

## Implied Licenses and Unwritten Transactions

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We generally think of license agreements as written documents signed (or clicked) by the parties. However, there are numerous situations in which a license or other rights may be implied through the conduct of the parties, a course of dealing or industry custom. Yet the law of implied licenses, and implied contracts more generally, is somewhat incoherent. As one leading treatise observes:

[In] many modern implied license cases, courts attempt to describe the doctrine in terms of categories or types of implied licenses. In our view, most of these efforts are incomplete or worse; they create overlapping categories to the point that the categories confuse, rather than aid in analysis ... The fact that the doctrine involves overlapping, difficult to describe concepts, however, does not mean that implied license cases are random; it means, rather, that so many different concepts are brought into this concept that understanding it as a single theme is difficult.<sup>1</sup>

Implied license theories crop up in other chapters of this book, including those relating to scope of the license (Section 6.1), first sale and exhaustion (Chapter 23), and the licensing of technical standards (Chapter 20). The common theme among the cases dealing with implied licenses, if any exists, is that implied licenses may be recognized by a court in order to achieve some just end when express contractual terms are not up to the job. In this chapter we will consider a few special scenarios in which implied licenses and other rights may arise, bearing in mind that the potential to argue for the existence of an implied license is limited only by the ingenuity of the lawyers involved.

### 4.1 STATUTES OF FRAUDS

Implied licenses are, by their very nature, unwritten. Statutes of frauds are legal requirements that, to be enforceable, particular types of transactions must be in writing, typically accompanied by authorized signatures and, sometimes, other formalities. On one hand, a rule requiring written documentation serves important functions of preventing fraud, giving effective notice,

<sup>1</sup> Raymond T. Nimmer & Jeff Dodd, *Modern Licensing Law* § 10.02 (Thomson Reuters, 2016–17).

signaling the legal significance of a promise, and providing a record of the terms of the agreement. On the other hand, a writing requirement enables bad actors to avoid unwritten promises, increases transaction costs and introduces the likelihood that otherwise legitimate agreements will be invalidated on purely technical (and increasingly archaic) grounds.

As discussed in [Chapter 2](#), federal copyright, patent and trademark law all contain rules that relate to the transfer and assignment of these rights. But is a license an “assignment” for the purposes of the statute of frauds? There is little statutory guidance regarding this question, but the answer is likely no. The Copyright Act, however, expressly includes “exclusive licenses” among the types of transactions requiring a written instrument. Does this mean that nonexclusive licenses need not be written? In many cases this is probably the rule (see *I.A.E. v. Shaver*, *infra*, [Section 4.3](#)).

State law statutes of frauds vary, but none specifically refers to licenses or transfers of intellectual property. This being said, the Restatement (Second) of Contracts § 110(e) notes that “a contract that is not to be performed within one year from the making thereof” is subject to the statute of frauds. The one-year requirement, to the extent recognized by a court, could seriously impact many licensing transactions. For example, in *Commonwealth Film Processing, Inc. v. Courtaulds United States, Inc.*, 717 F. Supp. 1157 (W.D. Va. 1989), the executives of two companies engaged in patent litigation met at an airport to discuss the settlement of their claims through a licensing arrangement. At that meeting, “certain basic understandings were reached on issues relevant to a possible license agreement” between the parties.

In holding that the oral settlement and license agreement were unenforceable under the one-year rule, the court reasoned that

It is clear from the allegations in Commonwealth’s complaint that the license agreement they contend was reached cannot be fully performed within one year. In paragraph 11a of the complaint, Commonwealth alleges that the license agreement would be “continuous.” Paragraph 11b states that the alleged agreement contained a provision for royalty payments which were to continue for five years. Consequently, the license agreement which is alleged by Commonwealth falls squarely within the statute of frauds and is unenforceable unless saved by a recognized exception to the statute.

At least one state supreme court has criticized the one-year rule. In *C.R. Klewin, Inc. v. Flagship Properties, Inc.*, 600 A.2d 772 (Conn. 1991), the court reasons that the rule no longer supports the policies that gave rise to the statute of frauds and observes that the “only remaining effect” of the one-year rule “is arbitrarily to forestall adjudication of possible meritorious claims.” The *Klewin* court thus adopts what is now the majority rule: an unwritten contract is not void under the one-year rule unless it cannot be performed within the one-year period under any circumstances. The fact that a contract is not *likely* to be performed within one year is not enough to void such an unwritten contract.

#### 4.2 PITCHES AND IDEA SUBMISSIONS

In many industries, the owner of an IP right may approach a potential licensee to “pitch” a new idea, whether a business plan, a screenplay, a concept for a new reality TV show or, as in the *Nadel* case below, the idea for a new toy. In most cases, no documents have changed hands, let alone been executed. Yet in some cases, the submitter of an idea may be able to claim that use of that idea by a recipient gives rise to an implicit obligation to be compensated. The implied license doctrine in the context of idea submissions is discussed in the cases that follow.

*Nadel v. Play-By-Play Toys & Novelties, Inc.*

208 F.3d 368 (2d Cir. 1999)

## SOTOMAYOR, CIRCUIT JUDGE

Craig P. Nadel (Nadel) brought this action against Play-By-Play Toys & Novelties, Inc. (Play-By-Play) for breach of contract, quasi contract, and unfair competition ...

**Background**

Nadel is a toy idea man. Toy companies regularly do business with independent inventors such as Nadel in order to develop and market new toy concepts as quickly as possible. To facilitate the exchange of ideas, the standard custom and practice in the toy industry calls for companies to treat the submission of an idea as confidential. If the company subsequently uses the disclosed idea, industry custom provides that the company shall compensate the inventor, unless, of course, the disclosed idea was already known to the company.

In 1996, Nadel developed the toy concept at issue in this case. He transplanted the “eccentric mechanism” found in several hanging Halloween toys then on the market [and] placed the mechanism inside of a plush toy monkey skin to develop the prototype for a new table-top monkey toy. This plush toy figure sat upright, emitted sound, and spun when placed on a flat surface.

In October 1996, Nadel met with Neil Wasserman, an executive at Play-By-Play who was responsible for the development of its plush toy line. According to Nadel, he showed his prototype monkey toy to Wasserman, who expressed interest in adapting the concept to a non-moving, plush Tazmanian Devil toy that Play-By-Play was already producing under license from Warner Bros. Nadel contends that, consistent with industry custom, any ideas that he disclosed to Wasserman during their October 1996 meeting were subject to an agreement by Play-By-Play to keep such ideas confidential and to compensate Nadel in the event of their use.

Nadel claims that he sent his prototype monkey toy to Wasserman as a sample and awaited the “Taz skin” and voice tape, which Wasserman allegedly said he would send, so that Nadel could make a sample spinning/laughing Tazmanian Devil toy for Play-By-Play. Wasserman never provided Nadel with the Taz skin and voice tape, however, and denies ever having received the prototype monkey toy from Nadel.

Notwithstanding Wasserman’s denial, his secretary, Melissa Rodriguez, testified that Nadel’s prototype monkey toy remained in Wasserman’s office for several months. According to Ms. Rodriguez, the monkey toy was usually kept in a glass cabinet behind Wasserman’s desk, but she remembered that on one occasion she had seen it on a table in Wasserman’s office. Despite Nadel’s multiple requests, Wasserman did not return Nadel’s prototype monkey toy until February 1997, after Play-by-Play introduced its “Tornado Taz” product at the New York Toy Fair.

The parties do not dispute that “Tornado Taz” has the same general characteristics as Nadel’s prototype monkey [toy]. Nadel claims that, in violation of their alleged agreement, Play-By-Play used his idea without paying him compensation. Play-By-Play contends, however, that it independently developed the Tornado Taz product concept and that Nadel is therefore not entitled to any compensation. Specifically, Play-By-Play maintains that, as early as June or July of 1996, two of its officers – Wasserman and Slattery – met in Hong Kong and began discussing ways to create a spinning or vibrating Tazmanian Devil,

including the possible use of an eccentric mechanism. Furthermore, Play-By-Play claims that in late September or early October 1996, it commissioned an outside manufacturing agent – Barter Trading of Hong Kong – to begin developing Tornado Taz.

Play-By-Play also argues that, even if it did use Nadel's idea to develop Tornado Taz, Nadel is not entitled to compensation because Nadel's concept was unoriginal and non-novel to the toy industry in October 1996.

## Discussion

### I. Nadel's Claims

On January 21, 1999, the district court granted Play-By-Play's motion for summary judgment dismissing Nadel's claims for breach of contract, quasi contract, and unfair competition. Interpreting New York law, the district court stated that "a party is not entitled to recover for theft of an idea unless the idea is novel or original." Applying that principle to Nadel's claims, the district court concluded that, even if the spinning toy concept were novel to Play-By-Play at the time Nadel made the disclosure to Wasserman in October 1996, Nadel's claims must nonetheless fail for lack of novelty or originality because "numerous toys containing the characteristics of [Nadel's] monkey were in existence prior to October 1996."

#### A. Submission-of-Idea Cases under New York Law

Our analysis begins with the New York Court of Appeals' most recent discussion of the law governing idea submission cases, *Apfel v. Prudential-Bache Securities, Inc.*, 616 N.E.2d 1095 (1993). In *Apfel*, the Court of Appeals discussed the type of novelty an idea must have in order to sustain a contract-based or property-based claim for its uncompensated use. Specifically, *Apfel* clarified an important distinction between the requirement of "novelty to the buyer" for contract claims, on the one hand, and "originality" (or novelty generally) for misappropriation claims, on the other hand.

Under the facts of *Apfel*, the plaintiff disclosed his idea to the defendant pursuant to a confidentiality agreement and, subsequent to disclosure, entered into another agreement wherein the defendant agreed to pay a stipulated price for the idea's use. The defendant used the idea but refused to pay plaintiff pursuant to the post-disclosure agreement on the asserted ground that "no contract existed between the parties because the sale agreement lacked consideration." The defendant argued that an idea could not constitute legally sufficient consideration unless it was original or novel generally and that, because plaintiff's



FIGURE 4.1 Tornado Taz.

idea was not original or novel generally (it had been in the public domain at the time of the post-disclosure agreement), the idea provided insufficient consideration to support the parties' post-disclosure contract.

In rejecting defendant's argument, the Court of Appeals held that there was sufficient consideration to support plaintiff's contract claim because the idea at issue had value to the defendant at the time the parties concluded their post-disclosure agreement. The *Apfel* court noted that "traditional principles of contract law" provide that parties "are free to make their bargain, even if the consideration exchanged is grossly unequal or of dubious value," and that, so long as the "defendant received something of value" under the contract, the contract would not be void for lack of consideration.

The *Apfel* court explicitly rejected defendant's contention that the court should carve out "an exception to traditional principles of contract law" for submission-of-idea cases by requiring that an idea must also be original or novel generally in order to constitute valid consideration. In essence, the defendant sought to impose a requirement that an idea be novel in absolute terms, as opposed to only the defendant buyer, in order to constitute valid consideration for the bargain. In rejecting this argument, the *Apfel* court clarified the standards for both contract-based and property-based claims in submission-of-idea cases. That analysis guides our decision here.

The *Apfel* court first noted that "novelty as an element of an idea seller's claim" is a distinct element of proof with respect to both (1) "a claim based on a property theory" and (2) "a claim based on a contract theory." The court then proceeded to discuss how the leading submission-of-idea case – *Downey v. General Foods Corp.*, 286 N.E.2d 257 (1972) – treated novelty with respect to property-based and contract-based claims. First, the *Apfel* court explained that the plaintiff's property-based claims for misappropriation were dismissed in *Downey* because "the elements of novelty and originality [were] absent," i.e., the ideas were so common as to be unoriginal and known generally. Second, the *Apfel* court explained that the plaintiff's contract claims in *Downey* had been dismissed on the separate ground that the "defendant possessed plaintiff's ideas prior to plaintiff's disclosure [and thus], the ideas could have no value to defendant and could not supply consideration for any agreement between the parties."

By distinguishing between the two types of claims addressed in *Downey* and the different bases for rejecting each claim, the New York Court of Appeals clarified that the novelty requirement in submission-of-idea cases is different for misappropriation of property and breach of contract claims ...

Thus, the *Apfel* court refused to read *Downey* and "similar decisions" as requiring originality or novelty generally in all cases involving disclosure of ideas. Rather, the *Apfel* court clarified that the longstanding requirement that an idea have originality or general novelty in order to support a misappropriation claim does not apply to contract claims. For contract-based claims in submission-of-idea cases, a showing of novelty to the buyer will supply sufficient consideration to support a contract.

Moreover, *Apfel* made clear that the "novelty to the buyer" standard is not limited to cases involving an express post-disclosure contract for payment based on an idea's use. The *Apfel* court explicitly discussed the pre-disclosure contract scenario present in the instant case, where "the buyer and seller contract for disclosure of the idea with payment based on use, but no separate postdisclosure contract for the use of the idea has been made." In such a scenario, a seller might, as Nadel did here, bring an action against a buyer who allegedly used his ideas without payment, claiming both misappropriation of property and breach of

an express or implied-in-fact contract. The *Apfel* court recognized that these cases present courts with the difficult problem of determining “whether the idea the buyer was using was, in fact, the seller’s.” Specifically, the court noted that, with respect to a misappropriation of property claim, it is difficult to “prove that the buyer obtained the idea from [the seller] and nowhere else.” With respect to a breach of contract claim, the court noted that it would be inequitable to enforce a contract if “it turns out upon disclosure that the buyer already possessed the idea.” The court then concluded that, with respect to these cases, “[a] showing of novelty, at least novelty as to the buyer” should address these problems.

We note, moreover, that the “novelty to the buyer” standard comports with traditional principles of contract law. While an idea may be unoriginal or non-novel in a general sense, it may have substantial value to a particular buyer who is unaware of it and therefore willing to enter into contract to acquire and exploit it. In fact, the notion that an unoriginal idea may still be novel (and valuable) to a particular buyer is not itself a novel proposition . . . In contrast to contract-based claims, a misappropriation claim can only arise from the taking of an idea that is original or novel in absolute terms, because the law of property does not protect against the misappropriation or theft of that which is free and available to all . . .

Finally, although the legal requirements for contract-based claims and property-based claims are well-defined, we note that the determination of novelty in a given case is not always clear. The determination of whether an idea is original or novel depends upon several factors, including, *inter alia*, the idea’s specificity or generality (is it a generic concept or one of specific application?), its commonality (how many people know of this idea?), its uniqueness (how different is this idea from generally known ideas?), and its commercial availability (how widespread is the idea’s use in the industry?).

Moreover, in assessing the interrelationship between originality and novelty to the buyer, we note that in some cases an idea may be so unoriginal or lacking in novelty that its obviousness bespeaks widespread and public knowledge of the idea, and such knowledge is therefore imputed to the buyer. In such cases, a court may conclude, as a matter of law, that the idea lacks both the originality necessary to support a misappropriation claim and the novelty to the buyer necessary to support a contract claim.

In sum, we find that New York law in submission-of-idea cases is governed by the following principles: Contract-based claims require only a showing that the disclosed idea was novel to the buyer in order to find consideration. Such claims involve a fact-specific inquiry that focuses on the perspective of the particular buyer. By contrast, misappropriation claims require that the idea at issue be original and novel in absolute terms. This is so because unoriginal, known ideas have no value as property and the law does not protect against the use of that which is free and available to all. Finally, an idea may be so unoriginal or lacking in novelty generally that, as a matter of law, the buyer is deemed to have knowledge of the idea. In such cases, neither a property-based nor a contract-based claim for uncompensated use of the idea may lie.

In light of New York’s law governing submission-of-idea cases, we next consider whether Nadel’s toy idea was original or novel in absolute terms so as to support his misappropriation claim and whether his idea was novel as to Play-By-Play so as to support his contract claims.

## B. Nadel’s Misappropriation Claim

[In] this case, the district court did not decide whether Nadel’s idea – a plush toy that sits upright, emits sounds, and spins on a flat surface by means of an internal eccentric motor – was inherently lacking in originality. We therefore remand this issue to the district court

to determine whether Nadel's idea exhibited "genuine novelty or invention" or whether it was "a merely clever or useful adaptation of existing knowledge."

Moreover, insofar as the district court found that Nadel's idea lacked originality and novelty generally because similar toys were commercially available prior to October 1996, we believe that there remains a genuine issue of material fact on this point. While the record contains testimony of Play-By-Play's toy expert – Bert Reiner – in support of the finding that Nadel's product concept was already used in more than a dozen different plush toys prior to October 1996, the district court cited the "Giggle Bunny" toy as the only such example. Nadel disputes Reiner's contention and claims, furthermore, that the district court erroneously relied on an undated video depiction of the Giggle Bunny toy to conclude that upright, sound-emitting, spinning plush toys were commercially available prior to October 1996.

With respect to the Giggle Bunny evidence, we agree with Nadel that the Giggle Bunny model depicted in the undated video exhibit is physically different from the earlier Giggle Bunny model known to be commercially available in 1994. Drawing all factual inferences in Nadel's favor, we cannot conclude as a matter of law that the upright, sound-emitting, spinning plush Giggle Bunny shown in the video exhibit was commercially available prior to October 1996, and we certainly cannot conclude based on this one exhibit that similar toys were in the public domain at that time.

Moreover, although we find highly probative Mr. Reiner's testimony that numerous toys with the same general characteristics of Nadel's toy idea were commercially available prior to October 1996, his testimony and related evidence are too ambiguous and incomplete to support a finding of unoriginality as a matter of law. Mr. Reiner's testimony fails to specify precisely which (if any) of the enumerated plush toys were designed to (1) sit upright, (2) on a flat surface, (3) emit sounds, and (4) spin or rotate (rather than simply vibrate like "Tickle Me Elmo," for example). Without this information, a reasonable finder of fact could discount Mr. Reiner's testimony as vague and inconclusive.

On remand, the district court is free to consider whether further discovery is warranted to determine whether Nadel's product concept was inherently original or whether it was novel to the industry prior to October 1996. A finding of unoriginality or lack of general novelty would, of course, preclude Nadel from bringing a misappropriation claim against Play-By-Play. Moreover, in evaluating the originality or general novelty of Nadel's idea in connection with his misappropriation claim, the district may consider whether the idea is so unoriginal that Play-By-Play should, as a matter of law, be deemed to have already possessed the idea, and dismiss Nadel's contract claims on that ground.

### C. Nadel's Contract Claims

Mindful that, under New York law, a finding of novelty as to Play-By-Play will provide sufficient consideration to support Nadel's contract claims. [Reading the] record in a light most favorable to Nadel, we conclude that there exists a genuine issue of material fact as to whether Nadel's idea was, at the time he disclosed it to Wasserman in early October 1996, novel to Play-By-Play. Notably, the timing of Play-By-Play's development and release of Tornado Taz in relation to Nadel's October 1996 disclosure is, taken alone, highly probative. Moreover, although custom in the toy industry provides that a company shall promptly return all samples if it already possesses (or does not want to use) a disclosed idea, Play-By-Play in this case failed to return Nadel's prototype monkey toy for several months, despite Nadel's multiple requests for its return. According to Wasserman's

secretary, Melissa Rodriguez, Nadel's sample was not returned until after the unveiling of "Tornado Taz" at the New York Toy Fair in February 1997. Ms. Rodriguez testified that from October 1996 through February 1997, Nadel's sample was usually kept in a glass cabinet behind Wasserman's desk, and on one occasion, she remembered seeing it on a table in Wasserman's office. These facts give rise to the reasonable inference that Play-By-Play may have used Nadel's prototype as a model for the development of Tornado Taz.

None of the evidence adduced by Play-By-Play compels a finding to the contrary on summary judgment. With regard to the discussions that Play-By-Play purportedly had in June or July of 1996 about possible ways to create a vibrating or spinning Tazmanian Devil toy, those conversations only lasted, according to Mr. Slattery, "a matter of five minutes." Play-By-Play may have "discussed the concept," as Mr. Slattery testified, but the record provides no evidence suggesting that, in June or July of 1996, Play-By-Play understood exactly how it could apply eccentric motor technology to make its Tazmanian Devil toy spin rather than, say, vibrate like Tickle Me Elmo. Similarly, although Play-By-Play asserts that it commissioned an outside manufacturing agent – Barter Trading of Hong Kong – to begin developing Tornado Taz in late September or early October of 1996, Play-By-Play admits that it can only "guess" the exact date. Play-By-Play cannot confirm that its commission of Barter Trading pre-dated Nadel's alleged disclosure to Wasserman on or about October 9, 1996. Nor has Play-By-Play produced any documents, technical or otherwise, relating to its purported business venture with Barter Trading or its independent development of a spinning Tornado Taz prior to October 1996. Based on this evidence, a jury could reasonably infer that Play-By-Play actually contacted Barter Trading, if at all, after learning of Nadel's product concept, and that Play-By-Play's development of Tornado Taz is attributable to Nadel's disclosure.

We therefore conclude that there exists a genuine issue of material fact as to whether Nadel's idea was, at the time he disclosed it to Wasserman in early October 1996, novel to Play-By-Play. As to whether the other elements necessary to find a valid express or implied-in-fact contract are present here, e.g., mutual assent, legal capacity, legal subject matter, we leave that determination to the district court to address, if necessary, on remand.

### Conclusion

For the foregoing reasons, we affirm that part of the district court's judgment dismissing Play-By-Play's counterclaims. We vacate that part of the district court's judgment granting Play-By-Play's motion for summary judgment and dismissing Nadel's complaint and remand for further proceedings consistent with this opinion.

### *Wrench LLC v. Taco Bell Corp.*

256 F.3d 446 (6th Cir. 2001)

#### GRAHAM, DISTRICT JUDGE

This case raises a question of first impression in this circuit regarding the extent to which the Copyright Act preempts state law claims based on breach of an implied-in-fact contract. Plaintiffs-Appellants Wrench LLC, Joseph Shields, and Thomas Rinks brought this diversity action against Defendant-Appellee Taco Bell Corporation ("Taco Bell"), claiming breach of implied contract and various torts related to Taco Bell's alleged use of appellants' ideas.



## I. Background

Appellants Thomas Rinks and Joseph Shields are creators of the “Psycho Chihuahua” cartoon character which they promote, market, and license through their wholly-owned Michigan limited liability company, Wrench LLC. The parties have described Psycho Chihuahua as a clever, feisty dog with an attitude; a self-confident, edgy, cool dog who knows what he wants and will not back down.

In June 1996, Shields and Rinks attended a licensing trade show in New York City, where they were approached by two Taco Bell employees, Rudy Pollak, a vice president, and Ed Alfaro, a creative services manager. Pollak and Alfaro expressed interest in the Psycho Chihuahua character, which they thought would appeal to Taco Bell’s core consumers, males aged eighteen to twenty-four. Pollak and Alfaro obtained some Psycho Chihuahua materials to take with them back to Taco Bell’s headquarters in California.

Upon returning to California, Alfaro began promoting the Psycho Chihuahua idea within Taco Bell. [After] several meetings with non-marketing executives, Alfaro showed the Psycho Chihuahua materials to Vada Hill, Taco Bell’s vice president of brand management, as well as to Taco Bell’s then-outside advertising agency, Bozell Worldwide. Alfaro also tested the Psycho Chihuahua marketing concept with focus groups to gauge consumer reaction to the designs submitted by Rinks and Shields.

During this time period, Rinks told Alfaro that instead of using the cartoon version of Psycho Chihuahua in its television advertisements, Taco Bell should use a live dog, manipulated by computer graphic imaging, with the personality of Psycho Chihuahua and a love for Taco Bell food. Rinks and Alfaro also discussed what it was going to cost for Taco Bell to use appellants’ character, and although no specific numbers were mentioned, Alfaro understood that if Taco Bell used the Psycho Chihuahua concept, it would have to pay appellants.

In September 1996, Rinks and Shields hired Strategy Licensing (“Strategy”), a licensing agent, to represent Wrench in its dealings with Taco Bell. [On] November 18, 1996, Strategy representatives forwarded a licensing proposal to Alfaro. [Taco Bell] did not accept this proposal, although it did not explicitly reject it or indicate that it was ceasing further discussions with Wrench.

On December 5, 1996, Alfaro met with Hill, who had been promoted to the position of chief marketing officer, and others, to present various licensing ideas, including Psycho Chihuahua. On February 6, 1997, Alfaro again met with appellants and representatives of Strategy to review and finalize a formal presentation featuring Psycho Chihuahua that was to be given to Taco Bell’s marketing department in early March 1997. At this meeting, appellants exhibited examples of possible Psycho Chihuahua promotional materials and also orally presented specific ideas for television commercials featuring a live dog manipulated by computer graphics imaging. These ideas included a commercial in which a male dog passed up a female dog in order to get to Taco Bell food.

Alfaro was unable to arrange a meeting with the marketing department during March 1997 to present the Psycho Chihuahua materials. On April 4, 1997, however, Strategy made a formal presentation to Alfaro and his group using samples of uniform designs, T-shirts, food wrappers, posters, and cup designs based on the ideas discussed during the February 6, 1997, meeting. Alfaro and his group were impressed with Strategy’s presentation.

On March 18, 1997, Taco Bell hired a new advertising agency, TBWA Chiat/Day (“Chiat/Day”). Taco Bell advised Chiat/Day that it wanted a campaign ready to launch by July 1997

that would reconnect Taco Bell with its core group of consumers. Chuck Bennett and Clay Williams were designated as the creative directors of Taco Bell's account.

On June 2, 1997, Bennett and Williams proposed a commercial to Taco Bell in which a male Chihuahua would pass up a female Chihuahua to get to a person seated on a bench eating Taco Bell food. Bennett and Williams say that they conceived of the idea for this commercial one day as they were eating Mexican food at a sidewalk cafe and saw a Chihuahua trotting down the street, with no master or human intervention, "on a mission." Bennett and Williams contend that this image caused them jointly to conceive of the idea of using a Chihuahua as a way of personifying the intense desire for Taco Bell food. Williams subsequently wrote an advertisement script using a Chihuahua, which Taco Bell decided to produce as a television commercial.

When, in June 1997, Alfaro learned that Chiat/Day was planning to use a Chihuahua in a commercial, he contacted Hill again about the possibility of using Psycho Chihuahua. Hill passed Alfaro on to Chris Miller, a Taco Bell advertising manager and the liaison between Taco Bell's marketing department and Chiat/Day. On June 27, 1997, Alfaro gave Psycho Chihuahua materials to Miller along with a note suggesting that Taco Bell consider using Psycho Chihuahua as an icon and as a character in its advertising. Miller sent these materials to Chiat/Day, which received them sometime between June 28 and July 26.

Taco Bell aired its first Chihuahua commercial in the northeastern United States in July 1997, and received a very positive consumer reaction [and] launched a nationwide advertising campaign featuring Chihuahua commercials in late December 1997.

Appellants brought suit in January 1998, alleging breach of implied-in-fact contract as well as various tort and statutory claims under Michigan and California law. Appellee filed a motion to dismiss, which the district court granted in part and denied in part ...

## II. Discussion

Appellants assert that the district court erred in determining that novelty was required to sustain their contract claim. The district court found that Michigan law required appellants to prove the originality or novelty of their ideas in order to maintain their claims, concluding that appellants' ideas were not novel because they "merely combined themes and executions that had been used many times in a variety of commercials for different products." The district court thus granted summary judgment in favor of appellee on this alternative basis. We conclude that the district court erred in finding that Michigan law requires novelty in a contract-based claim.



FIGURE 4.2 "Psycho Chihuahua" and the Taco Bell chihuahua

The district court seems to have assumed, without further discussion, that if the novelty requirement applied to appellants' conversion and misappropriation claims, it would also apply to appellants' implied-in-fact contract claim.

Conversion is based on property law principles. Courts have usually refused to protect ideas on a property theory, but when they have, it has generally been subject to the requirements of novelty and concreteness ... Most courts apply a different rule to contract claims, modifying the requirement of novelty in some circumstances and dispensing with it altogether in others. The reason for the distinction is this: property rights are rights against the world and courts are generally unwilling to accord that kind of protection to ideas; contract rights on the other hand are limited to the contracting parties and it should be for them to decide if an idea is sufficiently valuable to be purchased.

Nevertheless, many courts do require novelty in an action based upon an implied contract theory on the ground that there can be no consideration for an implied promise to pay if the idea does not constitute "property."

*Sarver v. Detroit Edison Co.*, 51 N.W.2d 759 (Mich. App. 1997) tells us where Michigan likely stands on this issue. In *Sarver*, plaintiff brought an action against her employer seeking damages for conversion and breach of contract based on the allegation that defendant appropriated an idea which she submitted through an employee suggestion program. The court rejected plaintiff's conversion cause of action finding that plaintiff's idea "was neither novel nor unique" and "did not constitute property subject to a conversion cause of action." The *Sarver* court went on to hold, however, that plaintiff had stated a breach of contract claim, stating "to the extent that plaintiff seeks compensation for formulating, drafting, and submitting her idea pursuant to defendant's employee suggestion program, rather than for the idea itself, she has stated a breach of contract claim." The *Sarver* court did not impose a requirement of novelty on plaintiff's contract claim.

[The] *Sarver* court quoted with approval the decision of the Supreme Court of Alaska in *Reeves v. Alyeska Pipeline Service Co.* In *Reeves*, plaintiff had proposed the idea of creating a visitor center at a location where visitors could view the Alaska oil pipeline. He brought an action alleging tort and contract claims against the pipeline servicing company, which subsequently established such a visitor center. The Supreme Court of Alaska held that the element of novelty was not required for plaintiff's implied contract claim:

Relying largely on cases from New York, Alyeska argues that novelty and originality should be required in an implied-in-fact claim. Reeves responds that we should follow California's example and not require novelty as an essential element of this sort of claim. Idea-based claims arise most frequently in the entertainment centers of New York and California, but New York requires novelty, whereas California does not. We prefer the California approach. An idea may be valuable to the recipient merely because of its timing or the manner in which it is presented ... Implied in fact contracts are closely related to express contracts. Each requires the parties to form an intent to enter into a contract. It is ordinarily not the court's role to evaluate the adequacy of the consideration agreed upon by the parties. The bargain should be left in the hands of the parties. If parties voluntarily choose to bargain for an individual's services in disclosing or developing a non-novel or unoriginal idea, they have the power to do so.

*Reeves*, 926 P.2d at 1130, 1141–1142. Since the Michigan court in *Sarver* quoted *Reeves* on the requirement of novelty in an action based on conversion and went on to hold that the plaintiff's contract claim survived notwithstanding lack of novelty, we conclude that

Michigan follows *Reeves* and the California cases which dispense with the requirement of novelty in actions based on implied-in-fact contracts ...

While we conclude that Michigan would not impose a requirement of novelty in an action based upon a contract implied in fact, it does not appear that the result of this case would change even if Michigan were to follow the New York view, which requires only novelty to the defendant. Here, Taco Bell does not claim that it was aware of appellants' ideas prior to disclosure. Accordingly, we find that the district court erred in granting summary judgment to the appellee on the ground that appellants failed to show that their ideas were novel or original.

The judgment of the district court is REVERSED.

### Notes and Questions

1. *Ideas versus trade secrets*. What is the difference between an "idea," such as the ideas shared in *Nadel* and *Wrench*, and a trade secret? Would you consider the ideas in these cases to constitute trade secrets? Would it have made a difference if the purveyor of the idea asked the recipient to sign a nondisclosure agreement? What if the recipient refused to sign? Should an idea's status as a trade secret affect a court's recognition of an implied license?
2. *Industry practice*. The *Nadel* court refers to trade practices in the toy industry. Why are those practices relevant? Would a court reach the same result in a different industry, say motion pictures or aerospace engineering?
3. *Idea disclaimers*. Some companies want to ensure that they are *not* obliged to individuals who pitch ideas to them. Consider the following disclaimer posted on the IBM website:

IBM does not want to receive confidential or proprietary information from you through our Web site. Please note that any information or material sent to IBM will be deemed NOT to be confidential. By sending IBM any information or material, you grant IBM an unrestricted, irrevocable license to use, reproduce, display, perform, modify, transmit and distribute those materials or information, and you also agree that IBM is free to use any ideas, concepts, know-how or techniques that you send us for any purpose.<sup>2</sup>

Why doesn't IBM want your ideas? Would a disclaimer like IBM's be appropriate in the motion picture industry? Would it be enforceable? Would the enforceability of such a disclaimer work differently depending on whether an idea submitter argued in contract versus property?

Another company, satellite provider EchoStar, explains the following in its idea submission policy:

EchoStar views patent protection as important for our own inventions and ideas as well as those you are offering to us. As a matter of policy, we normally receive unsolicited ideas from the general public only after the idea submitters have first taken steps to obtain patent protection for such ideas. We expect idea submitters to seek and rely wholly upon their patent rights, as defined by the claims of an issued patent, just as our company is required to do in order to protect its own rights.<sup>3</sup>

How does EchoStar's policy differ from IBM's? Why do you think EchoStar adopted this approach? Which of these two policies, if either, would you advise a client to adopt?

<sup>2</sup> IBM, Terms of Use, August 15, 2015, [www.ibm.com/legal](http://www.ibm.com/legal) (visited August 17, 2020).

<sup>3</sup> EchoStar, Unsolicited Ideas Policy Statement and Agreement.

4. *Novelty*. The court in *Wrench* holds that under Michigan law, following the California rule, novelty is not required to prevail on a breach of contract claim. For a property-based misappropriation claim, however, novelty would still be required. Is the idea of a clever, feisty chihuahua pitching Tex-Mex food novel enough to prevail on a misappropriation claim?
5. *Rights against the world*. The *Wrench* court notes that “property rights are rights against the world” (so-called *erga omnes* rights) whereas contract rights only affect the parties bound by the contract. Why does this distinction matter in deciding whether a novelty standard should apply?
6. *State versus federal law*. Does state or federal law govern the creation and interpretation of implied licenses pertaining to IP rights created under federal statute? In *Foad Consulting Group, Inc. v. Musil Govan Azzalino*, 270 F.3d 821 (9th Cir. 2001), a copyright case, the Ninth Circuit noted that:

while federal law answers the threshold question of whether an implied, nonexclusive copyright license can be granted (it can), state law determines the contract question: whether a copyright holder has, in fact, granted such a license. As a general matter, we rely on state law to fill in the gaps Congress leaves in federal statutes. Thus, where the Copyright Act does not address an issue, we turn to state law ... so long as state law does not otherwise conflict with the Copyright Act. There is no reason we should treat implied copyright licenses any differently.

Not every circuit has addressed this issue. Do you think the Ninth Circuit’s reasoning in *Foad* should be followed elsewhere?

7. *Parol evidence and implied licenses*. *Foad* dealt with the application of California’s parol evidence rule to an implied copyright license. The parol evidence rule permits a court to consider evidence extrinsic to the four corners of a contract when the contract is ambiguous. But what is parol evidence when an implied (unwritten) contract is under consideration? Or, put another way, what is *not* parol when the contract itself is unwritten? The Ninth Circuit in *Foad* stated that “application of California’s parol evidence rule in interpreting a contract that a party purports to have granted an implied copyright license does not conflict with the Act or its underlying policies.” What does the court mean?
8. *Idea registration*. In Hollywood, aspiring screenwriters, directors and idea brokers regularly pitch ideas to movie studios and television networks. Generally, no contract is signed before or during a pitch, which can just as easily be made in a taxicab, a restaurant or even the proverbial elevator in a studio executive’s office.<sup>4</sup> So how do pitchers prevent their ideas from being stolen by their (sometimes less than ethical) recipients? One solution is idea registration. The Writers Guild of America, West (WGAW) Registry allows individuals, for a small fee, to upload and register their scripts, treatments,<sup>5</sup> lyrics, short stories, poems, commercials, drawings and written ideas. Such registration offers no explicit legal protection, as might a copyright registration, but it does provide some benefits to the registrant. As explained by WGAW:

<sup>4</sup> Take the example of Robert Kosberg, known as Hollywood’s “Mr. Pitch.” Each year, Kosberg pitches twenty to fifty ideas for new films to major motion picture studios, of which he sells about eight. He sold New Line Cinema an idea for a horror film about a rampaging dog that he described as “Jaws on Paws.” The film became *Man’s Best Friend*. In one case, a grandmother from Ozark, Arizona, sent Kosberg a 3" × 5" card suggesting a story about a man who lives in the Statue of Liberty. He fleshed out the story and sold it to Polygram as “Keeper of the Flame.” Kosberg paid the originator of the idea about \$100,000. See Anna Muoio, *Meet Hollywood’s Mr. Pitch*, *Fast Company*, October 1999, p.124.

<sup>5</sup> A “treatment” is a short (usually 1–3 pages) summary of the major characters and plot elements of a story intended for film or television.

The registration process places preventative measures against plagiarism or unauthorized use of an author's material. While someone else may have the same storyline or idea in his or her material, your evidence lies in your presentation of your work. Registering your work does not disallow others from having a similar storyline or theme. Rather, registering your work would potentially discourage others from using your work without your permission.

Though the Registry cannot prevent plagiarism, it can produce the registered material as well as confirm the date of registration. Registering your work creates legal evidence for the material that establishes a date for the material's existence. The WGAW Registry, as a neutral third party, can testify for that evidence.<sup>6</sup>

Of course, the Library of Congress also permits the registration of most of these materials for a similarly low fee, and a copyright registration does afford the registrant some legal rights. Why might someone choose WGAW registration over copyright registration?

10. "*Handshake culture*" under threat? California law requires lawyers' contingency fee agreements to be in writing. In 2018, actor Johnny Depp sued his longtime attorney to recover an estimated \$30 million in fees that Depp had paid the attorney since 1999. The reason? The agreement – which entitled the attorney to the customary 5 percent share of Depp's earnings – was never put in writing. A Los Angeles trial judge agreed with Depp and ruled that the agreement between Depp and his attorney was not valid. The ruling was met with alarm by many in Hollywood, who bemoaned the death of the industry's "handshake culture."<sup>7</sup> Do you agree with the result of Depp's action? Is "handshake culture" at risk? Is it worth saving? Why or why not?

#### Problem 4.1

Julia, who recently received her PhD in satellite engineering, has an idea for a method of increasing the bandwidth of satellite transmissions. Julia is currently looking for a job, and has not filed a patent application for her invention (nor has she developed it enough to satisfy the formal requirements to obtain a patent). In a job interview with Conic Dynamics Corp. (CDC), Julia describes her idea to Paul, one of CDC's senior engineers. She tells him that she would be happy to work with him on improving her method if she is hired. Four weeks later, CDC informs Julia that she was not selected for the job. What legal recourse, if any, does Julia have in each of the following cases:

- a. Julia hears nothing further from CDC, but a year after her interview an article describing her method is published in a technical journal. Paul is one of the article's co-authors.
- b. Two years after Julia's interview, a friend informs her that he came across a patent application filed by CDC that claimed an invention remarkably similar to Julia's method.
- c. Given the facts in (a) and (b), assume that a week after Julia's interview she received a letter from CDC stating that "CDC's official policy, as described on its website, is that all ideas submitted to it automatically become CDC's property and CDC will accept no obligations with respect to any submissions made to it unless the submission was requested in writing by a CDC representative."
- d. Would the result in (a) or (b) change if CDC began a research project based on the same idea one year before Julia's interview?
- e. Would the result in (a) or (b) change if Julia had given Paul a detailed set of diagrams and a written description of her method during the interview?

<sup>6</sup> [www.wgawregistry.org/regfaqs.html#questz](http://www.wgawregistry.org/regfaqs.html#questz) (accessed August 21, 2018).

<sup>7</sup> See, e.g., Sara Randazzo, *Ruling in Johnny Depp Lawsuit Threatens Hollywood Lawyers' Handshake Culture*, Wall St. J., August 29, 2018.

## 4.3 IMPLIED LICENSES AND COMMISSIONED WORKS

The cases in Section 4.2 address a situation in which an idea was submitted to a recipient and was used by the recipient in its business (the spinning toy idea in *Nadel* and the chihuahua restaurant promotion idea in *Wrench*). In both cases, the principal question was whether the *originator* of the idea had either a claim (property or contractual) to compensation for the use of the disclosed idea. In this section we turn to the question of what implied right the *recipient* of an intellectual asset (in these cases, copyrighted material, but also potentially ideas, patented inventions, etc.) may have to use the asset after it is delivered, even if the recipient has not fully complied with its obligation to pay the originator.

*I.A.E., Inc. v. Shaver*

74 F.3d 768 (7th Cir. 1996)

## RIPPLE, CIRCUIT JUDGE

Architect Paul D. Shaver appeals the district court's summary judgment ruling that there was no infringement of Mr. Shaver's copyrighted schematic design drawings. The court concluded that Mr. Shaver had granted an implied nonexclusive license to utilize his drawings in the completion of Gary Regional Airport's air cargo building. For the reasons that follow, we [affirm].

**I Background**

In July 1992, two construction companies formed a joint venture. I.A.E., Inc. and its president Ramamurty Talluri joined with BEMI Construction and its president William Brewer to become the I.A.E./BEMI Joint Venture ("Joint Venture"). On December 21, 1992, the Joint Venture entered into a contract with the Gary Regional Airport Authority ("Airport") to design and to construct an air cargo/hangar building. Under the contract, Joint Venture was to provide all of the civil, structural, mechanical and electrical engineering services and architectural design services needed to construct the air cargo building.

In furtherance of that goal, Joint Venture subcontracted with Paul D. Shaver, an architect with extensive experience in designing airport facilities, to prepare the schematic design drawings for the airport building. The parties agree that there are four phases to the architectural design of a building: schematic design, preliminary design, final design and construction supervision. The schematic design documents are the product of the first phase of designing a building. They outline the scope of the project and are the basis of the owner's approval for the building design. Schematic design documents are often used as a reference base for further design development.

Mr. Shaver's letter of January 14, 1993, to Mr. Talluri, which constitutes the written contract between the architect and Joint Venture, contained Mr. Shaver's agreement to prepare the schematic design drawings for the Airport building: "With the assistance of your office and the [Airport] staff, agreed design parameters can be established initially to permit the Project to proceed in a normal development manner." The contract price for his services was \$10,000 plus reimbursable expenses, less deductions for the participation of I.A.E.'s staff. The contract specifically set forth the services Mr. Shaver intended to perform:

To prepare, with the assistance of your office and BEMI, Inc., staff, standard Design Documents ... which would describe the agreed scope of the Project, we estimate a 4–5 week period of time including two or three scheduled approval meetings with your office and [Airport] Authority personnel. These documents would consist of the following which are customarily prepared to describe the scope of the Project and also for general reference: Drawings, 5, Title Sheet, Site Plan, Floor Plans, Elevations and Building Sections Preliminary Construction Cost Estimate.

[W]e are prepared to complete the required Schematic Design Document preparation for \$10,000 subject to adjustment with deductions resulting from participation of staff from your office and your Architectural associate ...

Please advise us if you need any additional data concerning our understanding of the scope of work.

Mr. Shaver believed that, once a design had been approved, he would execute further written contracts for the remaining phases of the architectural work.

After Mr. Shaver attended several meetings with the Airport, he prepared his schematic design drawings of the proposed Airport building. He then delivered copies of his schematic drawings to the Airport, Joint Venture, and other parties involved in the Project. These drawings were submitted with a notice of copyright. The copyrights of those drawings, both as technical drawings and as architectural works, were effective June 2, 1993. Their validity has not been challenged. Mr. Shaver and Mr. Talluri later presented to the Airport the completed schematic designs. On February 22, 1993, the Airport approved one of them. Mr. Shaver was paid \$5,000 of his fee on that date.

On March 1, 1993, Joint Venture retained H. Seay Cantrell & Associates (“Cantrell”) to perform the remaining architectural work for the air cargo building. When Mr. Shaver realized that he and his firm were no longer involved in the Project, he took two actions. On March 3, 1993, Mr. Shaver wrote to the Airport’s Executive Director, Levelle Gatewood, acknowledging that he and his staff were, “under the circumstances, no longer in a position to participate or contribute to the development of the east Air Cargo Building Project.” The letter, with enclosed copies of Mr. Shaver’s schematic design drawings, also stated:

We trust that our ideas and knowledge exhibited in our work will assist the Airport in realizing a credible and flexible use Cargo/Hangar facility.

Mr. Shaver’s second act, one week later, was to seek collection of the amount that Joint Venture still owed him for the services he had rendered and to notify Joint Venture that he intended to enforce his copyrights if necessary. Mr. Shaver, by his attorney, claimed that he was owed an additional \$5,000 fee, plus his out-of-pocket expenses (\$887.29), plus (a new claim) a \$7,000 payment for the purported “assignment” of his copyright on the schematic design documents. The attorney’s letter of March 10, 1993 offered Mr. Talluri a settlement of Mr. Shaver’s claim against Joint Venture for \$12,887.29. Mr. Talluri agreed to pay the contract costs, \$5,887.29, as final payment. According to Mr. Talluri, Mr. Shaver “had never previously raised the issue of copyright, copyright infringement or his alleged entitlement to moneys, in addition to the contract amount, for ‘assignment’ of his copyright on the schematic design drawings.”

Once it was clear that Mr. Shaver and Joint Venture would not reach an accord concerning any amount still owing to Mr. Shaver under the contract, on August 5, 1993, I.A.E. and Mr. Talluri filed this action. They sought a declaratory judgment that they did not infringe any copyrights owned by Mr. Shaver and that they had a right to use Mr. Shaver’s drawings;





A copyright owner may transfer to another person any of the exclusive rights the owner has in the copyright; however, such a transfer must be made in writing. 17 U.S.C. § 204(a). [The] “transfer of copyright ownership” is defined, in the Copyright Act, as an exclusive license or some other instrument of conveyance. The definition expressly excludes a non-exclusive license. Therefore, even though section 204(a) of the Copyright Act invalidates any transfer of copyright ownership that is not in writing, section 101 explicitly removes a nonexclusive license from the section 204(a) writing requirement. We turn, therefore, to the differences between exclusive and nonexclusive licenses.

In an exclusive license, the copyright holder permits the licensee to use the protected material for a specific use and further promises that the same permission will not be given to others. The licensee violates the copyright by exceeding the scope of this license. The writing requirement serves the goal of predictability and certainty of copyright ownership.

By contrast, in the case of an implied nonexclusive license, the licensor-creator of the work, by granting an implied nonexclusive license, does not transfer ownership of the copyright to the licensee. The copyright owner simply permits the use of a copyrighted work in a particular manner. In contrast to an exclusive license, a “nonexclusive license may be granted orally, or may even be implied from conduct.” ... In fact, consent given in the form of mere permission or lack of objection is also equivalent to a nonexclusive license and is not required to be in writing. Although a person holding a nonexclusive license has no standing to sue for copyright infringement, the existence of a license, exclusive or nonexclusive, creates an affirmative defense to a claim of copyright infringement. The concept of an implied nonexclusive license has been recognized [by] the courts, including this one, which universally have recognized that a nonexclusive license may be implied from conduct. Indeed, implied licenses are like implied contracts, which are well recognized in the field of architecture. As the district court noted, the Ninth Circuit, in [*Effects Associates, Inc. v. Cohen*, 908 F.2d 555 (9th Cir. 1990)], held that an implied nonexclusive license has been granted when (1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requestor copy and distribute his work.

B.

In light of these principles, we now turn to the record before us. In our analysis, we find helpful, as did the district court, the opinion of our colleagues in the Ninth Circuit in *Effects*. In the case before us, [Shaver] maintains that his expectation was that he would be the architect who would be preparing the final drawings, presumably from his own preliminary drawings, to be used for the construction. We therefore must determine whether the record will support a determination that such an interpretation had any objective foundation.

*Effects* suggests several objective factors to guide the judicial inquiry as to whether an implied license exists: the language of the copyright registration certificate, the letter agreement, and deposition testimony; and the delivery of the copyrighted material without warning that its further use would constitute copyright infringement. When we apply these factors to the circumstances before us, we must conclude that there is no genuine issue of triable fact and that the district court concluded correctly as a matter of law that Mr. Shaver granted an implied nonexclusive license to Joint Venture.



FIGURE 4.4 *Effects Associates* involved the development of a gruesome special effect for the horror film *The Stuff*.

We note first that Mr. Shaver's certificates of registration, entitling the drawings "East Air Cargo Building, Gary Regional Airport, Indiana: Not Yet Constructed," state that copyrighted designs are to be used for the "Airport Facility." We now turn to the language of the contract itself. The contract in this case was a letter written by Mr. Shaver. This letter, apparently in confirmation of an earlier telephone conversation, demonstrates that the relationship of independent contractor for the purpose of creating the preliminary drawings for the Airport Project existed between Mr. Shaver and Joint Venture. It defines his role in the Airport Project and, specifically, his "understanding of the scope of work": preparation of the preliminary schematic design drawings ... Mr. Shaver stated that his drawings are the type "customarily prepared to describe the scope of the project and also for general reference." Mr. Shaver also quoted the consideration for his work, \$10,000. Mr. Shaver's statement that "agreed design parameters can be established initially to permit the Project to proceed in a normal development manner," certainly suggests that he considered his contribution to be in furtherance of the entire Project. In short, his letter was clear, to-the-point, and unambiguous. No other work is listed; no expectation of a further role in the Project is mentioned in the contract. Therefore, although Mr. Shaver tells us that he anticipated he would be the architect to take the Project to completion, nothing in his contract gives the slightest indication of that belief. Although Indiana law allows

contractual terms to be implied from the intent and action 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.

The plain language of the contract is supported by common sense. As we have already pointed out, Mr. Shaver created a work – preliminary architectural drawings – and handed them over to the Joint Venture for use on the Airport Project. For that work the architect received \$10,000 compensation. As the Ninth Circuit concluded in *Effects*:

To hold that *Effects* did not at the same time convey a license to use the footage in “The Stuff” would mean that plaintiff’s contribution to the film was “of minimal value,” a conclusion that can’t be squared with the fact that Cohen paid *Effects* almost \$56,000 for this footage. Accordingly, we conclude that *Effects* impliedly granted nonexclusive licenses.

908 F.2d 555, 558. This understanding is reflected throughout the parties’ depositions and affidavits. Joint Venture clearly expected to use Mr. Shaver’s drawings for the Project. Mr. Talluri expected that Mr. Shaver’s schematic design drawings were to be used in the Airport Project for which they were intended and stated that the drawings were used only in that manner, despite the fact that Mr. Shaver was not the continuing architect.

Not only the language of the copyright registration certificates, the letter contract, and the depositions and common sense support the conclusion of the district court that the defendants had an implied nonexclusive license to use Mr. Shaver’s drawings in the Airport Project; Mr. Shaver’s actions and subsequent writing also unequivocally support that conclusion. Mr. Shaver delivered his copyrighted designs without any warning that their further use would constitute copyright infringement. In his March 3, 1993 letter, Mr. Shaver acknowledged that he was no longer a contributor to the Project’s development, but that he expected “that our ideas and knowledge exhibited in our work will assist the Airport in realizing a credible and flexible use Cargo/Hangar facility.” This statement, accompanied by the delivery of copies of his drawings, certainly constitutes a release of those documents to the Airport for its Project and clearly validates a determination that all the objective factors support the existence of an implied license to use Mr. Shaver’s drawings in the construction of the air cargo building.

On this record, we cannot conclude that Mr. Shaver has raised a genuine issue of material fact on the issue of the parties’ intent. His contention that he never intended to grant a license for the use of his drawings past the drafting stage unless he was the continuing architect is simply not supported by the record.

C.

Mr. Shaver also makes several alternative arguments that accept the existence of a nonexclusive implied license, but suggest that, under the circumstances established by the record, it cannot be enforced. We believe that these arguments cannot be maintained in light of our analysis, but we shall address them briefly for the sake of completeness.

Mr. Shaver submits that, even if there was an implied license for the use of his drawings, the Airport, Cantrell and Joint Venture exceeded the scope of that license by allowing another architect, Cantrell, to use the designs. He relies on *Oddo v. Ries*, 743 F.2d 630 (9th Cir.1984). *Oddo* held that *Ries*, a publisher, had an implied nonexclusive license to use *Oddo*’s articles to create a particular book. However, *Ries* exceeded the scope of that implied license when it hired another writer and created a different work, one which included much new material written by the second writer as well as large portions of

Oddo's manuscript. By publishing the other writer's book, which was distinct from the plaintiff's manuscript originally licensed for use, the defendant exceeded the scope of the partnership's implied license. In our case, however, the record contains written authorization for the use of Mr. Shaver's copyrighted drawings to "describe the agreed scope of the Project" for Joint Venture and the Airport. The use of his drawings was therefore within the scope of that agreement. Mr. Shaver's assertion that he did not grant the right to further use of his drawings unless he was the architect continuing the Project is simply not supported by the contract. Mr. Shaver's reliance on *Oddo* is therefore of no benefit to him.

Mr. Shaver also asserts that, because only half of the contract sum was paid, the implied license "did not spring into existence." In *Effects*, the Ninth Circuit rejected a virtually identical argument that there could be no implied license until the full payment of the contract price was made. That court recognized that the appellant was treating the complete payment of the contractual consideration as a condition precedent to the use of the copyrighted material. After noting that "conditions precedent are disfavored and will not be read into a contract unless required by plain, unambiguous language," it found nothing in the agreement between the parties indicating such an agreement. Similarly, in the case before us, nothing in the contract or in Mr. Shaver's later letter indicates that full payment was a condition precedent to the use of his drawings. In fact, he first distributed his drawings before any payment was made, and next handed them over to the Airport, with no mention of payment, after half the dollar amount of the contract had been tendered. Clearly at that point a license to use the drawings had impliedly been granted. Mr. Shaver did not state that failure to pay would be viewed as copyright infringement until the March 10, 1993 letter from his attorney.

### Conclusion

Mr. Shaver created an implied nonexclusive license to use his schematic design drawings in the Airport Project. Accordingly, there was no infringement of Mr. Shaver's copyrighted works. We conclude that, because there are no genuine issues of material fact before us, we must affirm the judgment of the district court.

### Notes and questions

1. *Contract versus property*. In both *Shaver* and *Effects*, the customer of a commissioned work failed to pay the full amount due for the work, yet was found to have an implied license to use the work in the manner intended by the creator. Why wouldn't the customer's license be conditioned on making the full payment? Should it be? The court in *Shaver* wrote that "conditions precedent are disfavored and will not be read into a contract unless required by plain, unambiguous language." Can an implied license have "plain, unambiguous language"? For a further discussion of license conditions versus contractual covenants, see [Section 3.4](#).
2. *Scope of implied license*. In *Johnson v. Jones*, 46 USPQ2d 1482 (6th Cir. 1998), the Sixth Circuit held that Johnson, an architect, did not grant an implied license for his client to alter and use his drawings. Johnson had submitted a draft contract containing the following language to his prospective client, Jones:

The drawings, specifications and other documents furnished by the Design/Builder are instruments of service and shall not become the property of the Owner whether or not the project for which they are made is commenced. Drawings, specifications and other documents shall not be used by the Owner on other projects, additions to this project, or ... for completion of this Project by others, except by written agreement relating to use, liability and compensation.

Although Johnson began work, Jones did not sign the contract. Later, Johnson was terminated and Jones retained a different architect to complete the project. The new architect (Tosch) claimed that he had an implied license to use the drawings produced by Johnson, citing the *Effects* case. The court explained that:

In *Effects*, defendant, a movie-maker, asked plaintiff, a special effects company, to create footage to enhance action sequences in a film defendant was making. Unhappy with the footage provided by plaintiff, defendant paid only half of the expected amount. Subsequently, defendant incorporated plaintiff's footage into the film and released the film to another company for distribution. The *Effects* court held that plaintiff had granted defendant an implied non-exclusive license to incorporate the footage into the film and then distribute the film.

The circumstances in *Effects* differ materially from those in the present case. Almost every objective fact in the present case points away from the existence of an implied license. Johnson submitted two AIA contracts, both of which contained express provisions that he would retain ownership of his drawings, and that those drawings would not be used for completion of the Jones house by others, except by written agreement with appropriate compensation. These contractual provisions, although never signed by Jones, speak to Johnson's intent; they demonstrate that Johnson created the drawings with the understanding that he would be the architect in charge of the project. They further demonstrate that Johnson would not have allowed Tosch to finish the project using his drawings without a written agreement, and additional compensation.

How would you distinguish *Johnson* and *Shaver*, if at all? Which case do you feel better reflects the intentions of the parties?

3. *Implied rights to sublicense.* An interesting twist on the implied license doctrine has arisen in the context of tattoos. Tattoos are generally understood to comprise artistic works in which the tattoo artist obtains copyright. However, courts have also held that the individual on whom the tattoo is placed has an implied license to reproduce the tattoo, for example, in photographic images of himself or herself. The issue has become commercially significant when tattoos are visible on the bodies of celebrities such as sports figures. In *Solid Oak Sketches, LLC v. 2K Games, Inc.*, 449 F. Supp. 3d 333 (S.D.N.Y. 2020), the court found that NBA players LeBron James, Eric Bledsoe and Kenyon Martin had implied licenses to display and reproduce their tattoos (all created by the same artist) "as part of their likenesses," and that they were authorized to grant the NBA the right to license their likenesses, including the tattoos, to the producer of NBA-based video games.

#### Problem 4.2

Arti, a freelance graphic designer, is hired by a publisher to create the artwork for an undergraduate economics textbook. Arti produces the artwork and is paid \$2,500, per their agreement, which is silent regarding copyright. Two years later, the publisher releases a second edition of the book. Because Arti is now working as a full-time employee of a rival publishing house, the publisher hires Bob to make slight revisions to the original artwork for the second edition. Two years after that, the book is ready for its third edition, and the publisher decides to modify the artwork further using its own in-house designer. Arti comes across a copy of the third edition online and realizes that the artwork has been altered without her consent. What legal remedies, if any, does Arti have against the publisher (assuming that she owns the copyright in the original artwork)?



FIGURE 4.5 NBA star LeBron James is reported to have twenty-four tattoos, many of which were created by LA-based artist gangatattoo.

#### 4.4 IMPLIED LICENSES IN LAW

##### *McCoy v. Mitsubishi Cutlery, Inc.*

67 F.3d 917 (Fed. Cir. 1995)

##### RADER, CIRCUIT JUDGE

Duncan McCoy, Alex Dorsett, and Alex-Duncan Shrimp Chef, Inc. (McCoy) sued Mitsubishi Cutlery, Inc. (Mitsubishi) and Admiral Craft Equipment Corp. (Admiral Craft) for infringing McCoy's intellectual property rights and committing business torts. McCoy's sales organization had hired Mitsubishi to make and supply shrimp knives covered by McCoy's patent and trademarks. When Mitsubishi produced the knives, McCoy refused to pay for them. Mitsubishi resold the knives to Admiral Craft. McCoy sought damages from Mitsubishi and Admiral Craft for selling the knives to third parties. Admiral Craft settled with McCoy before trial.

##### Background

McCoy owns U.S. Patent No. 4,759,126 on a shrimp knife that peels, deveins, and butterflies in one motion. McCoy arranged for Mitsubishi, a Japanese knife manufacturer, to produce shrimp knives embodying the patented invention. At McCoy's request, Mitsubishi stamped the knives with McCoy's registered U.S. Trademarks Nos. 1,687,589 and 1,702,878. From 1988 to 1990, Mitsubishi manufactured and sold large quantities of these knives to McCoy.

In 1991, McCoy's separate marketing organization, A.T.D. Marketing, Inc. (ATD), ordered 150,000 of the knives from Mitsubishi. Mitsubishi produced the knives. When Mitsubishi timely offered the knives, ATD refused to accept or pay for them. ATD's refusal left Mitsubishi holding the 150,000 knives in its warehouse in Japan. The record contains no suggestion that the knives were defective.

McCoy acknowledged its responsibility for ATD's refusal to pay. McCoy, however, accepted and paid for only about 20,000 of the 150,000 knives ordered. McCoy refused to pay for the other 130,000 knives. On the basis of these facts, the jury found that McCoy breached its contract with Mitsuboshi. McCoy did not appeal this jury verdict.

Following McCoy's partial payment, Mitsuboshi continued to negotiate for payment and delivery of the remaining 130,000 knives. McCoy, however, remained silent, unable to pay for them. In the face of this silence, Mitsuboshi repeatedly notified McCoy of its intent to resell the knives to mitigate damages. At length, Mitsuboshi sold 6,456 of the knives to Admiral Craft, a mail-order wholesaler of restaurant supplies. Admiral Craft sold 958 of the knives in the United States to restaurants and supply houses in 1993 through its mail catalog.

McCoy sued Mitsuboshi and Admiral Craft for patent and trademark infringement, unfair competition in violation of both federal and Texas law, and several Texas state law torts. Admiral Craft settled, but Mitsuboshi persevered, counterclaiming for breach of contract. At the close of evidence, Mitsuboshi moved for judgment as a matter of law that it was entitled to resell the knives. The trial court denied Mitsuboshi's motion. The jury found against Mitsuboshi on the infringement, unfair competition, and tortious interference counts, and for Mitsuboshi on the breach of contract count. Mitsuboshi then renewed its motion for judgment as a matter of law. The trial court again denied the motion. Mitsuboshi appeals.

## Discussion

### I.

The jury found, and McCoy does not contest, that McCoy breached its contract with Mitsuboshi. This appeal thus raises the purely legal question of the effect of McCoy's breach on his intellectual property rights in the knives. This court confronts this question for the first time.

A patent confers on its holder the right to exclude others from making, using, or selling what is described in its claims. This court has recognized that these intellectual property rights, like any other property rights, are subject to the contractual obligations of their owner and the applicable law:

Th[e] right to exclude may be waived in whole or in part. The conditions of such waiver are subject to patent, contract, antitrust, and any other applicable law, as well as equitable considerations such as are reflected in the law of patent misuse. As in other areas of commerce, private parties may contract as they choose, provided that no law is violated thereby.

*Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703 (Fed.Cir.1992). Thus, a patent or trademark owner may contract to confer a license on another party. In most instances under contract law, a patent or trademark owner intentionally creates an express license. A licensee, of course, has an affirmative defense to a claim of patent infringement.

In some circumstances, however, the entire course of conduct between a patent or trademark owner and an accused infringer may create an implied license. The Supreme Court stated:

Any language used by the owner of the patent or any conduct on his part exhibited to another from which that other may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license and a defense to an action ...



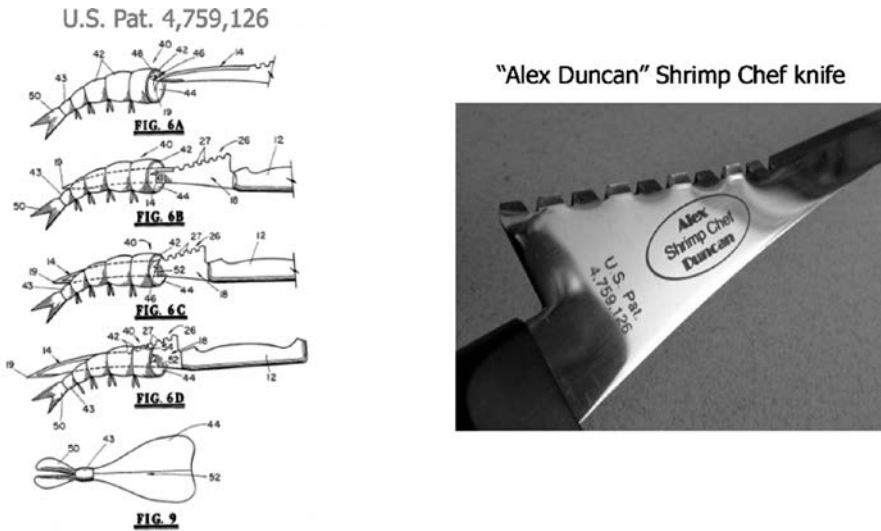


FIGURE 4.6 The patented shrimp knife and deveiner at issue in *McCoy*.

*De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241 (1927). When warranted by such a course of conduct, the law implies a license.

Whether express or implied, a license is a contract “governed by ordinary principles of state contract law.” Moreover the law may imply licenses “to make effective the contracts of the patentee.” An implied license, however, must not exceed the limits necessary to make the contract effective.

To enforce the contracts of the patentee, the law may imply a license where a patent holder sells or authorizes the sale of a patented product – a voluntary sale. Thus, “an authorized sale of a patented product places that product beyond the reach of the patent.” Under this implied license, a patent holder receives a reward for inventive work in the first sale of the patented product. As the Supreme Court stated:

Patentees ... are entitled to but one royalty for the patented machine, and consequently when a patentee has himself constructed the machine and sold it, or authorized another to construct and sell it, or to construct and use and operate it, and the consideration has been paid to him for the right, he has then to that extent parted with his monopoly, and ceased to have any interest whatever in the machine so sold or so authorized to be constructed and operated.

*Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 350 (1863).

In some cases, the law implies a license where a patent holder does not authorize the sale of a patented product – an involuntary sale. *See, e.g., Wilder v. Kent*, 15 F. 217, 219 (C.C.W.D.Pa.1883). For example, in *Wilder*, the patent holder sued an individual for infringement who purchased a machine at a sheriff’s sale. The court dismissed the complaint finding the purchaser had acquired the right to use the patented machine through the purchase at the sheriff’s sale. The court reasoned: “To deny to the sheriff’s vendee the right to use such machine would in effect prevent its sale upon an execution at law ... and practically withdraw it from the reach of the owner’s execution creditors.” While appreciating the unique nature of patent rights, the court noted that “a patented machine is susceptible of manual seizure, and the unrestricted sale thereof does not involve the transfer of any interest in the patent.”

Justice Story [in *Sawin v. Guild*, 21 F.Cas. 554, 554–55 (C.C.D.Mass.1813)] reasoned that statutes must be construed where possible to avoid introducing “public mischiefs, or manifest incongruities.” Justice Story felt a great public mischief would result if courts construed the patent laws to permit an action against a sheriff for selling a patented product at a sheriff’s sale.

More recently, in an opinion authored by Judge Friendly, the United States Court of Appeals for the Second Circuit expressly recognized and extended this implied license doctrine to the sale of products by an aggrieved seller to remedy a buyer’s breach. *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir.1963). Platt & Munk owned copyrights on educational toys and contracted with Republic to supply them. After Republic began delivery, Platt & Munk alleged various defects and refused to pay for the balance of the toys. Republic then informed Platt & Munk of its intent to resell the toys to recover its production costs. Platt & Munk responded by seeking an injunction prohibiting Republic from reselling the toys without Platt & Munk’s consent. The trial court granted a preliminary injunction without addressing whether the toys were actually defective or whether Platt & Munk had the right to refuse payment. Republic filed an interlocutory appeal.

The Second Circuit remanded to the trial court to determine whether Platt & Munk justifiably refused to pay for the toys. If not, it instructed the trial court to lift the injunction. In other words, if Platt & Munk breached the contract, Republic had a right to resell the toys notwithstanding any copyright protection. The Second Circuit based its holding on New York contract law, which provided a seller of goods the right to mitigate damages for contract breaches. Where Platt & Munk breached, the Second Circuit found that Platt & Munk’s copyrights had no effect on Republic’s state law right to resell:

We see no reason why the copyrighted character of the goods should preclude [resale] when – and the qualification is vital – the person for whom the goods were being made unjustifiably refuses to pay the price.

*Platt*, 315 F.2d at 855.

This ruling extended the implied license doctrine beyond sales under judicial decree to sales under self-help provisions in commercial law. Together, [these cases] demonstrate that the law may create an implied license to enforce the contract obligations of the patent holder and recognize legal rights of aggrieved parties ... Absent an implied license in either case, patent holders could frustrate otherwise available commercial remedies.

Here, McCoy and Mitsuboshi had a long-standing business relationship whereby Mitsuboshi manufactured McCoy’s patented knives. In 1991, McCoy placed a purchase order for 150,000 knives with Mitsuboshi. Mitsuboshi, in turn, accepted the order and performed its obligations under that agreement. When it tendered the knives to McCoy, McCoy breached the contract by failing to pay. At that point, rather than immediately act, Mitsuboshi continued to negotiate with McCoy in an effort to secure payment and deliver the knives. After repeated failed attempts, Mitsuboshi sold some of the knives to an American company.

The applicable state contract law in this case is Texas’s version of the Uniform Commercial Code. Because this case involves the sale of goods, the Texas UCC entitles the seller to resell the goods upon the buyer’s wrongful refusal to pay. Consequently, under Texas contract law, when McCoy breached the contract, Mitsuboshi had a right to resell the knives to recoup its losses without McCoy’s consent.

As in *Platt*, an implied license properly enforces McCoy's contractual promise to pay for the knives, reflects Mitsubishi's commercial efforts to resolve the matter, and recognizes Mitsubishi's rights to mitigate under the Texas UCC. This court, like our sister circuit in *Platt*, sees no reason why the owner of intellectual property rights deserves to evade application of the ordinary contract remedy of resale for an unjustified refusal to pay.

This implied license does not offend the protection afforded patent and trademark rights by federal law. Instead, licenses, like other federal property and contract rights, conform to the applicable state laws. As this court observed in *Power Lift*, the Supreme Court has held that federal patent law does not preempt enforcement of contracts under state law. By the same reasoning, federal trademark law does not preempt contract enforcement either. Intellectual property owners "may contract as they choose," but their intellectual property rights do not entitle them to escape the consequences of dishonoring state contractual obligations.

### Notes and Questions

1. *Public mischiefs and manifest incongruities.* Judge Rader's reasons for recognizing an implied license in *Mitsubishi* are somewhat unclear. He first references *Bloomer v. Millinger* and *Wilder v. Kent*, two obscure nineteenth-century cases that relate to the creation of an implied license accompanying sale of patented products, a doctrine that today has largely been subsumed by the doctrine of patent exhaustion (see [Chapter 23](#)). He next cites the even older case of *Sawin v. Guild*, in which Justice Story justified the recognition of an implied license so as to avoid "public mischiefs" and "manifest incongruities," a sort of public interest analysis that never gained significant purchase in patent law.<sup>8</sup> Finally, Judge Rader leaps forward by more than a century to *Platt & Munk*, in which the Second Circuit held that New York contract law concerning the mitigation of damages preempted any right that the holder of a copyright might have to prevent the resale of copyrighted toys. Which of these prior cases is most relevant to the facts in *Mitsubishi*? Why do you think that Judge Rader felt the need to ground his decision in nineteenth-century decisions such as *Bloomer*, *Wilder* and *Sawin*?
2. *Implied in fact or implied in law?* There are two general species of implied license: those that are implied in fact and those that are implied in law. As explained by Professor Annemarie Bridy,

The existence of a license ... implied in fact ... is inferred from objective indicia that the work's creator assented to and intended the defendant's use of the work. In order to prove an implied-in-fact license, the defendant must make a showing of permissive intent on the rights holder's part.<sup>9</sup>

A license implied in law, on the other hand, arises solely through operation of law, without reference to the contracting intentions of the parties:

To prove the existence of an implied-in-law contract (or quasi-contract), there is no need for the proponent to prove that her counterparty had contractual intent. Rather, the court imposes a contractual duty on the counterparty in order to prevent injustice to the proponent. The theory is equitable and nonpromissory, resting on the principle that one party should not be unjustly enriched at the expense of another.<sup>10</sup>

<sup>8</sup> Justice Story is famous for introducing moralistic elements into his patent law decisions, most notably the "moral utility" doctrine. See *Bedford v. Hunt*, 3 F. Cas. 37, 37 (C.C.D. Mass. 1817) (Story, J.) (the utility requirement of patent law "simply requires, that [an invention] shall be capable of use, and that the use is such as sound morals and policy do not discountenance or prohibit").

<sup>9</sup> Annemarie Bridy, *A Novel Theory of Implied Copyright License in Paparazzi Pics*, Law360, August 6, 2010.

<sup>10</sup> *Id.*

Applying this classification scheme, how would you characterize the implied licenses in *Nadel*, *Wrench*, *Shaver* and *Mitsuboshi*?

3. *Later-issued patents*. In *TransCore, LP v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009), TransCore, the holder of patents covering the E-ZPass automatic toll-collection device, settled patent litigation with Mark IV Industries, a competing manufacturer. Under the settlement agreement, TransCore granted Mark IV a license under three issued patents. Several years later, Mark IV brought suit against ETC, an installer of toll-collection devices sold by Mark IV, under a number of patents, including a newly issued patent (the '946 patent, a "continuation" of one of the licensed patents) that covered the subject matter of the patents licensed to Mark IV. Because the '946 patent had not issued at the time of TransCore's settlement with Mark IV, it was not included in the settlement agreement. Mark IV argued, however, that it had an implied license under the '946 patent. The Federal Circuit agreed, noting that the '946 patent "was broader than, and necessary to practice, at least the '082 patent that was included in the TransCore–Mark IV settlement agreement."

[T]he district court properly concluded that in order for Mark IV to obtain the benefit of its bargain with TransCore, it must be permitted to practice the '946 patent to the same extent it may practice the '183, '275 and '082 patents. TransCore is, therefore, legally estopped from asserting the '946 patent against Mark IV in derogation of the authorizations granted to Mark IV under the '183, '275 and '082 patents. And Mark IV is, in turn, an implied licensee of the '946 patent.

Why does the court find such an implied license? What injustice would be done if no implied license were recognized?

4. *No implied rights clauses*? What if the parties to a licensing agreement, such as the ones in *Mitsuboshi* or *TransCore*, agreed to a contractual clause excluding any implied licenses? Can a court still recognize an implied license? The answer seems to be yes. In *TransCore*, the TransCore–Mark IV settlement agreement contained the following language: "No express or implied license or future release whatsoever is granted to MARK IV or to any third party," 563 F.3d at 1272. In addition, the parties made sure, they thought, that the license granted under the three specified patents would not be expanded to include future patents, agreeing, "This Covenant Not To Sue shall not apply to any other patents issued as of the effective date of this Agreement or to be issued in the future." So how did the court find an implied license that applied to a patent "issued in the future"? It reasoned that not recognizing an implied license to the '946 patent would "permit TransCore to derogate from the rights it has expressly granted" – in effect selling a right, then taking back part of what it has sold.

The Federal Circuit cabined the reasoning of *TransCore* in *Endo Pharms., Inc. v. Actavis, Inc.*, 746 F.3d 1371 (Fed. Cir. 2014), another case involving a license and a later-issued patent. As in *TransCore*, the license agreement in *Actavis* contained a "No Implied Rights" clause. But this time the Federal Circuit gave more weight to the clause, as well as the fact that the newly issued patent in *Endo* was not a continuation of one of the licensed patents, as it was in *TransCore*. It held that "The lack of a continuation relationship between any of the asserted and licensed patents and explicit disclaimer of any other licenses not within the literal terms of the contract are dispositive," 746 F.3d at 1378. What do you make of this distinction? Does it matter that the court in *TransCore* made little of the fact that the '946 patent arose from a continuation application? Should this really be the dispositive factor in implied license cases?



FIGURE 4.7 The dispute in *TransCore v. Elec. Transaction Consultants* involved patents covering E-ZPass electronic tollbooth devices.

5. *Scope of implied license.* Once an implied license is recognized, what is its scope? The court in *TransCore* held that “Mark IV’s rights under its implied license to the ’946 patent are necessarily coextensive with the rights it received in the *TransCore*–Mark IV license agreement,” 563 F.3d at 1279–80. Why is this scope appropriate? What happens to the implied license when the originally licensed patents expire?

In the copyright cases discussed in Section 4.3, Note 2, the result is less clear. Which approach is the better one? Should the basis on which an implied license is found affect the scope of the implied license?

6. *An implied license in oneself?* In recent years, celebrities, including Gigi Hadid and Khloe Kardashian, have been sued for copyright infringement when they have publicly posted photographs of themselves taken by paparazzi. In these suits, the paparazzi claim that the celebrities are infringing their (the paparazzi) copyrights in the photographs, as the copyright in a photograph is held by the photographer, even if it was taken without the permission of the celebrity. Professor Annemarie Bridy has argued that celebrities like Hadid should have a license implied in law to post photographs of themselves on social media:

Paparazzi photography is the product of a culture that worships and commoditizes glamour and celebrity. It is, at its base, a form of celebrity exploitation. The value of a paparazzi photo derives less from the photographer’s creative choices, which copyright is designed to protect, than from the celebrity of its subject, which is not copyright’s concern. In paparazzi photos, the photographer’s creative rights and the subject’s publicity rights are entangled. Equity suggests that the primary source of a paparazzi photo’s value, its famous subject, should be entitled to share in that value to some extent.

Hadid's contributions to the photo's aesthetic and commercial value seem on par with – if they don't actually exceed – the photographer's own contributions in this particular case. Yet the photographer sought to extract damages from Hadid for her limited use of the photo on her own Instagram account. To deny Hadid a limited implied license to use the photo at issue in the suit would arguably be unjust, considering both the significance of her contribution to its value and the fundamentally exploitive nature of paparazzi photography.<sup>11</sup>

Do you agree with Professor Bridy's theory? How are unauthorized celebrity photographs similar to McCoy's shrimp peelers?

<sup>11</sup> *Id.*