forbidding assignment of a contractual duty *or* right is enforceable according to its terms.[156] A delegation of a duty contrary to a nonassignment clause is void as to both the obligor and the assignee. And while it is true that a contract term prohibiting assignment of a contractual right is valid only against the obligor and not the assignee, this can be overcome contractually or by any showing that the parties intended otherwise.[157] In other words, absent a showing of an intent of the parties to *prevent* the assignment of rights, an assignment of rights contrary to a nonassignment clause will give rise to a valid assignment, but the obligor may recover damages against the obligee for breach of contract. This remedy is adequate to uphold the federal policy of encouraging the creation of intellectual property, as it ensures that the creator received adequate compensation. Moreover, the contractual or negotiating circumstances may make clear that the parties intended actually to prevent an assignment of rights by, for example, explicitly stating that "any assignment contrary to this provision shall be void and without effect." Such an assignment is indeed void and the assignee remains liable to the obligor for breach of contract. If, in contrast, the parties did not otherwise manifest any intention to prevent an assignment, their intentions will be honored.

72. Contractual restraints on assignment of a copyright were considered by the Ninth Circuit in *Campbell v. Trustees of Leland Stanford Jr. University*.[158] In *Campbell*, a psychologist had developed a vocational interest test for Stanford University under a contract providing that neither party would assign its interest to any third party without the express consent of the other.[159] Stanford then entered into an exclusive license agreement with a publisher to publish and market the test and develop the test further.[160] The issue was whether Stanford *breached its agreement* with the psychologist by transferring part of its copyright interest to the publisher (the court held that it had),[161] not whether such transfer constituted copyright infringement. In light of the *Campbell* decision, the *Gardner* court's confusion as to the meaning of "ownership" under § 201(d) is understandable. It may not be intuitive that one can violate a contractual restriction on the use of intellectual property rights without infringing the copyright. Yet, a breach of contract and copyright infringement are not equivalent causes of action. Unlike a breach of contract, copyright infringement gives rise to an entitlement to potentially high statutory damages,[162] equitable relief,[163] and a possibility of a criminal proceeding.[164] Moreover, it allows the original copyright owner to proceed against a party that is not bound to the original copyright owner by contract for contributory or actual infringement. Thus, it is a grave error to assume that, because an original copyright owner is empowered to limit the scope of his licenses by contract, a breach of such limitations automatically entails an act of copyright infringement.

VI. Federal Policy and the Nonexclusive License

73. I have so far argued that, under the *Erie* doctrine and for reasons of federalism, there is no federal public policy that would preempt the default rule that state law governs the issue of whether an exclusive license is freely assignable. In the course of formulating this argument, I pointed out that exclusive license rights are property rights, while nonexclusive rights are contractual rights. Contractual rights lack the historical hostility to restraints on alienation associated with property rights. This conclusion does not resolve the question of whether federal law properly governs the assignability of the nonexclusive rights, however. The implication is that federal courts should apply "federal common law" to the question of the assignability of a nonexclusive license, but state common law to the same question applied to an exclusive license. The apparent disjunction might be reconciled, however, by reframing the question. The issue is not whether to apply a federal statute to one question and state law to the other. The issue is whether the federal public policy associated with the Patent Act or Copyright Act would be undermined by a state law allowing the assignment of a license of either kind. Differentiating the licenses seems to make less sense in this paradigm. Thus, it may be a good time to examine whether denying the application of state law to the question of the assignability of nonexclusive licenses continues to serve federal public policy as well as courts have so far assumed.

74. In *In re CFLC, Inc.*, the Ninth Circuit correctly rejected the Seventh Circuit's assertion that all aspects of patent license agreements must be interpreted according to federal law. However, the Ninth Circuit did find that "federal patent policy" justifies the rejection of state law and the judicial creation of a federal rule prohibiting the assignment of a nonexclusive patent license absent the consent of the patent owner. The Ninth Circuit decided that such a policy should overrule the applicability of state law because allowing state law to govern the assignability of a nonexclusive patent license would

> undermine the reward that encourages invention because a party seeking to use the patented invention could either seek a license from the patent holder or seek an assignment of an existing patent license from a licensee. In essence, every licensee would become a potential competitor with the licensor-patent holder in the market for licenses under the patent . . . . As a practical matter, free assignability of patent licenses might spell the end to paid-up licenses . . . . Few patent holders would be willing to grant a license in return for a one-time lump-sum payment, rather than for per-use royalties, if the license could be assigned to a completely different company which might make far greater use of the patented invention than could the original licensee.[165]

The court therefore determined that federal law forbade the free assignability of a nonexclusive patent. This holding is consistent with several prior cases holding that a nonexclusive patent license is "personal" and cannot be assigned without the authorization of the patent owner.[166]

75. The Ninth Circuit's decision in *In re CFLC* is based upon a subtle misstatement of the issue before the court. That issue was not whether federal policy allowed a patent license to be freely assignable, but whether federal policy forbade the application of state law to a matter of contract relating to the transfer of a federal right. With the issue reframed in this manner, it is difficult to fathom why the Ninth Circuit felt free to ignore the silence of the Patent Act on this issue and preempt the normally applicable state contract law. The court, though able to cite ample precedent (not all of it strictly germane[167]), appears oblivious to the licensor's ability to impose a contractual limitation on assignment, which renders a judicially created right against assignment superfluous. Moreover, in its solicitude for the licensor, the Ninth Circuit never seemed to consider the other side of its dire prediction. What if a nonexclusive licensee pays a lump sum and then finds his business paralyzed, or is an individual who dies two weeks after the license begins to run? In the absence of a contractual provision allowing assignment, the licensee's royalty and the benefit of the bargain are equally lost. Yet, this drastic possibility does not seem to have uniformly deterred licensees from accepting nonassignable, nonexclusive licenses.

76. A licensor who assigns all of his interest in certain rights in intellectual property through a nonexclusive license reserves to himself or to other licensees the same rights that are granted to the nonexclusive licensee that seeks assignment. An exclusive license conveys an actual and singular interest in the intellectual property sufficient for the licensee to sue on and be sued on the intellectual property in its own name.[168] This property interest carries with it all the incidents of any conveyance of property, whether perpetual or for a limited time. In contrast, a nonexclusive license conveys no property rights[169]; it merely conveys a *contractual* right by the licensor not to sue the licensee for the using the intellectual property in certain ways defined by the license.[170] In other words, the nonexclusive license is personal to the licensee by its very nature because it is a promise by the licensor not to sue that particular licensee, not a conveyance of any property rights. The licensor and its other licensees may be affected by the nonexclusive licensee's decision to assign its rights to an untrusted third party. It could be argued that a state law allowing such an assignment would violate federal policy, because such a conveyance effectively immunizes from an infringement action a party in a different position from the original licensee. The licensor retains its own interests in the rights licensed, and these rights may be affected by the activities of the licensee. But the licensor has not been given the opportunity to review the proposed activities of the third party and to consider its character. Thus, a nonexclusive licensee might undermine the rights of the licensor contrary to federal policy, when all that was intended by the original parties to the license agreement was to allow a specific use by a specific licensee of specific rights.

77. This argument advances a superficially plausible justification for differing treatment of exclusive and nonexclusive licenses. Upon closer examination, however, the argument portrays a distortion of the licensor's rights under state law and therefore makes unjustifiably dire predictions about the risks to which the licensor exposes himself by granting a nonexclusive license. The licensor of a nonexclusive right may surely be affected by the acts of the licensee. A nonexclusive license granted in exchange for a one-time lump-sum payment may rely upon the licensor's assessment of the licensee's production capacity. For example, imagine that intellectual property owner *A* intends to limit the market for its widgets to 100,000 widgets produced per year in order to maximize profit. *A* finds, however, that it can only produce 50,000 patented (or copyrighted) widgets without a further investment of capital that would significantly cut into its profit margin. *A* therefore seeks a licensor who can only produce 50,000 widgets itself, and finds *B*. *A* accordingly grants to *B* a nonexclusive license to produce widgets for one year, for a lump-sum payment of $200,000. *A* believes it has realized its intentions and enjoys the profitable exploitation of its patent (or copyright) until *B* turns around and assigns its license to *A*'s main competitor, the felicitously named *C*, which has the capacity to produce 500,000 widgets per year, and proceeds to do so, cutting down *A*'s profit margin to virtually nothing. All because *B* could freely assign its license!

78. It requires little ratiocination to realize the absurdity of this scenario. Most arguments refuting objections to the free assignability of an exclusive license equally overcome objections to the assignability of nonexclusive licenses. For example, as discussed above, a blanket rule prohibiting the free assignment of a nonexclusive license can render the licensee's lump sum payment valueless if, for some unforeseen reason, the licensee is unable personally to exploit the license. Another objection to the scenario above is not that *B* assigned its license, but that *A* failed to include normal protections in its license. The license could have forbade assignment using a clause similar to the one described in Section III.C.[171] If the rights were truly personal to the licensee, then the licensor would presumably have included a nonassignment clause in the contract. Better still, *A* could have included a numerical limit on its licensee's production (there, 50,000 widgets). This would protect *A* from an unexpected increase in *B*'s production capacity. Or *A* could include both clauses. In short, all of the common law protections afforded to a licensor of intellectual property rights apply regardless of the exclusivity *vel non* of the license. Given the many ways *A* could protect itself under state contract law, it is difficult to fathom why federal courts have insisted that they should create federal law to protect intellectual property owners from the eventuality that they themselves never feared, contrary to the intentions of the parties to the contract. The antiquated distinction between property rights and contractual rights, while conceptually useful in some situations, no longer serves any recognizable federal public policy with respect to intellectual property licensing law.

79. The one argument persistently advanced in favor of a federal public policy against free assignability of a nonexclusive right is its supposedly personal nature, which is said to be inherent. With the exception of a few outdated cases such as *Hapgood v. Hewitt*, persistent factual ambiguities in the judicial treatment of the assignability of nonexclusive licenses have prevented the discovering whether federal courts have applied federal policy to determine that nonexclusive licenses are *per se* personal, or whether the courts have determined that the licenses before them were personal, and then applied state law to invalidate the assignment of so personal a right. If courts have relied on the latter approach, as the *Dopplmaier* courts seems to have believed, then the reliance of many courts on *Hapgood* is misplaced, as that case applied a federal public policy to a question of state law. If the courts truly relied on the former approach, then a quotation from *Erie* is in order: "[N]otwithstanding the great names which may be cited in favor of the doctrine, and notwithstanding the frequency with which the doctrine has been reiterated, there stands, as a perpetual protest against its repetition, the Constitution of the United States, which recognizes and preserves the autonomy and independence of the states . . . ."[172] The mere unsupported supposition that a licensor may have designated a particular nonexclusive licensee because of that licensee's unique characteristics does not suffice to overcome the presumptive application of state law to the question of assignability. Evidence of such unique characteristics should be required, but even where such evidence is presented, the protections afforded by state law to the licensor of personal rights are adequate to prevent the undermining of the federal public policy of granting sufficient rewards to inventors and authors. Although the Constitution certainly does not forbid Congress to legislate in this area, where Congress has remained silent and no articulable federal policy is threatened, state law must apply.

80. Indeed, it is striking how few strong arguments courts have marshaled to uphold the application of federal law to a nonexclusive license over the past 150 years. Courts typically recite that "the controversy grows out of the patent laws" and that "it is well established" that federal law governs the assignability of a nonexclusive patent license.[173] But ritual recitations are hardly persuasive to overcome the principle of federalism. To say that the issue "grows out of the patent laws" is circular – assignment disputes only grow out of patent law instead of contract law because courts have said they do. The Patent Act and 1976 Copyright Act themselves say nothing about the assignability of license agreements. On the contrary, the statutory language of the Patent Act and the Copyright Act (at least as far as exclusive licenses) implies that it is a matter of ownership of property, *ergo* an issue to be settled with reference to state law, as there is no general federal property law. The argument that the rule of nonassignability is well established under judicially created federal law is equally circular. Notwithstanding *stare decisis*, such a rule becomes "well established" only by force of repetition. It does not address whether the rule is appropriate and consistent with the congressionally determined balance between the application of federal and state law to intellectual property contracts. As then-Chief Judge Cardozo observed: "The half truths of one generation tend at times to perpetuate themselves in the law as the whole truths of another, when constant repetition brings it about that qualifications, taken once for granted, are disregarded or forgotten."[174] The doctrine that a license agreement requiring personal services to be rendered cannot be assigned pursuant to state law absent the licensor's express consent has become the "whole truth" that all license agreements are inherently personal pursuant to federal public policy and cannot be assigned absent the licensor's express consent. The rule and its application are equally antiquated.

VII. Conclusions

81. Given the inherent protections to the copyright or patent licensor under state law, federal courts appear to have overreached themselves in continuing to invent federal common law to forbid the assignment of a license agreement. The protections granted by state law to the licensor are largely the same regardless of whether the license is exclusive or nonexclusive. There is, however, one argument that could be raised to support the application of federal policy to deny the free assignability of a nonexclusive license that does not apply to an exclusive license notwithstanding statutory silence on the subject. But this argument – that such licenses are inherently personal to the licensee – finds no support in federal statutes or any rational, well considered public policy.

82. In this Article, I have argued that the current chain of logic supporting a "federal public policy" contrary to the free assignability of licenses is broken at every link. The cases discussed above first assume without support or thorough analysis that the free assignability of license agreements is inherently harmful to licensors and has no offsetting benefits. They then assume that the application of state common law would result in such harmful free assignability. They further assume that there is a federal public policy, under the Patent Act and the Copyright Act, that forbids the application of any state law that might in some circumstances be harmful to the patentee or copyright owner. Finally, they assume that such federal public policy mandates the creation of a uniform federal rule against assignability to protect the patentee or copyright owner against such harm.

83. As discussed above, each of these assumptions is incorrect. The proper procedure for a court to follow before overruling the normal application of state law to a contract is as follows. First, the court must evaluate what, precisely, the federal public policy is. In this case, it is federal policy to reward potential and actual patentees and copyright owners only as much as necessary to give them adequate incentive to invent, innovate, and publish in the optimal amount. Generally, the Patent Act and Copyright Act achieve this objective without the need for additional rights invented by the judiciary; courts need only add to the statutory rights to the minimal extent necessary to ensure that those rights are not substantially undermined. The next step is to analyze thoroughly whether the application of the state law at issue does, in fact, substantially undermine the federal policy. If so, the state law is void and without effect to the extent of the conflict. If not, the state law stands and resolves the issue. In the case of the assignment of a patent or copyright license, state law in no way undermines the federal public policy of giving adequate reward to authors and inventors, regardless of whether such license is exclusive or nonexclusive. Courts that strike down harmless or beneficial state laws so indiscriminately violate the Rules of Decision Act and principles of federalism.

84. To a large extent, the holding of *Gardner v. Nike* may have rested upon its procedural disposition and the arguments of the parties. Had the California Superior Court not surrendered its own jurisdiction, that court may have applied California contract law to determine that the Nike license granted to Sony was not personal, and therefore was indeed assignable unless the assignment would offend some federal policy. Because Nike chose not to forbid assignment, and because other state law contract doctrines protect Nike from a harmful assignment, the court would then probably have found that the application of California law offended no federal public policy, and Nike would have been forced to bring a cause of action based upon a more firmly based claim – breach of contract (and perhaps trademark infringement under the particular facts of that case). Instead, by abdicating any common law jurisdiction over the assignability issue, the state court seemed to grant the U.S. district court free reign to disregard the law of contracts. Unfortunately, the parties never addressed in their briefs the thesis of this Article, namely, that state common law and commercial law rather than federal common law should have governed the question of free assignability. Nor could the *Gardner* court raise the issue *sua sponte*. The case is now before the Ninth Circuit Court of Appeals and, if heard, the appellate court will have no briefs on the issue because it was not raised below by the parties.

85. Notwithstanding the disposition of *Gardner v. Nike*, the time has come for federal courts to reexamine the justification for usurping the well developed, understood, and respected state common law of contracts based on a federal public policy not expressed in, or made necessary by, the Patent Act or Copyright Act. If this challenge were accepted, considering the current Supreme Court's propensity to return to federalism, it is likely that the days of *Hapgood v. Hewitt* would be numbered.

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[2] 110 F. Supp. 2d 1282 (C.D. Cal. 2000).

[3] Used here in the sense of a *legal* monopoly, or a "statutory grant of exclusive rights" as set forth in 17 U.S.C. § 106 (2000). An *economic* "monopoly," by contrast, is a market structure with a single seller. While the intellectual property "monopoly" only applies to a single work and not necessarily to an entire market, the ultimate effect on consumers will depend upon the availability of substitute goods and on the cross-price elasticity of such substitute goods. In other words, a single work can only represent an entire market when there is significant demand for that work and there are no easily substitutable goods. Thus, a legal monopoly can, but does not necessarily, confer a temporary economic monopoly.

[4] 17 U.S.C. § 107 (1999).

[5] 17 U.S.C. § 109(a) (2000).

[6] *See generally* Aaron Xavier Fellmeth, *Copyright Misuse and the Limits of the Copyright Monopoly*, 6 J. INTELL. PROP. L. 1 (1998).

[7] It might be said that this issue had previously been decided in *Leicester v. Warner Bros*., 47 U.S.P.Q.2d 1501 (C.D. Cal. 1998), 1998 U.S. Dist. LEXIS 8366. However, the facts of *Leicester* involved only a sublicense, not an assignment, and the holding with respect to assignments was therefore technically dicta.

[8] *See, e.g.*, CDN Inc. v. Kapes, 197 F.3d 1256 (9th Cir. 1999); Mid Am. Title Co. v. Kirk, 991 F.2d 417 (7th Cir. 1993).

[9] *See, e.g.*, State St. Bank & Trust Co. v. Signal Fin. Group, Inc. 149 F.3d 1368 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999).

[10] For an interesting perspective on this issue, *see generally* Neil Weinstock Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283 (1996).

[11] *See generally* Lothar Determann & Aaron Xavier Fellmeth, *Don't Judge a Sale by Its License: A New Approach to Software Transfers Under the First Sale Doctrine* (forthcoming manuscript, on file with authors).

[12] 17 U.S.C. § 109(a) (2000).

[13] *See, e.g.*, ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310 (N.D. Ill. 1990).

[14] Patterson v. Kentucky, 97 U.S. 501, 508-09 (1878).

[15] *See* 110 F. Supp. 2d 1282.

[16] *Gardner*, 110 F. Supp. 2d at 1283 n.1. Nike generously agreed to donate the royalties it received from Sony to the United Negro College Fund.

[17] *Id.* The right to use MC Teach on clothing was subject to the condition that the Nike trademarks and logos not appear on MC Teach's own illustrated clothing. However, this is virtually irrelevant to the copyright licensing issue, as it involves separate issues of trademark over which Nike clearly has full licensing control.

[18] Specifically, the license agreement provided that a copyright notice with Nike's name appear on all merchandise other than clothing.

[19] Plaintiff's Notice of Motion and Motion for Summary Adjudication, Mem. of Points and Authorities at 5, *Gardner*, 110 F. Supp. 2d 1282.

[20] *Gardner*, 110 F. Supp. 2d at 1283.

[21] Defendant's Notice of Motion and Motion for Summary Judgment at 4, *Gardner*, 110 F. Supp. 2d 1282.

[22] *Gardner*, 110 F. Supp. 2d at 1283.

[23] *Id.* at 1284.

[24] *Id.*

[25] 17 U.S.C. § 101 (2000) (emphasis added).

[26] *Gardner*, 110 F. Supp. 2d at 1285.

[27] 17 U.S.C. § 201(d) (2000).

[28] 17 U.S.C. § 501(b) (2000).

[29] *See, e.g.*, Campbell v. Board of Trustees of Leland Stanford Jr. Univ., 817 F.2d 499, 504 (9th Cir. 1987); Russell v. Price, 448 F. Supp. 303, 305 (C.D. Cal. 1977), *aff'd*, 612 F.2d 1123 (9th Cir. 1979), *cert. denied*, 446 U.S. 952 (1980); Ed Brawley, Inc. v. Gaffney, 399 F. Supp. 115, 116 (N.D. Cal. 1975); Droke House Pub. v. Aladdin Distrib. Corp., 360 F. Supp. 311, 312 (N.D. Ga. 1973).

[30] *See* Harris v. Emus Records Corp., 734 F.2d 1329, 1334-35 (9th Cir. 1984).

[31] *Harris*, 634 F.2d at 1334, *citing* United States v. Studiengesellschaft Kohle, m.b.H., 670 F.2d 1122, 1127 (D.C. Cir. 1981); Western Elec. Co. v. Pacent Reproducer Corp., 42 F.2d 116, 118 (2d Cir. 1930).

[32] Defendant's Notice of Motion and Motion for Summary Judgment at 2; *Gardner*, 110 F. Supp. 2d 1282.

[33] 3 MELVILLE B. NIMMER & RAYMOND NIMMER, NIMMER ON COPYRIGHT §§ 10.01-.02 (1999).

[34] *Gardner*, 110 F. Supp. 2d at 1286.

[35] H.R. REP. NO. 94-1476, at 123, *in* 1976 U.S.C.C.A.N. 5659, 5738 (stating that § 201(d)(2) "contains the first explicit statutory recognition of the divisibility of the copyright in our law"). In other words, the argument is that Congress used the term "owner" to signify that there can be many persons with an ownership interest in a copyrighted work.

[36] *Gardner,* 110 F. Supp. 2d at 1287.

[37] 210 B.R. 237 (Bankr. S.D.N.Y. 1997).

[38] *Id.* at 239-40.

[39] *Id.* at 240.

[40] *Gardner*, 110 F. Supp. 2d at 1287 n.4.

[41] 47 U.S.P.Q.2d 1501 (C.D. Cal. 1998), 1998 U.S. Dist. LEXIS 8366.

[42] *Id.* at 1504.

[43] *Id.* at 1505.

[44] Library Pub. v. Medical Econ. Co., 548 F. Supp. 1231, 1233 (E.D. Pa. 1982).

[45] 17 U.S.C. § 204(a) (2000).

[46] *Gardner*, 110 F. Supp. 2d at 1285. Interestingly, the court treated the *Gardner* agreement as an exclusive license, as Nike claimed, rather than as an assignment, as the plaintiffs initially claimed. The fact that the license was worldwide, perpetual, and exclusive tends to lead to the conclusion that the license was actually an assignment of the rights, with some *pro forma* endorsement rights reserved for Nike. *Cf.* Andrew Jergens Co. v. Woodbury, Inc., 273 F. 952, 960 (D. Del. 1921), *aff'd per curiam*, 279 F. 1016 (3d Cir.), *cert. denied*, 260 U.S. 728 (1922) (holding that the trademark "license" before the court that transferred all interests in a trademark subject to only two exceptions was in reality an assignment). However, I accept *arguendo* the court's dubious position on this issue because it leads to much more interesting and difficult policy questions. The case for the free alienability of an assignment is much stronger than for an exclusive license due to copyright owner's more complete abdication of any claim of residual rights in the work and because of traditional common law hostility to restraints on alienation of property. *See* H.R. Rep. No. 987, at 2 (1984), 1984 U.S.C.C.A.N. 2898, 2899, *citing* Zechariah Chafee, *Equitable Servitudes on Chattels*, 41 HARV. L. REV. 945, 962 (1928); *see also* Sebastian Int'l, Inc. v. Consumer Contacts (Pty) Ltd., 847 F.2d 1093, 1096 (3d Cir. 1988).

[47] *Gardner*, 110 F. Supp. 2d at 1284.

[48] The pertinent section is 17 U.S.C. § 501(b) (2000), which provides: "The legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement of that particular right committed while he or she is the owner of it."

[49] In fact, § 501(b) states that the legal or beneficial owner of an exclusive right is "entitled" to institute an action. An "entitlement" is a "right." BLACK'S LAW DICTIONARY 532 (6th ed. 1990) ("Entitlement. Right to benefits, income or property which may not be abridged without due process."); WEBSTER'S ENCYCLOPEDIC UNABRIDGED DICTIONARY OF THE ENGLISH LANGUAGE 476 (1994) ("Entitle . . . 1. to give (a person or thing) a title, right, or claim to something; furnish with grounds for laying claim . . . .").

[50] *In re* Patient Educ. Media, Inc., 210 B.R. 237, 240 (S.D.N.Y. 1997). As mentioned above, the *Gardner* court dismissed this dicta as a suffering from a "critically important mischaracterization of the plain language of § 201(d)(2)." *Gardner*, 110 F. Supp. 2d at 1287 n.4.

[51] Defendant's Notice of Motion and Motion for Summary Judgment at 3, *Gardner*, 110 F. Supp. 2d 1282.

[52] *Id.* at 1.

[53] This question was considered by the U.S. Court of Appeals for the Federal Circuit in *Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1569 (Fed. Cir. 1993), which determined that the patent exhaustion doctrine would immunize a manufacturing licensee from a claim of patent infringement by virtue of its sale of the manufactured chips to another party. The court rightly rejected the plaintiff's attempted end-run around the first sale doctrine. The plaintiff had contended that the sale of the products manufactured under license constituted a *de facto* sublicense (prohibited by the license) to the purchaser. Citing *Lisle Corp. v. Edwards*, 777 F.2d 693, 695 (Fed. Cir. 1985), the court held that "resale [of products] by the [licensee] did not create a sublicense." Unfortunately, the court reached the right result through the wrong analysis. The sale did indeed constitute a sublicense (as it must) to use the patented product in the manner expressed or implied in the sale agreement. However, this sublicense had no effect on the patent exhaustion doctrine, which applies to any sale of a product, regardless of whether it is accompanied by a license. *See generally* Determann & Fellmeth, *supra* note 11 (explaining and debunking judicial treatment of distinction between license and sale in application of First Sale Doctrine).

[54] The arguments for disallowing assignments as a matter of federal policy will be discussed in Section IV.

[55] *See* Defendant's Notice of Motion and Motion for Summary Judgment at 1 n.1, *Gardner*, 110 F. Supp. 2d 1282.

[56] 465 F.2d 1303 (7th Cir. 1972).

[57] *Id.* at 1305.

[58] 304 U.S. 64 (1938).

[59] 28 U.S.C. § 725 (1948) ("The laws of the several States, except where the Constitution, treaties, or statutes of the United States otherwise require or provide, shall be regarded as rules of decision in trials at common law, in the courts of the United States, in cases where they apply.") (later recodified as 28 U.S.C. § 1652 (1994) ("The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply.")).

[60] U.S. CONST. amend. X ("The powers not delegated to the United States by the Constitution, nor prohibited to it by the States, are reserved to the States respectively, or to the people.").

[61] *See Erie*, 304 U.S. at 78.

[62] *Id.*

[63] *See* Wheeldin v. Wheeler, 373 U.S. 647 (1963); *see also* Bell v. Hood, 327 U.S. 678, 684 (1946).

[64] U.S. CONST. art. I, § 8, cl. 8.

[65] *Unarco*, 465 F.2d at 1306, *quoting* Sola Elec. Co. v. Jefferson Co., 317 U.S. 173, 176 (1942).

[66] *Id.* at 1306.

[67] *Id.*

[68] A number of cases have held that federal law governs questions of assignability of a nonexclusive patent. *See, e.g.*, PPG Indus. v. Guardian Indus., 597 F.2d 1090, 1093 (6th Cir.); *In re* Alltech Plastics, Inc., 71 B.R. 686, 689 (Bankr. W.D. Tenn. 1987). This matter will be discussed in some detail in Section IV.B.

[69] *Wheeldin*, 373 U.S. 647, 651 (1963); *see* Texas Indus. v. Radcliff Materials, Inc., 451 U.S. 630, 640 (1981).

[70] *See* Henry J. Friendly, *In Praise of Erie – And a New Federal Common Law*, 39 N.Y.U.L. REV. 383, 405 (1964); 19 CHARLES WRIGHT ET AL., FEDERAL PRACTICE AND PROCEDURE § 4514, at 218 (1982).

[71] *See* Northwest Airlines, Inc. v. Transport Workers, 451 U.S. 77, 95-97 (1981).

[72] 15 U.S.C. §§ 1-7 (2000). The remarkable vagueness of the Sherman Act has quite reasonably been construed as an invitation to judicial lawmaking. In the words of one court, "Congress has incorporated into the Anti-Trust Acts the changing standards of the common law, and by so doing has delegated to the courts the duty of fixing the standard for each case." United States v. Associated Press, 52 F. Supp. 362, 370 (S.D.N.Y. 1943).

[73] United States v. Little Lake Misere Land Co., 412 U.S. 580, 593 (1973).

[74] Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398, 426 (1964).

[75] Bartsch v. Metro Goldwyn Mayer, Inc., 391 F.2d 150, 153 (2d Cir.).

[76] *See generally, e.g.*, ROBERT A. BURT, THE CONSTITUTION IN CONFLICT (1995); ALEXANDER M. BICKEL, THE LEAST DANGEROUS BRANCH (2d ed. 1986); Steven G. Sklaver, *Federal Power to Commandeer State Courts: Implications for the Theory of Judicial Federalism*, 32 IND. L. REV. 71 (1998); John C. Yoo, *Judicial Review and Federalism*, 22 HARV. J.L. & PUB. POL'Y 197 (1998); John C. Yoo, *The Judicial Safeguards of Federalism*, 70 S. CAL. L. REV. 1311 (1997); Bradford R. Clark, *Ascertaining the Laws of the Several States: Positivism and Judicial Federalism After* Erie, 145 U. PA. L. REV. 1459 (1997); Patrick C. McGinley, *Trashing the Constitution: Judicial Activism, the Dormant Commerce Clause, and the Federalism Mantra*, 71 OR. L. REV. 409 (1992).

[77] *See Texas Indus.*, 451 U.S. 630, 640.

[78] *Patterson*, 97 U.S. 501, 508-09 (1878).

[79] Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964).

[80] *See* Charles R. Calleros, *Reconciling the Goals of Federalism with the Policy of Title VII: Subject-Matter Jurisdiction in Judicial Enforcement of EEOC Conciliation Agreements*, 13 HOFSTRA L. REV. 257, 300 (1985). For an interesting example of unexamined judicial preemption with respect to the application of state law to the law of successor liability, see Aaron Xavier Fellmeth, *Vicarious Crime and International Trade: Constitutional Limits on Successor Liability for Import and Export Transactions* (forthcoming manuscript on file with author).

[81] Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979).

[82] *In re* CFLC, Inc., 89 F.3d 673, 679 (9th Cir. 1996).

[83] *See* Allen v. Riley, 203 U.S. 347, 355-57 (1906).

[84] *See, e.g.*, Wilson v. Sandford, 51 U.S. (10 How.) 99, 101 (1850); Albright v. Teas, 106 U.S. 613, 616-20 (1882); Dale Tile Mfg. Co. v. Hyatt, 125 U.S. 46, 51-54 (1888); Pratt v. Paris Gaslight & Coke Co., 168 U.S. 255, 257-60 (1898); Excelsior Wooden Pipe Co. v. Pacific Bridge Co., 185 U.S. 282, 285-87 (1902); New Marshall Engine Co. v. Marshall Engine Co., 223 U.S. 473 (1912); Luckett v. Delpark, Inc., 270 U.S. 496, 502-11 (1926); Becher v. Contoure Labs., Inc., 279 U.S. 388, 391 (1929).

[85] *See* Henry v. A.B. Dick Co., 224 U.S. 1, 14-15 (1912); *Dale Mfg. Co.*, 125 U.S. at 53.

[86] *See* Troy Iron & Nail Factory v. Corning, 55 (14 How.) U.S. 193 (1852); Hapgood v. Hewitt, 119 U.S. 226 (1886); Lane & Bodley Co. v. Locke, 150 U.S. 193 (1893); Wood Harvester Co. v. Minneapolis Harvester Co., 61 F. 256 (8th Cir. 1894); Bowers v. Lake Super. Contracting, 149 F. 983 (8th Cir. 1906).

[87] *Troy Iron & Nail Factory*, 55 (14 How.) U.S. at 210-11; *Hapgood*, 119 U.S. at 233-34; *Wood Harvester*, 61 F. at 257.

[88] *Bowers*, 149 F. at 985-87.

[89] *Lane & Bodley*, 150 U.S. at 198, 201.

[90] *In re CFLC, Inc.*, 89 F.3d 673, 677.

[91] Lear, Inc. v. Adkins, 395 U.S. 653, 661-62, 673 (1969); *see also* McCoy v. Mitsuboshi Cutlery, Inc., 67 F.3d 917, 920 (Fed. Cir. 1995) ("Whether express or implied, a license is a contract 'governed by ordinary principles of state contract law.'"); Power Lift, Inc. v. Weatherford Nipple-Up Sys., Inc., 871 F.2d 1082, 1085 (Fed. Cir. 1989) ("A license agreement is a contract governed by ordinary principles of state contract law.").

[92] *See, e.g.*, ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996), *rev'g*, 908 F. Supp. 640 (W.D. Wis. 1996); *see also* Advent Sys. Ltd. v. Unisys Corp., 925 F.2d 670 (3d Cir. 1991); RRX Indus., Inc. v. Lab-Con, Inc., 772 F.2d 543 (9th Cir. 1985).

[93] Wallis v. Pan Am. Petroleum Corp., 384 U.S. 63, 68 (1966); *see* O'Melveny & Myers v. Federal Deposit Ins. Corp., 512 U.S. 79 (1994).

[94] *Gardner*, 110 F. Supp. 2d at 1286.

[95] Defendant's Notice of Motion and Motion for Summary Judgment at 10, *Gardner*, 110 F. Supp. 2d 1282.

[96] Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 439-40 (1984).

[97] 135 N.Y.S.2d 858 (N.Y. Sup. Ct. 1954).

[98] A license to use a particular patented good is very different from a license to manufacture such goods or use a patented technology. Under the patent exhaustion doctrine, a licensee of a patented good is free to resell it, absent a contractual restriction to the contrary. *See McCoy*, 67 F.3d 917, 920-21. If the licensee does resell the good contrary to the nonassignment clause, the licensor's only remedy is contractual. There is an equivalent doctrine for sales of copies of copyrighted goods. 17 U.S.C. § 109(a); *see* Determann & Fellmeth, *supra* note 11.

[99] *Schlesinger*, 135 N.Y.S.2d at 862-63.

[100] Defendant's Notice of Motion and Motion for Summary Judgment at 9-10, *Gardner*, 110 F. Supp. 2d 1282.

[101] *Schlesinger*, 135 N.Y.S.2d at 862. Nike failed to mention this fact in its brief.

[102] 119 U.S. 226 (1886).

[103] *Id.* at 233.

[104] *Id.* at 234.

[105] 465 F.2d 1303 (7th Cir. 1972).

[106] 168 F.2d 919 (8th Cir.).

[107] *Id.* at 920.

[108] *Id.* at 921.

[109] 202 F. Supp. 426, 430 (S.D. Cal. 1962).

[110] 89 F.3d 673 (9th Cir. 1996).

[111] Defendant's Notice of Motion and Motion for Summary Judgment at 10-11, *Gardner*, 110 F. Supp. 2d 1282.

[112] *In re CFLC, Inc.*, 89 F.3d at 674.

[113] *Troy Iron & Nail Factory*, 55 U.S. 193, 216.

[114] 4 P.2d 215 (Cal. App. 1931).

[115] *E.g.*, Taylor v. Black Diamond Co., 25 P. 51 (Cal. 1890); Rosenthal Paper Co. v. Nat'l Folding Box & Paper Co., 123 N.E. 766 (N.Y. 1919).

[116] 308 P.2d 732 (Cal. 1957).

[117] *Id.* at 735-36.

[118] *Id.* at 738 (*quoting* Wilson v. Sandford, 51 U.S. (10 How.) 99, 101-02 (1850)).

[119] 35 U.S.C. § 261 (1984).

[120] *Dopplmaier*, 308 P.2d at 739.

[121] *Id.* at 738.

[122] Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 254-57 (1945); *Sola Elec. Co*., 317 U.S. 173, 175.

[123] *Dopplmaier*, 308 P.2d at 739.

[124] *Id.*, *citing* Bank of Am. Nat'l Trust & Sav. Ass'n v. Parnell, 352 U.S. 29 (1957).

[125] *Id.*

[126] RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 187(2) (1988); U.C.C. § 1-105 (1989).

[127] *See* Fantastic Fakes, Inc. v. Pickwick Int'l Inc., 661 F.2d 479, 483 (5th Cir. 1981).

[128] *Dopplmaier*, 308 P.2d at 740.

[129] 119 U.S. 226, 234 (1886).

[130] *Dopplmaier*, 308 P.2d at 740.

[131] *See Fantastic Fakes*, 661 F.2d at 483.

[132] *Dopplmaier*, 308 P.2d at 739 (emphasis added).

[133] *Id.* at 741.

[133] *Id.* at 741.

[134] *See* D'Oench, Duhme & Co. v. Fed. Deposit Ins. Corp., 315 U.S. 447, 456-58 (1942).

[135] U.C.C. § 2-210 & cmt. (1998); RESTATEMENT (SECOND) OF CONTRACTS § 317 (1981); *see* De La Rosa v. Tropical Sandwiches, Inc., 298 So. 2d 471, 473 (Fla. Dist. Ct. App. 1974); Trubowitch v. Riverbank Canning Co., 30 Cal. 2d 335, 344 (1947).

[136] Notwithstanding any federal judicial decisions forbidding the free assignment of nonexclusive licenses, such provisions are very common in exclusive and nonexclusive license agreements.

[137] *See* RESTATEMENT (SECOND) OF CONTRACTS § 318(1) (1981).

[138] *Cf.* RESTATEMENT (SECOND) OF CONTRACTS § 318(2) (1981) ("Unless otherwise agreed, a promise requires performance by a particular person only to the extent that the obligee has a substantial interest in having that person perform or control the acts promised.").

[139] *See, e.g.*, CAL. CIV. CODE § 1457 (West 2000); Cutting Packing Co. v. Packers' Exch., 86 Cal. 574, 576 (1890).

[140] *See* RESTATEMENT (SECOND) OF CONTRACTS §§ 280, 328, 329 (1981).

[141] *See* CAL. CIV. CODE § 1589 (Deering 2001); Walker v. Phillips, 205 Cal. App. 2d 26, 32 (Ct. App. 1962); Hudson Eng'g Assoc. v. Ames Dev. Corp., 643 N.Y.S.2d 677, 678 (App. Div. 1996). In the absence of an express assumption of the contractual obligations, however, the assignee is not liable for the obligations of the assignor, even if the other party to the contract acquiesces to the assignment. *See* Kagan v. K-Tel Entm't, 568 N.Y.S.2d 756, 758 (App. Div. 1991); De Mille Co. v. Casey, 201 N.Y.S. 20, 22 (Sup. Ct. 1923).

[142] To the extent that tangible, non-intellectual property is identified with its creator to any significant degree, it is because of intellectual property – the trademark or service mark. For example, the sole reason that the public identifies the quality of a Mercedes-Benz automobile with Daimler Chrysler A.G. is that the trademark "MERCEDES-BENZ" and logo are affixed to the tangible property, both physically and mentally, through marketing.

[143] Defendant's Notice of Motion and Motion for Summary Judgment at 10, *Gardner*, 110 F. Supp. 2d 1282.

[144] RESTATEMENT (SECOND) OF CONTRACTS § 317(2)(a) (1981); *see* Farmland Irrigation Co. v. Dopplmaier, 308 P.2d 732, 741(Cal. 1957); Paper Prods. Mach. Co. v. Safepack Mills, 131 N.E. 288 (Mass. 1921); *see also* 5 CAL. JUR. 2D 292 [*Title*] [(date)] ("It appears that the courts will generally refuse to enforce nonassignability clauses, at least as between the assignor and assignee and those claiming under them, *where the transfer works no substantial detriment to the rights of the other party to the contract.*") (emphasis added).

[145] *See* Fenn v. Pickwick, 4 P.2d 215 (Cal. Ct. App. 1931); *cf.* RESTATEMENT (SECOND) OF CONTRACTS § 317 cmt. d (1981).

[146] RESTATEMENT (SECOND) OF CONTRACTS § 317(2)(b) (1981).

[147] U.C.C. § 5-116 (1998).

[148] *See* RESTATEMENT (SECOND) OF CONTRACTS § 317 illus. 8 (1981).

[149] Under Article VI of the Constitution, state law and courts must defer to federal law – and, by implication, the federal policy expressed by that law – in matters of federal competence. *See* U.S. CONST. art. VI, § 3, cl. 2.

[150] RESTATEMENT (SECOND) OF CONTRACTS § 322 (1981); U.C.C. § 2-210(3) (1998).

[151] *See* RESTATEMENT (SECOND) OF CONTRACTS § 317(2) (1981); RESTATEMENT (SECOND) OF PROPERTY § 4.1(1) (1983).

[152] *See* Sacks v. Neptune Meter Co., 258 N.Y.S. 254, 261 (Sup. Ct. 1932); *cf.* State Bank v. Central Mercantile Bank of N.Y., 248 N.Y. 428 (1928) (holding that the terms of the contract at bar did not appear to prohibit assignment, and it was therefore unnecessary "to choose between the alternatives" of the right freely to contract and the right freely to alienate property rights).

[153] 35 U.S.C. § 261 (2000). The Copyright Act also refers to "copyright ownership" as having attributes of personal property. 17 U.S.C. § 201(d)(1) (2000).

[154] *See* MELVILLE B. NIMMER & RAYMOND NIMMER, NIMMER ON COPYRIGHT § 10.02[B][5] (2000).

[155] *See Sacks*, 258 N.Y.S. 254, 256 ("My investigation has disclosed no decision in this state or elsewhere which, in the absence of a statute, has ever held that a contractual prohibition against the assignment of a claim is unenforceable.").

[156] *See* RESTATEMENT (SECOND) OF CONTRACTS §§ 317(2)(c), 322 (1981); 4A ARTHUR LINTON CORBIN, CORBIN ON CONTRACTS §§ 872-73 (1951 & Supp. 1989); 3 SAMUEL WILLISTON, A TREATISE ON THE LAW OF CONTRACTS § 422 (3d ed. 1961); 6A CAL. JUR. 2D *Assignment* §§ 30, 33 (1975). However, it is clear that even in an executory contract, courts will generally refuse to enforce nonassignability clauses as applied to the *rights* under an agreement (as opposed to duties) between the assignor and assignee, where the transfer works no substantial detriment to the rights of the other party to the contract. Benton v. Hofmann Plastering Co., 207 Cal. App. 2d 61, 68 (Ct. App. 1962).

[157] *See* RESTATEMENT (SECOND) OF CONTRACTS § 322(2)(b) (1981).

[158] 817 F.2d 499 (9th Cir. 1987).

[159] *Id.* at 503.

[160] *Id.* at 501.

[161] *Id.* at 504.

[162] 17 U.S.C. § 504(c) (2000).

[163] 17 U.S.C. § 502 (2000).

[164] 17 U.S.C. § 506 (2000).

[165] *In re CFLC, Inc.*, 89 F.3d 673, 679.

[166] *See, e.g.*, Gilson v. Republic of Ir., 787 F.2d 655, 658 (D.C. Cir. 1986); Stenograph Corp. v. Fulkerson, 972 F.2d 726, 729 n.2 (7th Cir. 1992); *PPG Indus.*, 597 F.2d 1090, 1093; *In re Alltech Plastics, Inc.*, 71 B.R. 686, 689; E.I. du Pont de Nemours & Co. v. Shell Oil Co., 498 A.2d 1108, 1114 (Del. 1985).

[167] For example, the court supported its position that nonexclusive patent licenses were always personal and unassignable absent consent of the patent owner by citing *inter alia* Rock-Ola Mfg. Corp. v. Filben Mfg. Co., 168 F.2d 919, 921-22 (8th Cir. 1948), in which the licensor had a clause forbidding transfer, unlike in the case before the Ninth Circuit. The court seems to have confused a federal court's refusal to allow an assignment in the face of a contract clause forbidding such assignment with the court's refusal to allow an assignment in the *absence* of such a clause on the grounds of federal public policy.

[168] *See* 17 U.S.C. § 501(b) (2000).

[169] *See* Bell Intercontinental Corp. v. United States, 381 F.2d 1004, 1010 (Ct. Cl. 1967).

[170] *See* Lulirama Ltd. v. Axcess Broad. Serv., Inc., 128 F.3d 872, 882 (5th Cir. 1997); *Harris*, 734 F.2d 1329, 1334; *Studiengesellschaft Kohle*, m.b.H., 670 F.2d 1122, 1127 (D.C. Cir. 1981); *Western Elec. Co.*, 42 F.2d 116, 118.

[171] *See supra* text accompanying note 136.

[172] Erie R.R. Co. v. Tompkins, 304 U.S. 64, 78 (1938).

[173] *E.g.*, Wood Harvester Co. v. Minneapolis-Esterly Harvester Co., 61 F. 256, 258 (D. Minn. 1894); *Bowers*, 149 F. 983, 986.

[174] Allegheny College v. Nat'l Chautauqua Cty. Bank of Jamestown, 159 N.E. 173, 174 (N.Y. 1927).