

## UNTANGLING JURISDICTION AND CONTRACT SCOPE ISSUES WITH INTELLECTUAL PROPERTY LICENSES

### I. INTRODUCTION

Courts and commentators often have difficulty dealing with copyright license cases due to tangled questions of jurisdiction and choice of law. Not only are courts split over which cases “arise under” federal copyright law, but the issues are further muddled by federal policy preempting state contract law in ways that are difficult to predict. This comment recommends an approach that is more consistent with both governing statutes and policies underlying pertinent case law.

Congress granted the federal courts exclusive jurisdiction over cases that arise under copyright law through 28 U.S.C. § 1338(a).<sup>1</sup> Although the statute’s language indicates that Congress did not intend to completely preclude states from handling intellectual property issues, the line between federal and state jurisdiction remains unclear, as does the question of which jurisdiction’s law is applicable.

This comment suggests that the best reading of the law supports a policy of split sovereignty that would enable different systems to govern the specialized areas that they are designed to regulate. Essentially, the problems surrounding procedural issues in copyright licensing cases should be clarified in two ways: (1) exclusive federal jurisdiction under § 1338 should be governed solely by the well-pleaded complaint rule;<sup>2</sup> and (2) interpreting courts should use federal copyright law to decide whether a license covers a right and state contract law to interpret the license. Part II of this comment discusses the statutes and case law pertaining to jurisdiction and choice of law questions in the intellectual property context, while Part III suggests how the law should be interpreted and how to implement that suggestion. Finally, this comment concludes in Part IV with a brief discussion of the benefits of the recommended approach.

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## II. BACKGROUND – THE LAW AS IT STANDS

The ordinary mental pathway taken in litigation requires consideration of jurisdictional issues before substantive issues. In the copyright context, however, the substantive law is so interwoven with jurisdiction that it is helpful to understand substantive copyright and contract licensing law *prior* to delving into jurisdictional questions. Once the merits of copyright and contract law are explained, this comment will then discuss jurisdictional approaches premised on substantive determinations.

### A. The Merits

#### 1. *Copyright Law*

The Constitution grants Congress the power to make laws governing copyrights in order to protect creativity and progress.<sup>3</sup> Congress passed the first copyright law in 1790.<sup>4</sup> The most recent overhaul of copyright law was the Copyright Act of 1976<sup>5</sup> (“Copyright Act” or “Act”); since its passage, Congress has made only relatively minor changes.

Under current law, a copyright is a temporary right granted to an author to protect a novel expression set out in a tangible medium.<sup>6</sup> Copyrights are not given for ideas or laws of nature, but instead for an embodiment of some act of creativity.<sup>7</sup> Receipt of a copyright in the United States requires a copyrightable subject matter, such as a book, movie, computer program, musical performance, or architectural work.<sup>8</sup> The right is granted to the author(s) of the work.<sup>9</sup> The duration of the copyright depends on either when the work was published or when it originated.<sup>10</sup>

A copyright grants several rights: (1) reproduction, (2) adaptation, (3) publication, (4) performance, (5) display, and (6) anti-circumvention (if applicable).<sup>11</sup> “Moral rights,” which were added to United States law solely to meet the dictates of the Berne Convention,<sup>12</sup> are theoretically protected, and they include the right to attribution and the right of integrity.<sup>13</sup>

The 1976 changes to copyright law removed all formality requirements for creating a copyright.<sup>14</sup> In order to *enforce* any right, however, a copyright holder must first register the copyright.<sup>15</sup> If a copyright is registered after copyright infringement has occurred, a copyright holder may sue for actual damages and injunctive relief.<sup>16</sup> Registration prior to infringement confers additional advantages, including the possibility of receiving both statutory damages and attorney’s fees.<sup>17</sup>

The bedrock policy underlying U.S. copyright law is the desire to strike a balance between encouraging creativity in useful works and giving the public access to those creations.<sup>18</sup> One way that courts have traditionally encouraged authors is by advancing a policy that favors copyright owners

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when interpreting attempts to alienate authors' rights.<sup>19</sup> The general rule is copyright owners keep what they do not explicitly alienate.<sup>20</sup>

A traditional copyright example is the publication of a book.<sup>21</sup> Consider the following scenario: Pat Author writes a novel. Pat knows it is a good idea to have a work copyrighted, so she fills out the requisite forms and sends them, along with a couple copies of her work, to the Copyright Office. A few months later, Pat gets a lucky break and lands a good agent, Joe Agent. Joe works tirelessly to sell the novel, and after about six months, Sarah Editor agrees to publish it. The novel hits the shelves six months later to great fanfare, the money starts rolling in, and everything seems to be proceeding smoothly for Pat.

Although Pat may not be worried at this point, various copyright infringements can occur or become discovered at any moment. For instance, maybe Pat did not reveal that she copied part of the work from a friend. Maybe Joe sold the rights to the movie without Pat's consent. Maybe Sarah only had rights to publish the first edition, but she later published a second edition as well. Maybe someone has circumvented the Digital Rights Management software, made a digital copy, and published it online. Maybe a website devoted to the story has begun publishing fan fiction, possibly from anonymous posters. Maybe news blogs have picked up the story, and teachers have begun printing excerpts for intellectual property discussions. Each of these examples constitutes an infringement of Pat's copyright for which the law provides possible remedies.<sup>22</sup> Pat will soon be glad she registered.

It is also possible that Pat will write another book, but would prefer to have someone else handle the copyright headaches. One important aspect of copyrights is that they are alienable.<sup>23</sup> In other words, an author can sell the rights to her work to an individual or company, and in so doing, deliver all of her exclusive rights to the buyer.<sup>24</sup> If the author wants to limit some other entity to *use* of the copyrighted material, however, she may simply license the work.<sup>25</sup>

## 2. *Licenses and Contract Interpretation*

Licenses are contracts designed to allow a licensee the right to use property, but do not transfer title to the property.<sup>26</sup> Of course, to create a license, you need a contract, and state law governs contracts.<sup>27</sup> Because contract law is state specific, there is no single "contract policy," but rather, fifty individual policies. In many respects, however, most state policies are in general accord, if not in perfect agreement.<sup>28</sup> Relevant state contract policies<sup>29</sup> include interpreting contracts against the drafter<sup>30</sup> and interpreting contract clauses as covenants rather than conditions.<sup>31</sup>

The notion that contracts should be construed against the drafter is straightforward. The rationale behind this rule is that people who draft contracts will pay more attention to their own interests than to the interests of

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any other parties.<sup>32</sup> This rule is especially strong in cases involving adhesion contracts or disparity in bargaining power.<sup>33</sup>

The policy of preferring a covenant interpretation over a condition interpretation, on the other hand, is more complex. A covenant is a legal promise that something will or will not be done.<sup>34</sup> A condition is defined in section 224 of the Restatement (Second) of Contracts as “an event, not certain to occur, which must occur, unless its non-occurrence is excused, before performance under a contract becomes due.”<sup>35</sup> The important distinction between the two terms is that performance by the other party is excused if a condition of that performance is not fulfilled,<sup>36</sup> whereas, if a covenant is violated, no such excusal automatically occurs.<sup>37</sup> Without excusal, of course, the other party must still fulfill its side of the bargain.<sup>38</sup>

Conditions in contracts take one of two forms: express or constructive.<sup>39</sup> An express condition is written into the contract, whereas a constructive condition is supplied by the court.<sup>40</sup> Courts are often reluctant to find that an ambiguous term is an express condition because finding that a party breached an express condition releases the obligation of the other party completely, likely leading to a greater loss by the obligee.<sup>41</sup> As the Court of Appeals of New York stated, “In determining whether a particular agreement makes an event a condition courts will interpret doubtful language as embodying a promise or constructive condition rather than an express condition.”<sup>42</sup> Constructive conditions are less burdensome because substantial compliance, as opposed to literal compliance, is sufficient.<sup>43</sup>

When applying a constructive condition, a court looks to whether the party substantially complied with the contract, or whether the party breached the contract so materially that the contract may be considered voided by the action.<sup>44</sup> Rescission of a contract is a drastic remedy because it completely nullifies the contract.<sup>45</sup>

Contract rescission involves some of the most difficult contract policy questions. All the normal contract guidelines apply,<sup>46</sup> but in addition, the court is asked to impose its after-the-fact judgment and nullify the agreement. The question of whether a court should impose itself in this manner is tightly interwoven with the state’s policies underlying the ability to contract. Though rescission is granted relatively rarely, it is certainly a valid remedy. Rescission issues may arise in a copyright license case when a plaintiff sues for infringement because the defendant allegedly either (a) failed to fulfill an express condition or (b) breached the contract so materially that the contract that licensed the copyright usage may no longer be controlling.<sup>47</sup> Though difficult enough alone, rescission is not the only complex issue that surfaces when dealing with contracts and intellectual property.

### 3. *Breach of Contract vs. Infringement of Intellectual Property Rights*

#### a. Scope of the license

Licenses allow copyrights to be used in specific ways by entities other than the copyright holder. When the copyright holder alleges that the licensee misused the copyright, the question becomes whether the action is a breach of contract or an infringement of the underlying intellectual property rights.<sup>48</sup> Because the scope of the license governs what uses are appropriate, the principal issue in resolving this question is the scope of the license. Does the contract cover the right and the alleged breach? Is the breach that of a condition or a contractual covenant? Does the case involve a construction of the Copyright Act? And does the federal policy of construing copyright disputes in favor of the copyright owner govern? Each of these questions should be handled separately so that all of the relevant considerations are given appropriate weight and are discussed in the proper sequence.

The easiest cases concern license duration. These matters are resolved easily by noting that, regardless of what the license may have covered, the license has expired, so there is no controlling contract whose scope need be further determined.<sup>49</sup> There is no license, so any infraction would be a copyright infringement.<sup>50</sup>

Once there is a determination that the license exists, the burden is on the owner to show that the licensee's actions were unauthorized.<sup>51</sup> The limitations on the scope of the license often revolve around whether the breach was of a covenant or a condition.<sup>52</sup> If the licensee failed to satisfy a condition, the licensee's action falls outside the scope of permitted use allowed by the license and constitutes an infringement.<sup>53</sup> On the other hand, if the licensee merely breached a covenant, the scope of the license covers the licensee's action, and the proper claim is probably in contract, not copyright.<sup>54</sup> State contract law prefers covenants to conditions when interpreting contracts.<sup>55</sup> In the context of copyright licenses, this preference will favor the licensee, not the copyright owner.<sup>56</sup> It makes sense to place the burden of proving the licensee's actions were unauthorized on the copyright owner bringing suit, but this is slightly inconsistent with the federal rule that favors an owner by saying he keeps what he does not explicitly alienate.<sup>57</sup>

Returning to the Pat Author scenario, suppose her contract with Joe Agent said, "It is a condition of Joe Agent's license to the copyright that Joe Agent negotiates exclusively with Sarah Editor." If Joe Agent negotiates with publisher Z, Joe violates the condition. If, on the other hand, her contract said, on page twenty-five of a forty-page document, that eleven-point Times New Roman font would be used in press releases, but Joe used ten-point Arial font, he merely violated a covenant, and the copyright usage is still within the scope of the license. This scope determination does not end

the analysis as the breach could be material enough to allow a rescission, but that question arises only after the scope question is decided.<sup>58</sup>

b. Federal policy vs. state policy

State contract law concerning covenants and conditions is clear. Unfortunately, determining whether a term is a covenant or a condition only begins the analysis. Moving forward, it becomes difficult to determine what law applies and to predict what a court will do. For example, if state contract law is at odds with federal copyright policy, this conflict creates ambiguity.

Copyright licenses “must be construed in accordance with the purposes underlying federal copyright law.”<sup>59</sup> The most important federal copyright policy, in this situation, is protecting the rights of authors.<sup>60</sup> This policy preempts state contract interpretation rules such as “construing against the drafter,”<sup>61</sup> thus changing the way copyright contracts are construed in every state. As a result, federal judges must give an aggressive interpretation to a federal policy and thereby preempt the unanimous state consensus on contract interpretation.<sup>62</sup> Following this approach would perhaps be more palatable if judges consistently applied a well-known and favorably treated rule. This comment suggests a possibility for such a rule.<sup>63</sup>

The final path plaintiffs can follow to reach copyright protection under the federal law, even if the actions are merely breaches of contractual covenants, is rescission determined via the material breach/substantial performance analysis.<sup>64</sup> This path, like the one through an expired contract or a failed condition, renders the contract a virtual nullity, and obviously a null contract cannot control the assignment of a copyright.<sup>65</sup>

4. *Bringing It All Together: A Case Study*

A detailed study of the most relevant recent copyright license case and a discussion of this analysis at length is helpful to pull together the various strands of substantive law set forth in the three previous sections. *Sun Microsystems, Inc., v. Microsoft Corporation*<sup>66</sup> involved a conflict between two of the largest software companies in the world concerning the viability of the Java programming language on the Windows operating system—arguably each company’s most important program.<sup>67</sup> Sun Microsystems, Inc., (“Sun”) the developer and owner of the copyright to the open-source programming language Java, granted Microsoft Corporation (“Microsoft”) a license to use Java and to write a virtual machine to run Java on Microsoft Windows.<sup>68</sup> The agreement, which was “rushed,” allowed both companies to make improvements to the Java programming language.<sup>69</sup> While the license allowed Microsoft to make improvements, the language in the contract stated that all improvements had to abide by certain restrictions, most im-

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portantly that all improvements had to be backwards compatible with older versions of Java.<sup>70</sup>

In most aspects, Microsoft's version operated quite well on the Windows operating system, but the enhancements did not allow the Java Native Interface—a core part of the Java language—to function properly.<sup>71</sup> The Microsoft version of Java also did not function properly on other operating systems; this limitation went against one of the core purposes of Java, which was to be platform independent.<sup>72</sup>

Sun sued Microsoft for copyright infringement and sought injunctions to keep Microsoft from placing code in Java that was incompatible with other operating systems.<sup>73</sup> The first injunction Sun sought was to prevent Microsoft from using the “Java Compatible” logo on Microsoft's products, but a later-requested injunction included bans on distributing Internet Explorer and the Windows98 operating system unless the “products passed Sun's compatibility tests.”<sup>74</sup> Though Microsoft strongly maintained that its activities were authorized by its license, the district court thought Sun was likely to succeed on the merits of the lawsuit and therefore granted a preliminary injunction.<sup>75</sup>

The district court did not explain why it found that copyright remedies, as opposed to contractual remedies, were appropriate, and Microsoft based most of its appeal on this distinction.<sup>76</sup> Microsoft contended that its actions were, at most, breaches of contractual covenants, and the application of copyright remedies to a breach of contract was therefore inappropriate.<sup>77</sup>

The Ninth Circuit Court of Appeals vacated the preliminary injunction and remanded the case.<sup>78</sup> It noted that, in order for copyright law to be implicated, Sun had to prove, and the district court had to explicitly find, that the conduct at issue constituted a failure on the part of Microsoft to satisfy a contractual condition.<sup>79</sup> If the district court did not make this finding, copyright law would not govern, and Sun would not be entitled to a presumption of irreparable harm.<sup>80</sup> Accordingly, the court would be unlikely to grant an injunction.<sup>81</sup>

The court recognized that it “should ‘rely on state law to provide the canons of contractual construction’ provided that ‘such rules do not interfere with federal copyright law or policy,’” but did not further address the applicability of state or federal law.<sup>82</sup> The court also ignored the possibility that a material breach of a covenant can create the right of rescission, leading to another possible avenue for setting aside the contract.<sup>83</sup>

The *Sun Microsystems, Inc.* case discusses questions of contract scope, copyright remedies, copyright policy, and state canons of construction as if they were a single question. In doing so, the court appears to have decided that the condition/covenant distinction was dispositive, giving short shrift to all of the other issues, by implicitly limiting the district court's ability to examine whether the breach in question was sufficiently material to allow rescission of the contract and reinstatement of the injunction.

As comingled as the *Sun Microsystems, Inc.* reasoning was, the opinion is probably the most straightforward discussion of these issues in any federal appellate court to date. The lack of straightforward guidance for the deceptively complicated question of whether an alleged infraction is a breach of a contract or an infringement of the underlying copyright is matched by the muddle in “arising under” jurisprudence.

## B. Jurisdictional Issues – “Arising Under”

Though 28 U.S.C. § 1338 covers copyright matters, it is worthwhile to first investigate the constitutional grant and general federal question jurisdiction under 28 U.S.C. § 1331 before exploring § 1338’s grant of specific jurisdiction over copyright actions.

### 1. *The Constitutional Grant and General Federal Question Jurisdiction—Article III, § 2, Clause 1 and 28 U.S.C. § 1331*

The Constitution states the federal judicial power “shall extend” to cases and controversies “arising under” the laws of the United States.<sup>84</sup> The “shall extend” language does not actually confer jurisdiction, but instead sets the maximum jurisdiction that Congress can confer through legislation.<sup>85</sup> The Constitution’s “arising under” phrase potentially extends federal jurisdiction to any case or controversy touching, to any extent, on a federal law.<sup>86</sup> During the nation’s early years, the Supreme Court interpreted the phrase very inclusively, to the furthest reasonable extent.<sup>87</sup> Using this constitutional authorization, Congress granted general federal question jurisdiction to the federal judiciary with 28 U.S.C. § 1331: “The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.”

The law concerning whether a case is one “arising under” a law of the United States has a tortured history. In 1824, Chief Justice John Marshall gave the “arising under” clause, found in Article III of the Constitution, an expansive reading, indicating that “the grant extended to every case in which federal law furnished a necessary ingredient of the claim even though this was antecedent and uncontested.”<sup>88</sup> Soon thereafter, the Supreme Court showed that it interpreted the “arising under” language of “statutes defining the jurisdiction of the lower federal courts” more narrowly.<sup>89</sup> By 1850, in a case interpreting § 1338’s specific grant of federal jurisdiction, the Supreme Court determined it had no jurisdiction over a patent contract case where the patent was the subject matter of the contract, but no intellectual property claim was made.<sup>90</sup> This movement away from extreme inclusion continued, and early in the twentieth century, the Supreme Court had come close to fully adopting the well-pleaded complaint rule. In 1914, Justice Van Devanter explained that it had “become firmly settled that whether a case is

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one arising under the Constitution or a law . . . of the United States . . . must be determined from what necessarily appears in the plaintiff's statement of his own claim . . . , unaided by anything alleged in anticipation or avoidance of defenses."<sup>91</sup>

The winnowing away of the broad jurisdictional mandate is also apparent in the distinction between cases and questions. The Supreme Court of the United States has long held that there is a "clear distinction" between a case arising under federal intellectual property law and one merely involving a "question" of federal law.<sup>92</sup> If the complaint sets out a federal ground for recovery, federal courts have jurisdiction.<sup>93</sup> If, however, a question of federal law appears only in the answer or testimony, then "[t]he determination of such question is not beyond the competency of the state tribunals."<sup>94</sup>

The Supreme Court's commentary on "arising under" jurisprudence did not end with *Taylor*, however. Within seven years of the *Taylor* decision, Justice Holmes—part of the majority in *Taylor*—authored the dissenting opinion in *Smith v. Kansas City Title & Trust Co.*<sup>95</sup> There, Justice Holmes noted that "a suit cannot be said to arise under any other law than that which creates the cause of action."<sup>96</sup>

The Supreme Court further explained in *Grable & Sons Metal Products, Inc. v. Darue Engineering & Manufacturing* that a federal claim included within a well-pleaded complaint, though always sufficient for federal jurisdiction, is not strictly necessary.<sup>97</sup> The *Grable & Sons* Court ultimately held that federal courts could hear cases which, on their face, arise from a state-law claim, so long as it is apparent "from the [complaint] that the right to relief depends upon the construction or application of [federal law]."<sup>98</sup>

*Grable & Sons* is the Supreme Court's most recent pronouncement on "arising under" interpretations, and the Court brought together two types of § 1331 jurisdictional pathways in its opinion.<sup>99</sup> The first type is merely a restatement of Justice Holmes's well-pleaded complaint formulation: If a plaintiff's complaint contains a claim based on a federal law, and if the issue is raised in the "well-pleaded" portion of the complaint (not in, for instance, any counterclaims or rebuttals to foreseen defenses), then the complaint should be heard in federal court.<sup>100</sup> The vast majority of federal question cases fall into this category.<sup>101</sup> The second type of jurisdictional pathway discussed in *Grable & Sons* allows federal courts to decide cases that appear on their faces to spring from state law but actually turn on a substantial question of federal law.<sup>102</sup> This exercise of jurisdiction has been held proper because it "captures the commonsense notion" that the necessity of deciding "substantial questions of federal law . . . justif[ies] resort to the experience, solicitude, and hope of uniformity that a federal forum offers on federal issues."<sup>103</sup>

Federal courts, however, should be cautious before asserting jurisdiction in cases involving state claims that only tangentially involve questions of federal law. Even if it might initially appear to be beneficial to resort to a

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federal forum, courts must further investigate whether such a usurpation of a state claim disturbs “any congressionally approved balance of federal and state judicial responsibilities.”<sup>104</sup> Caution is mandated in part because exercising this type of jurisdiction too frequently could shift an enormous volume of “traditionally state cases into federal courts.”<sup>105</sup> Accordingly, courts should only take cases that “would not materially affect, or threaten to affect, the normal currents of litigation.”<sup>106</sup>

## 2. *Specific and Exclusive Jurisdiction over Copyright Actions— 28 U.S.C. § 1338*

Congress once again chose to use the “arising under” phrase in 28 U.S.C. § 1338(a), where it granted federal courts exclusive jurisdiction over copyrights.<sup>107</sup> One distinction between § 1331 and § 1338 is relevant here: Section 1338’s grant of exclusive federal court jurisdiction in copyright cases.<sup>108</sup>

Section 1338’s grant of jurisdiction is important here because it is *exclusive*.<sup>109</sup> Unlike general federal question jurisdiction, which allows the state courts of general jurisdiction to resolve federal issues unless they are removed to a federal forum, if a federal court *can* assert jurisdiction granted under § 1338, the state courts *cannot*. If this use of the “arising under” language is interpreted inclusively, like the Constitution and to a lesser extent §1331, the statute removes the vast majority of copyright cases from state courts. Alternatively, if “arising under” is interpreted more narrowly, the statute allows state courts to handle more cases involving copyrights because access to a federal forum is restricted. That “either/or” logic is the nature of exclusive jurisdiction.<sup>110</sup>

Even more noticeable than the distinctions between the two statutory grants, however, are the statutes’ similarities. With the exception of the exclusivity provision, Congress appears to have created a redundant statute by enacting § 1338.<sup>111</sup> Every act of Congress is a law of the United States, so §1331 had already granted the federal courts jurisdiction in every copyright case. This “belt and suspenders” approach to jurisdictional grants will be discussed in more detail below<sup>112</sup> in order to help resolve one of the more potentially problematic aspects of the analysis proposed here.

## 3. *Jurisdiction in Copyright License Cases*

Modern courts and commentators have yet to resolve the issue of how to determine whether a claim arises under the federal copyright laws. This issue “poses among the knottiest procedural problems in copyright jurisprudence.”<sup>113</sup> Several modern cases have addressed the problem.

a. Justice Holmes's creation test

One of the first tests in “arises under” jurisprudence was Justice Holmes’s “creation test,” which said that “[a] suit arises under the law that creates the cause of action.”<sup>114</sup> Essentially, under this test, if the claim asserted a right created by federal law, then federal law governed; if the claim advanced a right afforded by state law, then the state’s law governed, even if the state law referred back to a federal law (such as patent or copyright law).<sup>115</sup> This placement of jurisdiction was proper even if the state law’s referral to federal law required an interpretation of federal law because the state, as master of its own law, can decide what is a breach of contract in whatever way it chooses, including by reference to external bodies of law.<sup>116</sup>

b. Judge Friendly’s three-part test

Much of the development in § 1338 “arising under” jurisprudence thereafter occurred in the Second Circuit. Judge Friendly formulated a more nuanced test with three possible pathways to federal jurisdiction: a well-pleaded complaint, a construction of federal copyright law, or a controlling federal policy.<sup>117</sup> By adding two additional paths to federal jurisdiction, this rule is obviously more expansive than the well-pleaded complaint rule.

Judge Friendly began by noting that the most extreme assertion—that any claim involving copyrights in any way, including simply who owns the copyright, arises under federal law—was a reasonable interpretation of § 1338, but the courts have rejected such a construction.<sup>118</sup> Principles of federalism and jurisdictional competence also discourage this extreme position; States have strong interests and sophisticated institutional competence in governing contracts created using their laws, and in those situations, there is often trivial federal significance.<sup>119</sup> Regardless of the debate, it is well settled that state courts can decide questions of copyright title as well as interpret and apply contracts relating to copyrights.<sup>120</sup>

Though Judge Friendly recognized the importance of allowing states to decide contract issues, the Friendly test can be much more expansive than Holmes’s sparse creation test,<sup>121</sup> and it can implicate substantial federal issues of statutory interpretation. In particular, the Friendly test grants federal jurisdiction when an important federal policy is implicated even when there are no federal remedies available.<sup>122</sup> This is true even where the claim itself is expressly created by state law and does not implicate the Copyright Act.<sup>123</sup>

The Friendly test’s second pathway to federal jurisdiction was stated vaguely. In at least some sense, every case involving copyrights requires a degree of interpretation of the Copyright Act. Obviously, this expansive reading of Judge Friendly’s formulation is overbroad. A more plausible reading is that Judge Friendly was merely applying the *Kansas City Title* §

1331 exception to the well-pleaded complaint rule to the § 1338 context: A particularly difficult interpretation of copyright law, especially those involving an issue of first impression, should be resolved in federal court.<sup>124</sup>

The Eleventh Circuit used this pathway to exclusive federal jurisdiction in *Sullivan v. Naturalis*.<sup>125</sup> In *Sullivan*, the court was faced with the question of whether an oral transfer of rights in copyrighted material is ever permitted according to the Copyright Act.<sup>126</sup> Though this question of title would normally be a contractual matter properly within the province of the state, the Eleventh Circuit ruled that this was exactly the sort of copyright law interpretation that Judge Friendly had in mind when he articulated the second prong of his test.<sup>127</sup> The court also noted that at least the Second, Fifth, and Ninth Circuits were in accord with this understanding of arising under jurisprudence.<sup>128</sup>

The third prong of the *T.B. Harms* test was recognized by Judge Friendly himself as the weakest: A case arises under federal copyright law if the complaint “*at the very least and perhaps more doubtfully*, presents a case where a distinctive policy of the Act requires that federal principles control the disposition of the claim.”<sup>129</sup> The reason this prong is “more doubtful” and constitutes the weakest of the three prongs is because it applies only in situations where a court finds a federal policy to be implicated but where no federal claim was made, and no important or difficult interpretation of the Copyright Act is required.

### c. The *Schoenberg* test

In the early 1990’s, the Second Circuit shifted focus from the complaint itself to the essence of the contract and whether the copyright comprised a substantial portion of the complaint.<sup>130</sup> In *Schoenberg v. Shapolsky Publishers*, the Second Circuit used a three-part analysis to determine when a claim arises under federal copyright law.<sup>131</sup> First, a court should decide if the infringement claim is merely incidental to the plaintiff’s overall claim; if so, federal jurisdiction is improper.<sup>132</sup> Second, if the copyright claim is more than merely incidental, the court should investigate whether the breach was that of a condition or a covenant,<sup>133</sup> if the breach was of a condition, federal jurisdiction is proper.<sup>134</sup> Third, if a covenant was breached in a sufficiently material manner to justify rescission, federal jurisdiction is proper.<sup>135</sup> Otherwise, federal jurisdiction is improper.<sup>136</sup>

“A [major] problem with the *Schoenberg* test is that it is vague.”<sup>137</sup> As a result, the complainant cannot know whether to file suit in federal or state court because jurisdiction can depend greatly on the defendant’s answer.<sup>138</sup> For instance, the complaint might allege infringement and not even mention a license, leaving the defendant to argue a license as an affirmative defense before the plaintiff responds that the breach created a right of rescission.<sup>139</sup> “A court examining such a complaint would have no idea whether the ‘es-

sence' of plaintiff's claim would turn out to be a matter of contract, much less whether plaintiff's 'real[ ] concern[ ]' lay in the infringement, or whether plaintiff was 'more interested' in peaceful 'enjoy[ment of] his property.'<sup>140</sup>

Another troubling aspect of the *Schoenberg* test is that it forces the court, as part of its decision to assert jurisdiction at the beginning of litigation, to make substantive determinations in the absence of a true understanding of the case, which is revealed only after a trial.<sup>141</sup> In many cases, the *Schoenberg* test would require, at minimum, a hearing to determine proper subject-matter jurisdiction; that hearing, by necessity, would have to solve many of the questions of the trial prior to determining if subject-matter jurisdiction was proper.<sup>142</sup> Is the infringement claim really the "essence" of the case? Is the claimed problem with a condition or a covenant? Is there a possibility of rescission? Under *Schoenberg*, all of these substantive questions must be answered before a court can know if it has jurisdiction to hear the case.<sup>143</sup>

#### d. Stepping away from the *Schoenberg* test

Partially because of these problems, less than a decade after deciding *Schoenberg*, the Second Circuit departed from *Schoenberg*'s essence-of-the-dispute test and returned to a stricter construction of the Friendly test.<sup>144</sup> That court noted that it had used an essence-of-the-dispute test prior to *T.B. Harms*<sup>145</sup> and decided that the Friendly test was still superior.<sup>146</sup> The primary reason for reinstating the Friendly test was that, because federal courts enjoy exclusive jurisdiction over federal copyright remedies, a decision that a valid copyright claim was merely incidental effectively deprived plaintiffs of all remedies afforded by the Copyright Act under *Schoenberg*.<sup>147</sup> Plaintiffs with such claims would not have recourse to injunctions, statutory damages, or attorney's fees.<sup>148</sup> Citing to *T.B. Harms*, the Second Circuit ultimately returned to the well-pleaded complaint rule.<sup>149</sup> Shortly after the Second Circuit reinstated the well-pleaded complaint rule, the D.C. Circuit, in *Scandinavian Satellite Systems, AS v. Prime TV Limited*,<sup>150</sup> examined the holdings of sister circuits and could "find no better interpretation" of this crucial portion of the Copyright Act than the Second Circuit's reasoning in *Bassett v. Mashantucket Pequot Tribe*.<sup>151</sup>

#### e. Problems with the other tests

A common worry associated with the well-pleaded complaint rule is that there will be a deluge of non-meritorious federal complaints that state courts could readily resolve. The Second Circuit, however, regarded this criticism as "greatly exaggerated."<sup>152</sup> The court explained that even if an

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“open the floodgates” problem occurred, the system has a built-in balance against bad faith claimants: the court can refuse supplemental jurisdiction.<sup>153</sup>

Each of the tests discussed above (Holmes’s creation test, Friendly’s test, and Schoenberg’s essence-of-the-dispute test) has one or more problems that courts have been unable to resolve.<sup>154</sup> The essence-of-the-dispute test combines jurisdictional and merit-based analyses without taking into account exclusive federal jurisdiction.<sup>155</sup> Holmes’s creation test and the other versions of the well-pleaded complaint rule allow possibly non-meritorious federal claims into federal courts.<sup>156</sup> The Friendly test also allows nebulous “federal policy” to permit federal jurisdiction even when there is no explicit federal claim or required federal interpretation.<sup>157</sup> Some of these problems are unavoidable when dealing with these issues of split sovereignty, but this comment will propose a straightforward path to understanding how complaints should be filed and why.<sup>158</sup>

### III. ANALYSIS – HOW THE LAW SHOULD BE IMPLEMENTED

The proper implementation of the law would allow courts to determine jurisdiction before delving into the substantive issues of the case. If the complaint alleges a cause of action created by copyright law, the case is proper for federal jurisdiction under § 1338. If not, the court should use § 1331’s interest analysis to see if a significant interpretation of copyright law is required and if the allocation of responsibilities between the state and federal judiciaries would be best served by the choice of a federal forum. If so, federal jurisdiction should be asserted; otherwise, federal jurisdiction is not proper. The court that asserts jurisdiction will then hear the case and determine which law is appropriate for proper disposition.

#### A. The Extent of “Arising Under” Jurisdiction in Copyright License Cases

One guiding policy for “arising under” questions is the requirement of a remedy for the infringement of every legal right.<sup>159</sup> The idea of a government of laws depends upon this notion.<sup>160</sup> A second guiding principle is that exclusive jurisdiction combines the question of subject-matter jurisdiction with the question of remedies: Subject matter jurisdiction is proper if, and only if, a remedy supplied by the Copyright Act is sought for a right granted by that Act.

Because federal courts have exclusive jurisdiction over claims arising from the Copyright Act, the remedies available under the Act are only available in federal court. A federal court, therefore, should hear any complaint that states such a claim. Tests that can grant state courts jurisdiction, including tests that look to the “essence of the complaint,” are improper when the complaint alleges a federal claim.

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The Friendly test, as further developed through *Bassett*<sup>161</sup> and *Scandinavian*,<sup>162</sup> is a good starting point because it takes into account the important federal considerations. Did the plaintiff correctly ask for federal assistance by requesting a remedy for a violated federal right? Is an interpretation of the Copyright Act necessary? Is some other important federal copyright policy implicated? The Friendly test only considers federal interests, however, and ignores the appropriate place of state law in this contractual problem.

### 1. *A Consistent Approach*

A more consistent approach will use both § 1331 and § 1338 to allow both state and federal interests to be considered. Section 1338 should only be used to cover the first prong of the Friendly test: the well-pleaded complaint. Neither an interpretation of the copyright law, nor an important federal interest alone, should be sufficient to convey jurisdiction under § 1338. The latter two jurisdictional prongs should be dropped from § 1338 coverage analysis due to the unpredictability that results when courts attempt to combine exclusive jurisdiction with the inherent discretionary fuzziness that arises when deciding a case that actually revolves around a substantial question of federal law or policy. This narrower standard for § 1338 is consistent with the rest of the statute, which limits the federal court jurisdiction of § 1331 to “Acts of Congress” related specifically to copyrights.

The latter two prongs of the Friendly test—the copyright-interpretation-without-a-copyright-claim consideration and the federal-interest-without-a-copyright-claim factor—will rarely be issues in practice because generally a colorable claim for federal recovery is likely available where a substantial federal issue involving the copyright law arises. In the rare case where such an issue does arise, however, a federal court has no need to use the exclusive jurisdiction granted by § 1338.<sup>163</sup> The court can simply fall back to the more inclusive standard of § 1331 and justify asserting jurisdiction by reference to that statute.

This fall-back approach uses the “belt and suspenders” nature of the two statutes to avoid implying that state courts cannot hear cases regarding questions of federal law. Exclusive jurisdiction simply does not apply with § 1331. The fact that this approach requires the courts to interpret the same “arises under” phrase differently in very similar statutes should not be particularly worrisome, as the courts already interpret precisely the same phrase differently when dealing with the Constitution than when dealing with acts of Congress.<sup>164</sup> This approach simply extends such an interpretive trend a step further, and in exchange, federal courts can use prudential concerns in the normal § 1331 analysis.<sup>165</sup>

If the second and third prongs of the Friendly test are rendered non-exclusive, state courts may hear some claims that were once heard by feder-

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al courts.<sup>166</sup> Claims shifted to the state courts would include those filed by attorneys who could not find a plausible federal copyright claim or, for some other strategic reason, chose not to assert the claim in order to remain in state court. These cases will then be decided on state law and contractual issues.<sup>167</sup> Most moments of interpretation are questions, not cases, so the second prong of the Friendly test can safely be made non-exclusive.<sup>168</sup> As noted above, the language “arises under” normally leaves “questions” in the capable hands of courts of other jurisdictions.

## 2. *Potential Problems with the Recommended Approach*

One concern with the well-pleaded complaint rule is that plaintiffs will abuse the rule by bringing cases into federal court through claims that are non-meritorious.<sup>169</sup> Though there are several mechanisms already in place to prevent this abuse,<sup>170</sup> the courts could also adopt a policy under which, barring exceptional circumstances, federal courts decline to exercise supplemental jurisdiction over a claim if it is determined that the case presents no copyright issues.<sup>171</sup> Courts might also be more willing to impose sanctions for frivolous forum shopping in these cases.

Another problem with following the well-pleaded complaint approach is that it creates a level of formality that increases the chance a lawsuit will be dismissed due to a technicality. In copyright cases, however, the parties will often be sophisticated corporate actors.<sup>172</sup> For business reasons, these parties would likely prefer the consistency and predictability of bright line rules to the possibly fairer—but certainly more costly—fact-intensive rules.<sup>173</sup>

A less obvious problem is the insoluble dilemma of split sovereignty. A well-pleaded complaint approach would require federal courts to resolve some issues in which the states have much stronger interests than the federal government. Federal courts are frequently called upon to interpret state law, however, and Congress seemingly planned for the federal courts to be the main forum for disputes involving copyrights. Therefore, this dilemma stems directly from the statute and may actually be no dilemma at all. Essentially, federal courts will be required to hear some rescission claims and state courts will be forced to decide some copyright questions. While implementing a consistent, simple rule to handle the conflict when it arises may seem problematic in theory, it remains straightforward in practice.<sup>174</sup>

The distinction between “essence of the claim” approaches and well-pleaded complaint approaches is perhaps most important in cases dealing with claims to rescind the contract. The well-pleaded complaint approach allows any plaintiff with a colorable claim for rescission to properly file in federal court. Because materiality of a breach is fact intensive, it seems likely that most plaintiffs would be able to make non-frivolous claims to rescind, even if the main purpose of those claims was to forum shop. Although



federal courts frequently decide state law claims, especially in both diversity and supplemental jurisdiction cases, rescission cases involve decisions regarding whether to nullify agreements, arguably an important underlying principle of the state's contract policy.

Furthermore, the fact-intensive nature of rescission determinations means these inquiries may require a great deal of the federal courts' time. The "essence of the claim" tests exacerbate this problem, however, instead of mitigating it. In applying the "essence of the claim" test federal courts will spend the same amount of time resolving rescission claims, but the claims will instead be addressed under the guise of a jurisdictional determination. If the federal court decides it does not have jurisdiction, a state court may then have to go through the same analysis. Frivolous rescission claims may create large inefficiencies either way, but with the well-pleaded complaint test, the federal court will at least not have wasted its time investigating the claim.

#### B. Federal Copyright Law for Structure, State Contract Law for Interpretation

Resolving the murky "arising under" issue presents a model for determining which court should hear the dispute, but it does not reveal whether state or federal law should be applied or how to apply whichever law survives the conflict analysis. Copyright law should be the starting point, and if federal and state law conflict, federal law must win.<sup>175</sup>

##### 1. *An Overview of the Analysis*

This comment suggests that the proper approach requires jurisdiction to be decided without a deep investigation of the substantive issues. Once jurisdiction is decided, the court hearing the dispute should resolve the conflict of law issue and any remaining questions as follows: The court should begin by determining what copyright right is at issue.<sup>176</sup> Next, the court should ask if the contract covers that right. This question is determined by federal law, which says that ambiguities are to be construed in favor of the copyright owner, and rights not granted by the copyright owner are retained. If the right is not covered by the contract, potential copyright infringement is at issue and copyright law governs.<sup>177</sup> Alternatively, if the right is covered by the contract, the court should continue its analysis, following state contract rules. State law mandates, *inter alia*, that ambiguities should be construed against the drafter.

The court's analysis should continue using state law by looking next to see whether a condition or merely a contractual covenant was violated. If the violation was that of a condition, copyright law governs because the plaintiff's obligation to allow use of the copyright no longer applies, and the use

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of the copyright was unauthorized. On the other hand, if the violation was that of a covenant, the court should determine if the breach is sufficiently material such that rescission is appropriate. State contract law generally governs this determination, but if the breach is found to be egregious, copyright law reasserts itself. Whichever court asserted jurisdiction should then decide the case based on the law the preceding analysis showed was applicable.<sup>178</sup>

Note that this analysis allows both federal and state laws, and the interests underpinning those laws, to play important roles. If there is ambiguity regarding whether a contract actually covers a right, the federal policy of the copyright owner keeping what he does not explicitly alienate should govern (construe ambiguities concerning *whether* the contract discusses the right in question in favor of the copyright owner). Once the court determines that the contract discusses the right, it should look to state rules in order to interpret what the contract does.<sup>179</sup> If the contract does not mention the right, it is reserved; if the contract discusses the right, the contract governs.

## 2. *Federal Law for Definitions, Requirements, and Default Rules*

A closer look at the analysis will help clarify the recommended approach. The Supremacy Clause allows federal law to preempt state law, but Congress often chooses to let the state govern the traditional provinces of the state.<sup>180</sup> By nature, copyright licenses combine federal copyright law with state contract law, so it is unsurprising that Congress would expect an intermingling of the two areas of law. Federal copyright law serves to define the parameters of a copyright license: what a copyright is,<sup>181</sup> which rights a copyright grants,<sup>182</sup> how to determine if a specific right is in a contract,<sup>183</sup> and what remedies are available for infringement.<sup>184</sup>

One important issue frequently argued in copyright litigation is the scope of an existing license.<sup>185</sup> This issue is important because a license can only control a situation if the scope of the license encompasses the action that was an alleged infringement. The Copyright Act gives clear statutory definitions regarding the rights that exist and, therefore, what can be licensed.<sup>186</sup> This explicit direction allows a court to confidently discern whether a specific license covers a particular right. Federal law directs that the copyright owner retains any rights not addressed by the contract. At this point in the analysis, this federal rule trumps state rules such as the notion that contracts should be construed against the drafter.<sup>187</sup>

The default rule, then, is that a right is retained unless it is expressly granted. A federal court can read a copyright license in concert with 17 U.S.C. § 106 to determine if the license covers the right, construing any ambiguity as to coverage itself in favor of the copyright owner. This most important step should be governed entirely by federal law, and it need make

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no allusion to the specific state's contract interpretation rules—those rules are preempted.

### 3. *State Contract Law for Interpreting the Contract*

If the court determines that the allegedly infringed right is covered by the contract, the federal structure takes a back seat to state contract law. Because the parties in this situation intended to describe the method for licensing this right by reference to the state's contract law, it is entirely appropriate to use that body of law in interpreting the contract.<sup>188</sup>

On its face, the preference for covenant interpretations over condition interpretations directly conflicts with the federal policy that favors copyright owners. In practice, however, this preference for covenants is well understood by both courts and attorneys drafting contracts, so copyright owners can have more predictable licenses and lawsuits, and this foreseeability leads to lower transaction costs.

Another important implication of using state contract law is that any remaining ambiguities will be construed against the drafter, even if the drafter is the owner of the copyright. This rule of interpretation, like the one favoring covenants over conditions, is pervasive.<sup>189</sup> Businesses are the most common owners of licensed copyrights, and these sophisticated drafters are well situated to write contracts that meet their needs. The same policies that have encouraged courts throughout the nation to interpret contracts against the drafter apply to copyright licenses.

Using the mature body of state contract law for construction will greatly diminish questions related to drafting and interpreting copyright licenses. This advantage is especially apparent when viewed in light of the impossibility for a state to develop a tradition managing how its laws interact with federal rules in an area where state courts are forbidden to tread. Without such a tradition, there can be no state court guidance for a federal court when interpreting a contract.

Following this approach would create a copyright version of the *Erie* doctrine.<sup>190</sup> This new doctrine will lessen the perceived value of forum shopping in exactly the same fashion as the original *Erie* doctrine, resulting in consistency between state and federal interpretations of a single contract. The similarity in rules will hopefully create a greater similarity in outcomes, which in turn may further reduce the oft-predicted deluge of non-meritorious cases that the bright line of the well-pleaded complaint rule creates.

## IV. CONCLUSION

The approach this comment recommends is the best way to merge seemingly disparate interpretations and give courts, attorneys, and business-

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es a straightforward, principled way to traverse the briar patch that is copyright license jurisprudence. This analysis gives federal law its rightful precedence over state law yet also gives weight to Congress's recognition of the important state contractual interests. The federal policy of favoring copyright owners still gives a structure to copyright licenses, but the state interest in controlling contracts made using state law provides a mature and well-defined method of interpretation.

Because sophisticated parties usually draft copyright licenses, any formal burdens spawned by the creation of bright line rules will generally be outweighed by the business advantages of predictability and consistency. The formality of a well-pleaded complaint in federal litigation is not a novel suggestion, and it has been the core of each "arises under" test since the nineteenth century. Indeed, following any different formulation would require highly persuasive reasoning. The "arises under" analysis suggested here, then, is hardly controversial.

The second part of the analysis unravels a tangle of case and statutory law, complicated by the competing policies of federal and state interests, and shows how this muddle can best be understood. Federal law governs in the structure and definition pertaining to how copyright licenses should be crafted, most importantly with regard to what rights are covered and how the contract must be read in favor of the copyright owner when interpreting coverage. Once the threshold question addressing the rights covered by the contract is resolved, federal law is tentatively satisfied, and state contractual laws take over. At this point, the bias favoring the copyright owner no longer applies, but instead the normal state interpretation rules govern, including (a) the rule favoring covenant to condition interpretations and (b) the rule interpreting ambiguity against the drafter.

This approach to copyright license cases explains the results many courts have reached, though many times both the result and the analysis appeared difficult to reconcile with other, seemingly similar cases. Some courts have reached different conclusions, but the approach suggested in this comment takes into consideration the laws, policies, and interests that drove those decisions, even if different results would have been reached.

If the approach suggested by this comment is followed, attorneys will most likely find it easier to draft contracts and file complaints, judges will likely find it easier to interpret those contracts, and clients will undoubtedly appreciate the increased certainty and predictability. Copyright license jurisprudence will finally make sense.

*Brandon Beam\**

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1. “The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.” 28 U.S.C. § 1338(a) (2006).

2. The grant of jurisdiction under § 1331 may be broader, as is discussed *infra* Part III.A.1.

3. U.S. CONST. art. I, § 8, cl. 8.

4. Michael Erlinger, Jr., *An Analog Solution in a Digital World: Providing Federal Copyright Protection for Pre-1972 Sound Recordings*, 16 UCLA ENT. L. REV. 45, 48 (2009); *See* 1 Stat. 124 (1790).

5. Pub. L. No. 94-533, 90 Stat. 2541 (1976).

6. *See* 17 U.S.C. §§ 101–122 (2006).

7. 17 U.S.C. § 102; *See Baker v. Selden*, 101 U.S. 99, 102–04 (1879).

8. 17 U.S.C. § 102.

9. *Id.* § 201.

10. *Id.* § 302.

11. The first five rights are covered in 17 U.S.C. § 106. The final right is granted by the Digital Millennium Copyright Act (DMCA), and it applies to works that are secured by technological protection measures. *Id.* § 512.

12. *See* Berne Convention for the Protection of Literary and Artistic Works, art. 6 bis, July 24, 1971, S. Treaty Doc. No. 99-27 (1986) [hereinafter Berne Convention].

13. 17 U.S.C. § 106A.

14. *Id.* § 408(a). In order to conform to the Berne Treaty’s requirement that a copyright springs into existence with the creation of the work, Congress removed the “formality” requirements of registration, deposit, and notice. *See* Berne Convention, *supra* note 12, art. 3.

15. *Id.* § 412. Moral rights are an exception to this requirement. *Id.* § 106A.

16. *Id.* §§ 412, 502–504.

17. *Id.* §§ 412, 504–505. Statutory damages are sometimes preferable to actual damages as the standard of proof with regard to damages is lower, *See, e.g., Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 512–13 (9th Cir. 1985), and the plaintiff is able to decide which damage model to follow at any point “before final judgment is rendered.” 17 U.S.C. § 504(b)–(c)(1). *See generally* Andrew Berger, *Statutory Damages in Copyright Litigation*, N.Y. St. B.J., Nov.-Dec. 2009, at 30 (discussing statutory damages in copyright infringement cases). Attorney’s fees are, of course, a strong incentive for many, not the least of whom are attorneys.

18. *See* U.S. CONST. art. I, § 8, cl. 8. *See also, e.g., Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (“As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product.”)

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19. *See, e.g., S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989) (citing *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 854 (9th Cir. 1988)) (“Chief among [the purposes underlying federal copyright law] is the protection of the author’s rights.”).

20. *Id.* (citing *Cohen*, 845 F.2d at 853; 17 U.S.C. § 204(a)) (“[C]opyright licenses are assumed to prohibit any use not authorized.”).

21. Michael J. Madison, *Legal-Ware: Contract and Copyright in the Digital Age*, 67 *FORDHAM L. REV.* 1025, 1065 (1998).

22. The fair use doctrine would likely provide a defense against the last two examples of infringement in this scenario. *See* 17 U.S.C. § 107.

23. *See* 17 U.S.C. § 201(d)(1) (“The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.”).

24. *Id.* § 201(d)(2).

25. Michael A. de Freitas, Annotation, *Exclusive Jurisdiction of Federal Courts Under 28 U.S.C. § 1338(a) of Action Involving Breach of Contract Concerning Copyright*, 119 *A.L.R. FED.* 471, 477 (1994) (“Copyrights are often the subject of agreements, usually a license or assignment agreement by which copyright owners license others to use their copyrights or otherwise assign some ownership interest in the copyrights.”).

26. *E.g., UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1180 (9th Cir. 2011) (“[C]opyright owners may create licensing arrangements so that users acquire only a license to use the [property] and do not acquire title that permits further transfer or sale of that [property] without the permission of the copyright owner.”).

27. *See, e.g., S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989).

28. For the general consensus of state contract policies, see generally *RESTATEMENT (SECOND) OF CONTRACTS* (1981).

29. There are, of course, a myriad of state contract policies. Others embodied in the Restatement (Second) of Contracts include the duty of good faith and fair dealing, *id.* § 205, interpretations favoring the public, *id.* § 207, disallowance of unconscionable terms, *id.* § 208, and the parol evidence rule, *id.* § 213, to name a few.

30. *Id.* § 206.

31. *Id.* § 227 (“Standards of Preference with Regard to Conditions”).

32. *See id.* § 206 cmt. a.

33. *Id.*

34. *E.g., Cedar Cove Homeowners Ass’n, Inc. v. DiPietro*, 628 S.E.2d 284, 291 (S.C. Ct. App. 2006) (citing 20 *AM. JUR. 2D Covenants, Conditions, and Restrictions* § 1 (2005)) (“The word ‘covenant’ means to enter into a formal agreement, to bind oneself in contract, and to make a stipulation.”).

35. *RESTATEMENT (SECOND) OF CONTRACTS* § 224.

36. *Id.* § 225(1) (“Performance of a duty subject to a condition cannot become due unless the condition occurs or its non-occurrence is excused.”).

37. *Id.* § 227 cmt. b.

38. *Id.*

39. 13 *RICHARD A. LORD, WILLISTON ON CONTRACTS* §§ 38.11–38.12 (4th ed. 2000).

40. *RESTATEMENT (SECOND) OF CONTRACTS* § 226.

41. *Id.* § 227 cmt. b.

42. *Oppenheimer & Co. v. Oppenheim, Appel, Dixon & Co.*, 660 N.E.2d 415, 418 (N.Y. 1995).

43. *Id.*

44. *See, e.g., Schoenberg v. Shapolsky Publishers*, 971 F.2d 926, 932–33 (2d Cir. 1992), *abrogated by Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 349 (2d Cir. 2000) (courts must sometimes determine “whether the breach is so material as to create a right of rescission”) (The Second Circuit effectively overruled *Schoenberg* on other grounds in *Bassett*).

45. See *Jobim v. Songs of Universal, Inc.*, 732 F. Supp.2d 407, 422 (S.D.N.Y. 2010) (citing *Nolan v. Sam Fox Publ'g Co.*, 499 F.2d 1394, 1397 (2d Cir. 1974)) (“[R]escission of a contract is an extraordinary remedy. . .”).

46. Examples of normal contract guidelines include capacity, consideration, signature, writing, and evidence.

47. See, e.g., *Schoenberg*, 971 F.2d at 932–33.

48. See, e.g., *id.*

49. *Gerig v. Krause Publ'ns, Inc.*, 58 F. Supp. 2d 1261, 1267 (1999) (citing *Schoenberg v. Shapolsky Publishers*, 971 F.2d 926, 932–33 (2d Cir. 1992), *abrogated by Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 349 (2d Cir. 2000)) (The Second Circuit effectively overruled *Schoenberg* on other grounds in *Bassett*).

50. *Id.*

51. *Graham v. James*, 144 F.3d 229, 236 (2d Cir. 1998) (“[W]hen the contested issue is the *scope* of a license, rather than the *existence* of one, the copyright owner bears the burden of proving that the defendant's copying was unauthorized under the license . . .”).

52. *Id.* (noting that this argument turns, as well as fails, “on the distinction in contract between a condition and a covenant”).

53. *Id.* See also, e.g., *Costello Publ'g Co. v. Rotelle*, 670 F.2d 1035, 1044 (D.C. Cir. 1981) (“[I]f Talbot Press failed to satisfy a condition to its license . . ., it had no rights under which Costello can take cover and therefore both Talbot Press and Costello acted without authority and thereby infringed defendant-intervenors' copyright.”).

54. *Graham*, 144 F.3d at 236–37 (citing 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 10.15[A], at 10-120 (1998) (“If the [licensee's] improper conduct constitutes a breach of a covenant undertaken by the [licensee] . . . and if such covenant constitutes an enforceable contractual obligation, then the [licensor] will have a cause of action for breach of contract, not copyright infringement.”).

55. See, e.g., *id.* at 237 (citing *Grand Union Co. v. Cord Meyer Dev. Co.*, 761 F.2d 141, 147 (2d Cir. 1985); *Warth v. Greif*, 121 A.D. 434 (N.Y. App. Div. 1907)) (“Generally speaking, New York respects a presumption that terms of a contract are covenants rather than conditions.”). See also RESTATEMENT (SECOND) OF CONTRACTS § 227 (1981) (“Standards of Preference with Regard to Conditions”).

56. The presumption that terms in the contract are covenants limits the licensor's remedies. Initially, the licensee is favored because the licensor must prove the terms of the contract were, in fact, breached.

57. To review the federal policy favoring copyright owners, see, e.g., *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989).

58. See, e.g., *Graham*, 144 F.3d at 237 (citing *Rano v. Sipa Press, Inc.*, 987 F.2d 580, 586 (9th Cir. 1993) (“A material breach of a covenant will allow the licensor to rescind the license and hold the licensee liable for infringement for uses of the work thereafter.”).

59. *S.O.S., Inc.*, 886 F.2d at 1088 (citing *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 854 (9th Cir. 1988); *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1334 (9th Cir. 1984)).

60. *Id.*

61. *Id.*

62. This policy had more teeth prior to *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). In that case, the Supreme Court of the United States refused to recognize a presumption of irreparable harm in intellectual property cases. *Id.* at 391. Instead, the Court applied the traditional four-factor test for injunctive relief. *Id.* at 391–93. Though presumptions no longer apply, the federal policies still take precedence, including the preference for protecting authors' rights.

63. See *infra* Part III.

64. See, e.g., *Graham v. James*, 144 F.3d 229, 237 (2d Cir. 1998).

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65. Rescission is defined as “a party’s unmaking of a contract for a legally sufficient reason, such as the other party’s material breach, or a judgment rescinding the contract.” BLACK’S LAW DICTIONARY (9th ed. 2009).

66. 188 F.3d 1115 (9th Cir. 1999) (an implied overruling on other grounds was recognized by *Perfect 10, Inc. v. Google, Inc.*, 653 F.3d 976, 979 (9th Cir. 2011)).

67. *Id.* at 1117.

68. *Sun Microsystems, Inc. v. Microsoft Corp.*, 21 F. Supp. 2d 1109, 1113 (N.D. Cal. 1998) (district court opinion).

69. *Id.*

70. *Id.* at 1113–14.

71. *Id.* at 1115.

72. *Sun Microsystems, Inc.*, 188 F.3d at 1118. “Platform independent” means, in this case, that Java could run on any mainstream operating system using any normal computer hardware.

73. *Id.* at 1117.

74. *Id.* at 1118.

75. *Id.* at 1117. Later cases have altered this lax standard for granting injunctive relief to include other elements, including the requirement of irreparable harm. *See eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 393 (2006) (applying traditional equitable principles to determine whether injunctive relief is appropriate); *see also Salinger v. Colting*, 607 F.3d 68, 79 (2d Cir. 2010) (holding that a presumption of irreparable harm when a plaintiff alleging copyright infringement is likely to succeed on the merits is “inconsistent with the principles of equity set forth in *eBay*”).

76. *Sun Microsystems, Inc.*, 188 F.3d at 1117.

77. *Id.*

78. *Id.* at 1124.

79. *Id.* at 1122–23.

80. *Id.* at 1122. Again, this presumption of irreparable harm is no longer applicable. Instead, a four-element test would be used. *Alliance for the Wild Rockies v. Cottrell*, 632 F.3d 1127, 1134 (9th Cir. 2011) (citing *Winter v. Natural Res. Def. Council*, 555 U.S. 7 (2008) (specifying that the four-element *Winter* test should be used in the Ninth Circuit)).

81. *Sun Microsystems, Inc.*, 188 F.3d at 1122–23.

82. *Id.* at 1122 (citing *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989)). The question of applicable law is not addressed until the court determines whether there was a breach of a condition or a covenant. *Id.*

83. It does not appear that this argument was presented on appeal. With the wide degree of latitude that the court gave in its remand, however, such an argument might have merited at least a footnote.

84. U.S. CONST. art. III, § 2, cl. 1.

85. Rory Ryan, *It’s Just Not Worth Searching for Welcome Mats with a Kaleidoscope and a Broken Compass*, 75 TENN. L. REV. 659, 663 (2008) (citing *Bender v. Williamsport Area Sch. Dist.*, 475 U.S. 534, 541 (1986); *Cary v. Curtis*, 44 U.S. 236, 245 (1845)).

86. *See, e.g., Osborn v. Bank of the U.S.*, 22 U.S. 738, 823 (1824).

87. *See id.* Because there was no statutory grant, however, federal courts did not have original jurisdiction, and these early Supreme Court decisions concerned appeals. Because the question here is the possible scope of the constitutional grant when it uses the language “arising under,” whether the procedural posture of the case was that of an appeal or an original action is immaterial.

88. *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 825 (2d Cir. 1964) (discussing *Osborn*, 22 U.S. at 822–827). The jurisdictional “grant” mentioned here is that of appellate review, but, again, that distinction is immaterial to the discussion of the scope of “arising under.”

89. *Id.* (citing *Romero v. Int’l Terminal Opening Co.*, 358 U.S. 354, 379 n.51 (1959)).



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90. *Wilson v. Sandford*, 51 U.S. 99, 101-02 (1850). This comment often provides examples from patent cases as well as copyright cases because (a) the exclusive jurisdiction statute covers both patents and copyrights, (b) patent law is frequently applied in the copyright arena, and (c) the differences in copyrights and patents are not implicated by the jurisdictional and choice of law issues addressed in this comment.

91. *Taylor v. Anderson*, 234 U.S. 74, 75 (1914).

92. *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 259 (1897).

93. *Id.*

94. *Id.*

95. 255 U.S. 180, 213 (1921) (Holmes, J., dissenting).

96. *Id.* at 214 (Holmes, J. dissenting).

97. 545 U.S. 308, 317 (2005).

98. *See id.* at 312-13 (quoting *Smith v. Kansas City Title & Trust Co.*, 255 U.S. 180, 199 (1921)).

99. *Id.* at 312-313.

100. *See id.* at 312; *Am. Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916); *Taylor v. Anderson*, 234 U.S. 74, 75 (1914).

101. *See Grable*, 545 U.S. at 312 (“This provision for federal-question jurisdiction is invoked by and large by plaintiffs pleading a cause of action created by federal law . . .”).

102. *Id.*

103. *Id.*

104. *Id.* at 313-14.

105. *Id.* at 319.

106. *Id.*

107. “The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to . . . copyrights. No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to . . . copyrights.” 28 U.S.C. § 1338(a) (2011).

108. Another distinction is the “Laws of the United States” language found in § 1331 compared to the “any Act of Congress” language in § 1338. The Supreme Court has held that the grant under § 1331 covers all laws of the United States, including common law, administrative acts, treaties, and all other recognized sources of federal law. The copyright formulation in § 1338, however, limits itself to Acts of Congress. This distinction has very little practical impact because copyright law springs directly from Congress. Therefore, this ostensible difference will not be discussed further. There are, of course, other differences, including the other types of intellectual property covered by § 1338.

109. § 1338(a).

110. This logic is based on a myopic view of § 1338(a) in isolation.

111. Technically, § 1338 was enacted prior to § 1331 (which Congress re-enacted in 1875 to give general federal question jurisdiction). Congress has had well over a century to change the language, however, and it has neglected to take that opportunity.

112. *See infra* Part III.A.1.

113. NIMMER, *supra* note 54, § 12.01[A], at 12-4.

114. *Am. Well Works Co.*, 241 U.S. 257, 260 (1916). The “creation test” is the name sometimes given to the manifestation of the well-pleaded complaint rule discussed *supra*.

115. *Id.* (“But whether it is a wrong or not depends upon the law of the state where the act is done, not upon the patent law, and therefore the suit arises under the law of the state.”).

116. *Id.* (“The state is master of the whole matter, and if it saw fit to do away with actions of this type altogether, no one, we imagine, would suppose that they still could be maintained under the patent laws of the United States.”).

117. *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828 (2d Cir. 1964). Judge Friendly listed the three possibilities for a claim arising under federal copyright law as follows:

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Mindful of the hazards of formulation in this treacherous area, we think that an action ‘arises under’ the Copyright Act if and only if the complaint is for a remedy expressly granted by the Act . . . or asserts a claim requiring construction of the Act . . . or, at the very least and perhaps more doubtfully, presents a case where a distinctive policy of the Act requires that federal principles control the disposition of the claim.

*Id.*

118. *See id.* at 824. A four-corners approach to statutory interpretation would be ambiguous, so it is important to look at how the statute has been used.

Simply as a matter of language, the statutory phrasing would not compel the conclusion that an action to determine who owns a copyright does not arise under the Copyright Act, which creates the federal copyright with an implied right to license and an explicit right to assign. But the gloss afforded by history and good sense leads to that conclusion as to the complaint in this case.

*Id.* at 825.

119. *Id.* at 826 (“Indeed, the case for an unexpansive reading of the provision conferring exclusive jurisdiction with respect to patents and copyrights has been especially strong since expansion would entail depriving the state courts of any jurisdiction over matters having so little federal significance.”).

120. *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473, 478 (1912) (citing *Wade v. Lawder*, 165 U.S. 624, 627 (1897)) (“The Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not of all questions in which a patent may be the subject-matter of the controversy. For courts of a State may try questions of title, and may construe and enforce contracts relating to patents.”).

121. Even if one were to assume that § 1331’s general federal question test, *see Smith v. Kansas City Title & Trust Co.*, 255 U.S. 180, 199 (1921), which is more expansive than the creation test, was applicable in a § 1338 context, the Friendly test goes further still.

122. *T.B. Harms*, 339 F.2d at 827–28 (“For a new and dynamic doctrine . . . instructs us that even in the absence of express statute, federal law may govern what might seem an issue of local law because the federal interest is dominant.”).

123. *Id.* at 827 (“Having thus found that appropriate pleading of a pivotal question of federal law may suffice to give federal jurisdiction even for a ‘state-created’ claim, we cannot halt at questions hinging only on the language of the Copyright Act.”).

124. *See Kansas City Title*, 255 U.S. at 199.

125. 5 F.3d 1410, 1413 (11th Cir. 1993).

126. *Id.*

127. *Id.* (citing *T.B. Harms*, 339 F.2d at 828).

128. *Id.* (citing *Goodman v. Lee*, 815 F.2d 1030 (5th Cir. 1987); *Topolos v. Caldewey*, 698 F.2d 991 (9th Cir. 1983); and *RX Data Corp. v. Dep’t of Soc. Servs.*, 685 F.2d 192 (2d Cir. 1982)).

129. *T.B. Harms*, 339 F.2d at 828 (emphasis added).

130. *See Schoenberg v. Shapolsky Publishers*, 971 F.2d 926, 932 (2d Cir. 1992), *abrogated by Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 352–55 (2d Cir. 2000).

131. *Id.* at 932–33. This comment places the discussion of merits before the discussion of jurisdiction in order to make this type of jurisdictional test understandable. As will be shown, courts have been forced into the same reversed sequence to resolve cases.

132. *Id.* at 932.

133. *Id.*

134. *Id.*

135. *Id.* at 932–33.

136. *Schoenberg*, 971 F.2d at 933.

137. *Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 353 (2d Cir. 2000).

138. *Id.*

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139. *Id.* at 354.

140. *Id.*

141. *Id.*

142. *Id.*

143. *Bassett*, 204 F.3d at 354–55. The structure of this comment mirrors this oddity: Copyright law sometimes requires courts to make extensive substantive determinations before deciding if jurisdiction is proper.

144. *Id.* at 352.

145. *Id.* at 347.

146. *Id.* at 349.

147. *Id.* at 348.

148. *Id.*

149. *Bassett*, 204 F.3d at 352 (citing *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828 (2d Cir. 1964)) (“When a complaint alleges a claim or seeks a remedy provided by the Copyright Act, federal jurisdiction is properly invoked.”).

150. 291 F.3d 839 (D.C. Cir. 2002).

151. *Id.* at 844.

152. *Bassett*, 204 F.3d at 350 n.4.

153. *Id.* (citing 28 U.S.C. § 1367(c) (2006)).

154. See Daniel E. Wanat, *Copyright and Contracts: The Subject Matter Jurisdiction of Federal Courts Under 28 U.S.C. § 1338(A)*, 11 DEPAUL-LCA J. ART & ENT. L. & POL’Y 361, 393–94 (2001).

155. *Id.* at 394–95.

156. See *supra* note 152 and accompanying text.

157. See *supra* Part II.B.3.b.

158. See *infra* Part III.

159. *Marbury v. Madison*, 5 U.S. 137, 163 (1803).

160. *Id.*

161. 204 F.3d at 347–56.

162. 291 F.3d at 844–47.

163. Again, this is problematic because § 1338’s *exclusive* jurisdiction means that if a federal court *can* assert jurisdiction, a state court *cannot*; the federal court is the *exclusive* forum for the claim. The line for exclusive jurisdiction can be clearly drawn in cases considering well-pleaded complaints, but consistency is much more difficult to achieve when attempting to draw the line in situations where a copyright claim is not asserted yet either interpretation of federal copyright laws or consideration of compelling federal policy interests is necessary.

164. Furthermore, this interpretation would prevent legal scholars and practitioners from criticizing § 1338 as a mere redundancy to § 1331.

165. Though courts will balance in the same fashion whether they use § 1331 or § 1338, jurisdictional decisions under § 1331 would not carry the baggage of “exclusivity” precedence, thereby allowing courts to make more case-by-case determinations. Even if § 1331 is deemed unnecessary to accomplish that goal, this comment suggests that copyright jurisdiction questions should be resolved by using the Friendly test consistently.

166. The number of cases that would be shifted to state court is uncertain, however, because an interpretation of the Copyright Act will often lead to a plausible claim that a right granted under the Act has been violated. If the claimant pleads as such, a federal court will still hear the complaint.

167. The important nuances created by the Copyright Act are little different than other foreign law interpretations that state courts, as courts of general jurisdiction, routinely have to answer.

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168. Of course, state courts faced with federal questions should try to answer the questions as a federal court would, much as a federal court must do when faced with a state question. For more information about this notion of split sovereignty in the United States, see the discussion of the Erie Doctrine, *infra*, note 194 and accompanying text.

169. Whether this type of abuse is at all prevalent is uncertain. *See* *Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 350 n.4 (2d Cir. 2000).

170. Such mechanisms include pre-trial hearings to determine jurisdiction, sanctions under Federal Rule of Civil Procedure 11, and case dismissal with or without prejudice.

171. *See Bassett*, 204 F.3d at 350 n.4 (“This [built in check against non-meritorious claims] is the risk that, once the federal court dismisses the copyright claim, it may decide to refuse supplemental jurisdiction over the remaining state law claims.”). This comment suggests that federal courts should adopt a policy of refusing residual supplemental jurisdiction unless the case has reached a juncture where such a refusal would be highly inefficient.

172. *See, e.g., Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1122 (9th Cir. 1999) (noting that “two sophisticated parties have negotiated a copyright license and dispute its scope”).

173. If experience shows that this level of formality would be oppressive to non-corporate copyright holders, Congress might decide to amend the statute to make distinctions between the default rules that govern consumers and those that govern companies, much like similar rules in the Uniform Commercial Code. Examples include sales contract modifications (U.C.C. § 2-209 (2005)) and the Implied Warranty of Merchantability (U.C.C. § 2-314 (2005)).

174. A rule choosing the opposite court at times would only transfer the problems of one court, acting outside its normal sphere of expertise, to another court. If a theoretical problem would exist either way, a procedural solution may be the best option available.

175. Preemption is dictated by the Supremacy Clause: “This Constitution, and the Laws of the United States . . . shall be the supreme Law of the Land . . .” U.S. CONST. art. VI, cl. 2.

176. *See generally* 17 U.S.C. § 106 (2006) (listing the exclusive rights afforded to a copyright owner).

177. A *Schoenberg*-type approach would not resolve the issue of jurisdiction until this point because only now can it be said definitively that this case arises under the Copyright Act. Of course, if the right *was* covered by the contract, the *Schoenberg* test would require courts to continue searching for jurisdiction.

178. To clarify the distinction between this analysis and a *Schoenberg* analysis, under *Schoenberg*, a federal court would only determine whether it had jurisdiction after it has made all of the evidentiary findings necessary to resolve the condition/covenant distinction and the question of rescission. Then, if there were no remaining federal questions, the court would dismiss the claim, as it never had jurisdiction in the first place.

179. This approach allows the federal law to function similar to default rules in other areas of law, such as various rule formulations under the Revised Uniform Limited Liability Company Act of 2006, or the Uniform Commercial Code’s extensive set of default rules. These rules include contract modification and the Implied Warranty of Merchantability, discussed *supra*, note 173, as well as various commercial paper rules in Article 4.

180. For example, family matters, property, estate and inheritance, public health, and corporations are typically governed by state law.

181. 17 U.S.C. §§ 101–102 (2006).

182. *Id.* §§ 106–106A.

183. This investigation will include the specific state’s case law, but one federal policy that must be considered is that the copyright owner keeps the rights that the owner does not explicitly license.

184. 17 U.S.C. §§ 502–513.

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185. *See, e.g.*, *Jacobsen v. Katzer*, 535 F.3d 1373, 1376 (Fed. Cir. 2008); *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1117 (9th Cir. 1999); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989).

186. 17 U.S.C. §§ 106–106A. Limitations and exclusions are listed in 17 U.S.C. §§ 107–122.

187. This important state contract policy has its place in copyright licenses, as will become more apparent in the next subsection, *infra* Part III.B.3.

188. *See, e.g.*, RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 187 (1988).

189. *See, e.g.*, RESTATEMENT (SECOND) OF CONTRACTS § 206 (1981).

190. *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938). *Erie* overturned the longstanding rule from *Swift v. Tyson*, 41 U.S. 1 (1842), which allowed federal judges to use federal common law when deciding diversity jurisdiction cases. *Erie*, 304 U.S. at 79–80. The *Erie* doctrine abolished general federal common law, and it held that federal judges must defer to the substantive state law, including the state’s common law, when deciding disputes arising from state claims:

Except in matters governed by the Federal Constitution or by acts of Congress, the law to be applied in any case is the law of the state. And whether the law of the state shall be declared by its Legislature in a statute or by its highest court in a decision is not a matter of federal concern. There is no federal general common law.

*Id.* at 78.

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