

**Texas Intellectual Property Law Journal**  
Fall 2004

Article

SETTLEMENT OF INFRINGEMENT CLAIMS BY COPYRIGHT CO-OWNERS

Henry L. Self III<sup>a1</sup>

Copyright (c) 2004 State Bar of Texas, Intellectual Property Law Section; Henry L. Self III

**Table of Content**

|  |    |
|--|----|
| Introduction   | 65 |
| I. The Basics  | 66 |
| II. The Problems                                     | 67 |
| A. Lone Wolf McQuade Associates v. CBS, Inc.         | 68 |
| B. SBK Catalogue Partnership v. Orion Pictures Corp. | 69 |
| C. MP3.com litigation                                | 70 |
| D. Leicester v. Warner Bros.                         | 71 |
| III. Potential Solutions                             | 73 |
| A. Retroactive Licenses                              | 73 |
| B. Tenancy In Common                                 | 76 |
| C. Patent Law  | 76 |
| D. Practical Considerations                          | 78 |
| 1. Licenses from Multiple Co-Owners                  | 78 |
| 2. Unintended Consequences                           | 79 |
| 3. Transaction Costs                                 | 80 |
| 4. Indispensable Parties                             | 81 |
| Conclusion   | 82 |

## Introduction

Recent litigation has raised a difficult and important question about the consequences of copyright co-ownership: whether a co-owner may settle claims for infringement of a jointly held copyright without the consent of some or all other co-owners.

Suppose that two individuals jointly own the copyright in a work of authorship. After one of the two sues a third party for infringement of the work, the defendant settles with that co-owner under an arrangement that includes a “retroactive license,” which purports to authorize any prior infringing use of the work by the defendant. Does this settlement thereafter absolve the alleged infringer of liability to \*66 the other copyright co-owner, on the theory that a joint owner of a copyright may unilaterally license use of the work? Or, should each co-owner be allowed to separately and independently enforce liability against the same defendant?

This is an important issue because its resolution may dramatically affect the structure and valuation of settlements. One who knows that he or she is effectively settling on behalf of all co-owners of the work will likely demand from the alleged infringer more than if settling only for his or her own proportional share. Absence of clarity in this realm can, and indeed does, have the unfortunate effect of co-owners unwittingly settling infringement claims on behalf of all co-owners for far too little without realizing it. This is a windfall to the defendant, who in effect receives a complete settlement for just a fraction of its full value.

No federal appellate court has yet offered a definitive resolution of this perplexing question and the few district courts to address the matter have reached divergent answers.<sup>1</sup> A satisfactory solution is difficult to find, as a number of arguments may be made both for and against allowing a settlement with one co-owner to cure all liability for infringement. This article attempts to identify and analyze some of those points, and concludes that the better rule is that a co-owner should not be able to unilaterally settle claims for infringement.

### I. The Basics

Joint ownership of a single work can come about in a number of ways,<sup>2</sup> probably the most common being joint authorship, i.e., where a “work is prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.”<sup>3</sup> “The authors of a joint \*67 work are co-owners of copyright in the work,”<sup>4</sup> each having an undivided interest in the entire property.<sup>5</sup>

Because an owner of a work cannot be held liable for infringement of his or her own copyright, each co-owner therefore has an independent right under United States law to unilaterally use the work or grant nonexclusive licenses to third parties for use of the work—even when another co-owner objects—subject to a duty to account to the other co-owners for any profits earned from licensing or exploiting the copyright.<sup>6</sup> In this regard, the relationship between or among joint owners is frequently described as a tenancy in common.<sup>7</sup> This may, at least to some extent, be varied by agreement between or among the co-owners of a copyright: “An agreement between joint owners that no one of them shall have the right to license the work without the consent of the others will be binding on the parties to the agreement and will also bind any third party licensee taking with notice of such a restriction.”<sup>8</sup>

On the other hand, not surprisingly, one co-owner of a copyright (while free to independently alienate his or her own interest in the work) cannot transfer the interest of another co-owner without the consent of that other co-owner.<sup>9</sup> It is also sometimes said that one co-owner may not license the jointly owned work in a manner that effectively destroys the work by exhausting its value.<sup>10</sup>

### II. The Problems

What case law has not addressed until recently, however, is whether a co-owner is (or should be) able to settle claims for infringement of a jointly held copyright by third parties without the consent of some or all of the other co-owners. Generally, as noted above, a copyright co-owner cannot infringe his or her own work. It follows then that a license to the defendant from one joint owner will be an effective defense to an infringement action brought by another joint owner.<sup>11</sup> This \*68 is so even if the licensing co-owner collects only a portion of the full license value from the defendant.<sup>12</sup> But a prospective license authorizing future use is obviously not synonymous with a settlement agreement absolving one of liability for past infringement, and need not necessarily be treated similarly by the law.

Under the law generally applicable to releases, “if a plaintiff has not agreed to a settlement and corresponding release,” he is not bound by the terms of that release.<sup>13</sup> More fundamentally, one is usually not required to abide by a contract to which he or she is not a party.<sup>14</sup> Should the rules be any different with respect to joint copyright owners?<sup>15</sup>

Courts will have to decide how to handle the difficult situation where an alleged infringer of a work presents a “retroactive license” from another owner of the same work concerning the same allegedly infringing conduct. Courts that have already pondered this perplexing question have pursued different analyses and arrived at various results.

#### **A. Lone Wolf McQuade Associates v. CBS, Inc.**

A New York federal district court concluded in 1997 that a retroactive license from a joint owner can, in fact, cure past infringements.<sup>16</sup> In *Lone Wolf McQuade Associates v. CBS, Inc.*, the plaintiff had purchased from Orion Pictures Corp. in 1983 “all right, title and interest in and to all copyrights in the film,” although the purchase agreement reserved to Orion certain rights, including the rights to make a television special and series based on the film.<sup>17</sup> In 1995, the plaintiff brought suit against CBS, claiming that one of CBS’s television series, *Walker, Texas Ranger*, infringed the copyright in the plaintiff’s movie.<sup>18</sup> Later that same year, Orion intervened in the action as a plaintiff and ultimately settled its claims against CBS in \*69 1996. In 1997, CBS filed a motion for summary judgment based in part on its settlement agreement with Orion, which purported to grant to CBS a retroactive license from January 1, 1990, in perpetuity to use the motion picture in connection with the defendant’s television series.<sup>19</sup>

The court dismissed the copyright claims against CBS, saying: “the plaintiff argues that Orion’s retroactive license in favor of CBS does not cure any infringement that occurred prior to the date of the grant of the license. However, a retroactive license can cure past infringements.”<sup>20</sup> Accordingly, because CBS obtained a valid retroactive license to use *Lone Wolf McQuade* in connection with its television special and its television series, *Walker, Texas Ranger*, the court granted the defendant’s motion to dismiss the plaintiff’s copyright claims involving the broadcast of those works on broadcast, pay, and cable television.<sup>21</sup>

#### **B. SBK Catalogue Partnership v. Orion Pictures Corp.**

For authority supporting its assertion that a retroactive license from a copyright co-owner can cure past infringements, the *Lone Wolf* court relied primarily on the New Jersey federal district court’s 1989 decision in *SBK Catalogue Partnership v. Orion Pictures Corp.*<sup>22</sup> There, the composers of a musical composition and their manager filed a copyright infringement suit against Orion Pictures Corp. in 1985 based on allegations that part of the soundtrack to one of Orion’s films infringed their song’s copyright.<sup>23</sup> Claiming a 50 percent copyright ownership and exclusive publishing right in the composition, the song’s publisher, SBK Catalogue Partnership (the “Partnership”) intervened in 1986.<sup>24</sup>

In November 1987, after months of settlement negotiations, a settlement agreement was executed by the Partnership and the Orion defendants. The agreement contemplated a retroactive written license for the use of the musical composition, “Pepino”; however, execution of the terms of the settlement is contingent upon a favorable resolution of this case. Thus, no written license has been prepared, and no fees have been paid to date. The Orion defendants then moved for summary judgment on the infringement claims brought against them by the composers. On February 1, 1988, finding that the Partnership was entirely within its rights to grant a retroactive license to the Orion defendants and that an authorization from one joint copyright owner is an effective defense to an infringement \*70 action brought by another joint owner, the court granted the Orion defendants’ motion, dismissing the composers’ claims against them.<sup>25</sup>

#### **C. MP3.com litigation**

These issues came up again most recently in a series of copyright infringement suits brought against online music service MP3.com.

Utilizing this technology, defendant MP3.com, on or around January 12, 2000, launched its “My.MP3.com” service, which is advertised as permitting subscribers to store, customize and listen to the recordings contained on their CDs from any place where they have an Internet connection. To make good on this offer, defendant purchased tens of thousands of popular CDs in which plaintiffs held the copyrights, and, without authorization, copied their recordings onto its computer servers so as to

be able to replay the recordings for its subscribers.<sup>26</sup> The major American record labels took note of this activity and promptly brought suit against MP3.com in the Southern District of New York for infringement of copyrights in their sound recordings. The record labels quickly obtained partial summary judgment against the Internet music company in May 2000 on the basis that its initial, unauthorized “ripping” of MP3 files from CDs violated the plaintiffs’ exclusive reproduction right under the Copyright Act.<sup>27</sup> In October and November of 2000, Sony, BMG, Warner Bros. and EMI individually settled with MP3.com for undisclosed amounts (estimated at approximately \$20 million for each plaintiff).<sup>28</sup> Universal held out and eventually settled for \$53.4 million.<sup>29</sup>

With the defendant’s liability apparently out of the way, the proverbial floodgates opened as literally dozens of music publishers and independent record labels filed their own infringement suits against MP3.com seeking liability for the same activities.<sup>30</sup> However, several of the publishers’ suits ran into complications when MP3.com raised as a defense that it had obtained a retroactive license in October 2000 as part of a settlement agreement with The Harry Fox Agency (“HFA”) and its parent company, National Music Publishers’ Association (“NMPA”).<sup>31</sup> The \*71 same district court judge who previously decided the major labels’ suit against MP3.com ruled that its agreement with HFA operated to settle all claims for infringement by the defendant of any songs in the agency’s repertoire--a great many of which were co-owned by independent publishers unaffiliated with HFA/NMPA.<sup>32</sup>

Reviewing the language of the HFA settlement, which stated that any songs “owned or controlled by the HFA-Releasors which were previously copied by MP3.com in connection with its My.MP3.com service shall be deemed to have been copied with each of the HFA-Releasor’s respective consent,” the court concluded that this language was, in effect, a valid retroactive license.<sup>33</sup> Because the “HFA-Releasors” included co-owners of hundreds of the compositions that were at issue in a later suit by independent publishers, the court decided that the settlement precluded other co-owners from bringing suit against MP3.com for those jointly owned songs.<sup>34</sup> The court did comment in a footnote, however, that while the co-owners were precluded from suing MP3.com, they could proceed in an accounting action against the settling HFA-Releasors.<sup>35</sup>

The same court later reaffirmed its position in a published decision in a suit by another independent publisher against MP3.com.<sup>36</sup>

Neither the absence of the word “license,” nor extrinsic evidence, nor the custom and practice of the industry alters the unambiguous meaning of the . . . provision. Nor is it significant that the settlement agreement does not explicitly refer to non-signatory co-publishers, for “a license from a co-holder of a copyright immunizes the licensee from liability to the other co-holder for copyright infringement.”<sup>37</sup>

#### **D. Leicester v. Warner Bros.**

While a retroactive license from a co-owner might cure past infringements in New York and New Jersey federal courts, the opposite may be true in at least one courtroom of the Central District of California. In *Leicester v. Warner Bros.*, an unofficially published 1998 decision, a district court rejected the proposition that an \*72 earlier copyright infringement can be retroactively validated by a later license from a co-owner.<sup>38</sup>

Andrew Leicester was commissioned in 1989 to design a sculpture affixed to the exterior of a building in downtown Los Angeles.<sup>39</sup> In 1994, R & T Development Corporation (the owner of the building)--without consulting the plaintiff or the building’s architect--signed a contract granting Warner Bros. broad permission to make replicas or pictorial representations of the R & T property in connection with the making of the motion picture *Batman Forever*.<sup>40</sup> Leicester brought a copyright infringement suit against Warner Bros. in 1995 after the studio included images of the sculpture in the movie.<sup>41</sup>

In 1996, after the suit had been proceeding for about a year and a half, the building’s architect (John Hayes) signed a document “that purported to grant a license to R & T to permit reproductions of the sculpture and purported to allow R & T to sublicense that right.”<sup>42</sup> Although the district court determined the architect and his company were joint authors with the plaintiff regarding the sculpture, it nevertheless rejected the defendant’s argument that the attempted retroactive grant of the license validated R & T’s 1994 sublicense to Warner Bros., which the defendant claimed defeated Leicester’s infringement suit.<sup>43</sup> The court rejected this point on two independent grounds:

First, the co-owner of a copyright may, without the consent of the other owner, grant only a non-exclusive license. Accordingly, any license granted by Mr. Hayes to R & T was non-exclusive and therefore does not allow R & T to grant a

sublicense under it. R & T, which already had a non-exclusive license for photos under its contract with Mr. Leicester, did not acquire anything additional by a non-exclusive license conveyed to it by Mr. Hayes. The portion of the assignment which in addition purports to allow R & T to sublicense others (here read Warner Bros.) is invalid for the same reason that R & T could not sublicense under its non-exclusive license from Mr. Leicester.

The court rejects the defense argument for another reason. At the time Warner Bros. took the pictures and made pictorial reproductions of [the sculpture], it had no license to do so. It's [sic] actions at that time, if an infringement of Mr. Leicester's copyright, could not be later validated by the grant of the license. Even assuming Mr. Hayes could grant a license directly to Warner Bros. (which he has not purported to do), he has still \*73 not done so. The court rejects the idea that the earlier infringement can be retroactively validated by the later grant of the license.<sup>44</sup> The Ninth Circuit affirmed the district court decision in its entirety, though the appellate court did not reach the retroactive license issue.<sup>45</sup>

A federal district court in Tennessee recently discussed and followed Leicester's conclusion regarding retroactive licensing, but distinguished the situation before it on the grounds that the "retroactive licenses" in its case were actually memorializations of a valid oral license that preceded the alleged infringement.<sup>46</sup>

### III. Potential Solutions

#### A. Retroactive Licenses

When confronting the question of whether a co-owner should be able to unilaterally settle claims for infringement of a jointly-held copyright, the easiest answer may be to simply label the settlement a "retroactive license" and then apply the now familiar and undisputed rule that a license from just one co-holder of a copyright immunizes the licensee from liability for infringement, as did the court in the MP3.com cases.<sup>47</sup> Quoting a Sixth Circuit patent licensing decision, the MP3.com court reasoned that "a release can, in certain circumstances, have the effect of and be construed as a license."<sup>48</sup> What the court failed to discuss at any length, however, was what those "certain circumstances" are or should be.<sup>49</sup>

A cursory analysis that routinely applies rules for licensing to settlement agreements might assume too much; it fails to take into account some of the important distinctions between prospective licensing for future use and retroactive settlement for past use.

**\*74** When parties negotiate a license to use a copyright, they are often bargaining in the context of a free and competitive market where fair market values can be somewhat approximated by reference to similar licenses for analogous uses.<sup>50</sup> But when parties negotiate a settlement agreement, they are in essence bargaining against an enormous uncertainty regarding the variable amount of damages and profits that a jury might award<sup>51</sup> and/or the notoriously broad discretion of federal judges in assessing statutory damages,<sup>52</sup> as well as the possibility of injunctive and other relief.<sup>53</sup> Settling parties may also be expected to factor into their assessment the potential savings to be realized by avoiding the costs (economic, temporal, and otherwise) of continuing litigation.

Sometimes, if a copyright owner knows that no substitute for the work in question will suffice, the owner can hold out for more advantageous licensing terms, recognizing that the licensee needs to use that particular copyright.<sup>54</sup> But if there are a number of close substitutes for the would-be licensor's work (as there usually are), a prospective licensee remains free to walk away from the bargaining table and instead try to acquire another work that suits the licensee's needs equally well.<sup>55</sup> By contrast, where parties are negotiating a settlement agreement, the circumstances invariably resemble the former scenario. Because the use has already been made, the alleged infringer has no option other than negotiating for the copyright that was allegedly infringed.

Moreover, equating settlement with licensing could incentivize copyright infringement by placing the infringer on footing equal to or even greater than that of law-abiding licensees. The approach adopted by the Southern District of New York in Lone Wolf and the MP3.com decisions, in essence, leaves one free to infringe a jointly owned copyright unless and until caught-in which case, the infringer need only find and pay off the lowest bidding co-owner, which results in complete absolution of liability to any co-owner. Although one might legally be allowed to do the same when licensing, the reality is that, as discussed infra, many prudent licensees first get clearance from--and pay licensing fees to --all co-owners of a work

before \*75 using it.<sup>56</sup> Consequently, the infringer may in some ways make out better than does a licensee under the New York federal courts' position regarding a retroactive license from a co-owner.

A more basic question one might also ask is whether the euphemistic notion of a "retroactive license" should itself be validated under copyright law at all. One reported decision might suggest that it should not.<sup>57</sup> In 1985, the holders of copyrights in musical compositions brought a class action against Showtime and The Movie Channel for their allegedly infringing use of plaintiffs' songs from 1982 to 1984, during which time the defendants had allowed their ASCAP licenses to expire while ASCAP was negotiating a licensing scheme directly with cable operators nationwide.<sup>58</sup> Showtime and The Movie Channel included among their affirmative defenses that, on April 4, 1984, they had made a written application to ASCAP to become officially licensed once again and had instituted a fee determination proceeding in the district court seeking a prospective fee determination and a retroactive fee rate.<sup>59</sup> The court dismissed the affirmative defense, characterizing the defendants' attempt to obtain a retroactive license as "unprecedented" and said that this defense lacked any "basis in logic" because the license was never granted.<sup>60</sup> The court continued that "recognition of the subsequent filing of an application for a 'retroactive' license as a defense for prior infringing conduct would eviscerate the protections inherent in the copyright scheme."<sup>61</sup>

Even more fundamentally, perhaps one should begin by re-examining the propriety of an underlying rule that allows any one co-owner to use or license the work without the assent of other co-owners, subject only to a duty to account. The late professor Melville B. Nimmer, widely regarded as one of the preeminent scholars of United States copyright law, told Congress that he would abandon this existing concept and "would rather adopt the unitary standard suggested whereby the consent of all co-owners is required for use or license of the work."<sup>62</sup> As explained below, this alternative standard would be in accord with the copyright law of virtually all other nations and might better fit the needs and realities of our modern world.

#### **\*76 B. Tenancy In Common**

It might be tempting to rely on an analogy to real property law to find answers, as courts have done in the past. As noted above, joint owners of a copyright are frequently said to be tenants in common with respect to the work.<sup>63</sup> Given that tenants in common of real property cannot settle claims for damages to the commonly held property without the consent of all other common tenants,<sup>64</sup> one might conclude that a similar rule should therefore apply to copyright co-owners.

Keep in mind, however, that the analogy to a tenancy in common is just that: an analogy. In the words of one court, "the rights of the parties should not be determined by the name tag given to their relationship. . . . We may call them tenants in common, but there is nothing magical in that description and the incidents of their relationship do not necessarily follow from that description."<sup>65</sup> For a number of reasons, it is probably not wise to automatically and uniformly cross-apply the law of joint tenancy to copyright co-ownership.<sup>66</sup>

#### **C. Patent Law**

Because statutory copyright law in the United States has been "conspicuously silent on the subject of co-ownership . . . . [.] the courts have turned to the fields of law which seem the most analogous, and the rules controlling the use of copyrights by co-owners have been arrived at by analogy to the law of tenancies in common and, to a lesser degree, to the law of patents."<sup>67</sup> In fact, the very first American case to conclude that co-owners have equal and independent rights to use and exploit their work arrived at this result in 1874 by relying on patent law.<sup>68</sup>

Under long-established United States law, "the rights of a patent co-owner, absent agreement to the contrary, do not extend to granting a release that would defeat an action by other co-owners to recover damages for past infringement."<sup>69</sup> As one court wrote over a century ago: "It is not thought that the execution of an assignment and a release by one of the joint owners destroys the co-owner's right to recover his damages from the defendant. To so hold would be to push the supposed \*77 analogy to the law of real property altogether too far."<sup>70</sup> The court described such a proposition as "a violation of the fundamental principles of law, and contrary to natural justice."<sup>71</sup>

The similarities between patents and copyrights, as well as their governing bodies of law, may sometimes justify importation and imposition of principles of patent law into the realm of copyright, and vice versa. Like joint copyright owners, co-owners of patents may (in the absence of an agreement to the contrary) each independently "make, use, offer to sell, or sell the

patented invention within the United States, or import the patented invention into the United States,” without the consent of the other co-owners.<sup>72</sup>

However, unlike joint copyright owners, patent owners have no duty to account to their co-owners for proceeds realized from such unilateral exploitation of the commonly owned intellectual property.<sup>73</sup> Furthermore, under substantive patent law, “all co-owners must ordinarily consent to join as plaintiffs in an infringement suit.”<sup>74</sup> As a result, “one co-owner has the right to impede the other co-owner’s ability to sue infringers by refusing to voluntarily join in such a suit.”<sup>75</sup>

Due to these important distinctions, it is unwise to expect patent law to answer the question of whether a copyright co-owner should be able to unilaterally settle claims for infringement of a jointly held copyright-- especially since the rule applied to patents was founded in part on the manifest injustice that would otherwise result from the absence of a duty to account among co-owners of patents.<sup>76</sup> By contrast (as the MP3.com court noted), while copyright co-owners may be precluded from suing the defendant who obtains a retroactive license, they could still in theory pursue an accounting action against the settling co-owner(s) for their proportionate shares of the settlement amount.<sup>77</sup>

#### **\*78 D. Practical Considerations**

Any resolution should also take into account the actual practices, economies, and perceptions of modern media industries rather than being developed in an academic legal vacuum. Courts must recognize how parties behave and what they expect in order to reach an appropriate solution.

##### **1. Licenses from Multiple Co-Owners**

For example, although a license from only one co-owner should in legal theory be sufficient (in the absence of a contrary agreement among co-owners) to authorize future use of a work by a third party under United States law, practically speaking, many sophisticated licensees in this country nonetheless obtain clearance from--and pay licensing fees to--all co-owners of a work. This is in part because, outside the United States, a license is not valid in most foreign jurisdictions unless all joint owners are parties to it.<sup>78</sup> As “advances in worldwide telecommunications are making the economies of countries increasingly interdependent . . . licensees are increasingly demanding that the territories of . . . licenses be made worldwide. If the territory of the license is worldwide, the [licensee] must insist upon receiving the written permission from all of the co-owners” of the copyright.<sup>79</sup> Furthermore, sophisticated licensees are usually reluctant to rely on the assurances of just one co-owner that there is no contrary agreement among the co-owners regarding licensing of the work. An entertainment industry commentator jokes that one of the biggest lies in Hollywood is “Don’t worry, I control the rights.”<sup>80</sup> Licensees hesitate to take an unnecessary risk that another co-owner could later validly object to the intended use, potentially running up its ultimate cost and stalling or even stopping the project altogether.

The MP3.com court must have been well aware of this aspect of the music industry, as the owners, administrators and officers of over 30 independent music publishers submitted declarations describing the widely recognized industry practice that effectively allows each co-publisher to retain a separate right to license, administer, and control its share of a copyright unless all agree to appoint an exclusive administrator to control all shares.<sup>81</sup> The court disregarded such evidence, however, when ruling that MP3.com’s settlement with The Harry Fox Agency retroactively licensed all shares in songs that were only partially owned by HFA- \*79 affiliated publishers. “While plaintiffs also contended that this is contrary to industry custom and usage, the plain language of the agreement is unequivocal and therefore controlling,” the court ruled, purportedly guided by New York contract law.<sup>82</sup>

##### **2. Unintended Consequences**

The court also ignored a signed declaration by the senior vice president of legal affairs at National Music Publishers’ Association (parent company of HFA) who participated in the settlement negotiations with MP3.com.<sup>83</sup> He claimed, among other things, that (1) the settlement agreement was intended by the parties to provide solely for the release of claims by HFA publisher-principals who opted into the settlement, (2) the agreement was not to release the claims of non-HFA music publishers, and (3) HFA and its publisher-principals would have demanded substantially larger amounts of money if the parties had intended to settle the claims of non-HFA publishers.<sup>84</sup> “MP3.com’s contrary position seems to be an attempt to obtain through litigation what MP3.com did not get at the bargaining table,” he said.<sup>85</sup> Regardless, the court ruled that no evidence of contrary industry custom and usage could override the unambiguous plain language of the settlement

agreement.<sup>86</sup>

Such blind adherence to state contract law fails to take into account that, as seen in the MP3.com cases, enforcement of the Lone Wolf rule may result in even sophisticated copyright proprietors (such as HFA/NMPA) unwittingly settling infringement claims on behalf of all of their co-owners for far too little money--believing that they were only settling for infringement of (and negotiating payment for) their own proportional shares of jointly owned works. Defendants like MP3.com could therefore receive a windfall by purchasing a complete settlement for just a fraction of its full value. The non-settling joint owner(s) are then left out in the cold, with no remedy aside from the right to seek an accounting for their proportional share of the settlement funds, no matter how paltry the sum might be.

Some have argued that an accounting alone is not adequate protection for injured co-owners in all cases and urge that courts should, under appropriate circumstances, entertain actions among co-owners for other causes of action such as conversion \*80 or breach of fiduciary duty.<sup>87</sup> Courts have been reluctant to do so, however. Conversion claims based on allegedly wrongful use of works of authorship (as contrasted with conversion of a physical copy or phonorecord<sup>88</sup>) are typically preempted by the Copyright Act.<sup>89</sup> Neither will an action for breach of fiduciary duty frequently lie among copyright co-owners who are not joint authors--no matter how far below market value one of them may undersell a nonexclusive license for the jointly owned work--because, in a majority of jurisdictions, tenants in common are not fiduciaries per se unless they received their interests in the property at the same time, such as through a common conveyance.<sup>90</sup> Accounting therefore often tends to be the exclusive remedy as among aggrieved co-owners of copyrights, despite its potential inadequacy in any given situation.<sup>91</sup>

### 3. Transaction Costs

Furthermore, even the exclusive remedy of accounting might in practice turn out to be impracticable under some circumstances due to the transaction costs that may be incurred.

By way of illustration, in the MP3.com litigation, despite the court's suggestion that the independent publishers might seek accountings from each of the settling HFA-releasers,<sup>92</sup> the realities of licensing economics probably rendered this apparent consolation illusory in practice. HFA agreed to accept from MP3.com a payment of up to \$15 million in settlement of past damages, depending on the number of HFA publisher-principals who opted out of the settlement.<sup>93</sup> Apportioned equally among the hundreds of thousands of compositions infringed by MP3.com that were in the HFA repertoire and thus ensnared by the HFA settlement, this probably amounted to just a few dollars per song paid by HFA to its affiliates. Because the transaction costs to non-HFA-affiliated publishers of ascertaining, \*81 locating and collecting payment from each HFA-affiliated co-owner could quickly eclipse their proportional shares of the per-song settlement amounts, the accounting remedy-- while sound in legal theory--would be cost prohibitive in practice.

Thus, under certain circumstances, allowing a single copyright co-owner to unilaterally settle claims for prior infringement can actually deprive all other co-owners of any right to enforce their own infringement claims and leave them without any practical recourse against the alleged infringer or the settling co-owner.

### 4. Indispensable Parties

If courts continue to enforce a rule that permits just one co-owner to settle on behalf of the other joint owners of a work, they might try to avoid some of these attendant injustices by requiring the joinder of all joint owners in any action against a third party for copyright infringement.

Under the Copyright Act, courts are allowed discretion to "require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright" in an infringement action.<sup>94</sup> A number of cases have held that co-owners of a work were indeed indispensable parties in an infringement action brought by one of the co-owners.<sup>95</sup> Additionally, several courts have concluded that, where a defendant in an infringement action raises as a defense a license from a third party (thereby raising as an issue the validity of the copyright held by such third party), such third party is an indispensable party in an action against the licensee.<sup>96</sup>

Deeming joint owners indispensable parties is not a complete solution to the problems raised by allowing copyright co-owners to unilaterally settle infringement claims, however, because an untold number of infringement claims are privately settled short of litigation and never arrive before the courts. The inherent danger of unintended consequences remains, as one

co-owner could still extinguish the rights of all joint owners by settling out of court what the co-owner incorrectly thought was merely a claim for infringement of his or her proportional share of the work.

## **\*82 Conclusion**

Courts ultimately need to determine what is best for copyright rather than trying to analogize to and rely on other seemingly similar areas of law. Taking into account the realities of our modern, technologically driven world as well as the expectations and practices of the parties who operate within it, it appears that the better-reasoned rule would not permit co-owners to settle claims for infringement of jointly held copyrights without the consent of some or all of the other co-owners. This rule more closely comports with the expectations of copyright proprietors and better ensures fair results to absentee co-owners by reserving their ability to later vindicate their own, independent rights under copyright law.

### Footnotes

<sup>1</sup> B.J., University of Missouri-Columbia, 1999; J.D., UCLA School of Law, 2002. Mr. Self is an associate at the entertainment litigation firm of Lavelly & Singer Professional Corporation in Los Angeles, California, where he specializes in copyright, trademark, defamation, and privacy law. The author is grateful to Bruce E. Van Dalsem, a copyright litigator with the Los Angeles litigation firm of Gradstein, Luskin & Van Dalsem, for his contributions to this article. Mr. Self and Mr. Van Dalsem each represented independent music publishers in copyright infringement litigation against MP3.com, Inc.

<sup>2</sup> The Ninth Circuit acknowledged this question in 1978 but had no opportunity to reach the merits of the issue in the case before it at that time. *Pye v. Mitchell*, 574 F.2d 476, 482 n.5 (9th Cir. 1978).

<sup>3</sup> Melville B. Nimmer & David Nimmer, 1 Nimmer on Copyright § 6.01 (2004) (noting a half-dozen different circumstances that can result in co-ownership of a copyright). See also Al Kohn & Bob Kohn, *Kohn on Music Licensing* 407-10 (3d ed. 2002) (illustrating typical co-ownership scenario with respect to music).

<sup>4</sup> 17 U.S.C. § 101 (2004) (defining “joint work”).

<sup>5</sup> *Id.* § 201(a).

<sup>6</sup> *Childress v. Taylor*, 945 F.2d 500, 505 (2d Cir. 1991).

<sup>7</sup> See *Oddo v. Ries*, 743 F.2d 630, 633 (9th Cir. 1984) (citing *Meredith v. Smith*, 145 F.2d 620, 621 (9th Cir. 1944)); *Morrill v. Smashing Pumpkins*, 157 F. Supp. 2d 1120, 1126 (C.D. Cal. 2001).

<sup>8</sup> *Davis v. Davis*, 35 Cal. Rptr. 281, 282 (Ct. App. 1963) (“Holding an undivided interest in property is the very essence of tenancy in common.”). See H.R. Rep. No. 94-1476, at 121 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5736.

<sup>9</sup> 1 Nimmer, *supra* note 2, § 6.10[B] (citing *Clifford Ross Co. v. Nelvana, Ltd.*, 710 F. Supp. 517, 520 (S.D.N.Y. 1989), aff’d mem., 883 F.2d 1022 (2d Cir. 1989); *Meredith v. Smith*, 145 F.2d 620 (9th Cir. 1944)); see also A.E. Korpela, *Annotation, Rights and Remedies of Co-Owners of Copyright*, 3 A.L.R.3d 1301 § 5[f] (1965).

<sup>10</sup> See *Crosney v. Edward Small Prods., Inc.*, 52 F. Supp. 559, 561 (S.D.N.Y. 1942).

<sup>11</sup> See *Shapiro, Bernstein & Co. v. Jerry Vogel Music Co.*, 73 F. Supp. 165, 168 (S.D.N.Y. 1947).

- <sup>11</sup> Batiste v. Island Records, Inc., 179 F.3d 217, 224 (5th Cir. 1999) (quoting 1 Nimmer, *supra* note 2, § 6.10). See also Piantadosi v. Loew's Inc., 137 F.2d 534, 537 (9th Cir. 1943).
- <sup>12</sup> Hustlers, Inc. v. Thomasson, 253 F. Supp. 2d 1285, 1290 (N.D. Ga. 2002) (rejecting argument that co-owner license defense is only available where defendant pays 100% of the copyright royalty to the licensing co-owner). In such a situation, the licensor is legally obligated to account to the other joint owners for their proportional shares of whatever amount the defendant paid. *Id.*
- <sup>13</sup> 66 Am. Jur. 2d Release § 34 (2004) (citing U.S.A.C. Transport, Inc. v. Corley, 202 F.2d 8 (5th Cir. 1953)).
- <sup>14</sup> On the other hand, discharge by one of several joint obligees generally operates as a discharge of the joint right of all the obligees against the released obligor. Restatement (Second) of Contracts § 299 (1981); Ulloa v. Guam Econ. Dev. Auth., 580 F.2d 952, 957-58 (9th Cir. 1978). Of course, liability for copyright infringement is an “obligation” created by statute, not contract.
- <sup>15</sup> See Avner D. Sofer, *Joint Authorship: An Uncomfortable Fit with Tenancy in Common*, 19 Loy. L.A. Ent. L.J. 1, 2-3 (1998) (“Thus far, courts ... have found more creative ways of dealing with the problems associated with joint authorship, most notably relying on the more bright-line law of contracts.”).
- <sup>16</sup> Lone Wolf McQuade Assocs. v. CBS, Inc., 961 F. Supp. 587, 597-99 (S.D.N.Y. 1997).
- <sup>17</sup> *Id.* at 591 (referring to the film *Lone Wolf McQuade* (Lone Wolf McQuade Associates 1983)).
- <sup>18</sup> *Id.* at 590.
- <sup>19</sup> *Id.*
- <sup>20</sup> *Id.* at 597-98 (citing *SBK Catalogue P'ship v. Orion Pictures Corp.*, 723 F. Supp. 1053, 1059 (D.N.J. 1989)). Cf. *Hanson PLC v. Metro-Goldwyn-Mayer Inc.*, 932 F. Supp. 104, 105-06 (S.D.N.Y. 1996).
- <sup>21</sup> *Id.* at 598. See also *Johnson v. Tuff-N-Rumble Mgmt.*, No. Civ. A. 99-1374, 2000 WL 1808486, at \*1 (E.D. La. Dec. 8, 2000) (applying and following *Lone Wolf*); 1 Nimmer, *supra* note 2, § 12.02[B] (interpreting *Lone Wolf* to hold that “an infringer can extinguish its liability by obtaining a retroactive assignment from one of the copyright owners”) (emphasis added)).
- <sup>22</sup> *SBK Catalogue P'ship v. Orion Pictures Corp.*, 723 F. Supp. 1053, 1059 (D.N.J. 1989).
- <sup>23</sup> *Id.* at 1057-58.
- <sup>24</sup> *Id.* at 1058-59.
- <sup>25</sup> *Id.* at 1059.
- <sup>26</sup> *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 350 (S.D.N.Y. 2000).
- <sup>27</sup> *Id.* at 350-53.

28 Amy Harmon, Deal Settles Suit Against MP3.com, N.Y. Times, Nov. 15, 2000, at C1.

29 Id. The court approved the settlement on November 14, 2000, minutes before the final trial phase was scheduled to begin, at which the plaintiffs would have attempted to show the number of CDs that qualified for statutory damages set by the court at \$25,000 per CD.

30 E.g., TeeVee Toons, Inc. v. MP3.com, Inc., 134 F. Supp. 2d 546 (S.D.N.Y. 2001). MP3.com was “collaterally estopped from denying that its My.MP3.com service willfully infringed the copyrights applicable to the sound recordings and musical works copied by defendant for that service.” Id. at 546.

31 HFA is the leading mechanical licensing, collections, and distribution agency for music publishers in the United States. Its activities include promoting copyrighted works, administering copyrights, collecting fees from copyright licensees, and remitting royalties to songwriters on behalf of the more than 27,000 publishers it represents. For more information, visit [harryfox.com](http://harryfox.com) and [nmpa.org](http://nmpa.org).

32 Copyright.net Music Publ’g LLC v. MP3.com, No. 01 Civ. 7321, 2003 WL 740757, at \*1 (S.D.N.Y. Mar. 4, 2003). See also Copyright.net Music Publ’g LLC v. MP3.com, 256 F. Supp. 2d 214, 217 (S.D.N.Y. 2003).

33 Copyright.net, 2003 WL 740757, at \*1.

34 Id. (citing 1 Nimmer, *supra* note 2, § 6.10; McKay v. Columbia Broad. Sys., Inc., 324 F.2d 762, 763 (2d Cir. 1963); Werbungs Und Commerz Union Austalt v. LeShufy, No. 84 Civ. 7393, 1987 WL 33618, at \*2 (S.D.N.Y. Dec. 24, 1987)).

35 Id. at \*1 n.1.

36 Country Rd. Music, Inc. v. MP3.com, Inc., 279 F. Supp. 2d 325, 329 (S.D.N.Y. 2003).

37 Id. (quoting McKay v. Columbia Broad. Sys., Inc., 324 F.2d 762, 763 (2d Cir. 1963)).

38 Leicester v. Warner Bros., 47 U.S.P.Q.2d (BNA) 1501, 1506 (C.D. Cal. 1998).

39 Id. at 1503.

40 Id. at 1504.

41 Id.

42 Id. at 1506.

43 Id.

44 Leicester, 47 U.S.P.Q.2d at 1506. The court went on to decide that Warner Bros. did not infringe Leicester’s copyright, however, because section 120(a) of the Copyright Act exempts pictorial representations of architectural works from copyright infringement. Id. at 1508-9.

<sup>45</sup> Leicester v. Warner Bros., 232 F.3d 1212, 1214 (9th Cir. 2000).

<sup>46</sup> See Bridgeport Music, Inc. v. Dimension Films, 230 F. Supp. 2d 830, 837 (M.D. Tenn. 2002), aff'd in part and rev'd in part, 383 F.3d 390 (6th Cir. 2004).

<sup>47</sup> Country Rd. Music, Inc. v. MP3.com, Inc., 279 F. Supp. 2d 325, 329 (S.D.N.Y. 2003) (citing McKay v. Columbia Broad. Sys., Inc., 324 F.2d 762, 763 (2d Cir. 1963)).

<sup>48</sup> Copyright.net Music Publ'g LLC v. MP3.com, No. 01 Civ. 7321, 2003 WL 740757, at \*1 (S.D.N.Y. Mar. 4, 2003) (quoting Shatterproof Glass Corp. v. Libbey-Owens-Ford Co., 482 F.2d 317, 320 (6th Cir. 1973)).

<sup>49</sup> In Shatterproof Glass, for instance, the court construed a release as a license where the plaintiff licensee contended that, by reason of an equal treatment (or “favored nations”) clause in its license agreement with the defendant patent licensor, the plaintiff was entitled to the benefit of terms given to a third party under a settlement agreement with the defendant that, in effect, bestowed on that third party more favorable royalty rates than those the defendant had afforded to the plaintiff. 482 F.2d at 319-21. Such “circumstances” would seem to be rather different from the instant question.

<sup>50</sup> E.g., Kohn, *supra* note 2, at 1599-614 (setting forth typical license fees for various uses of music).

<sup>51</sup> 17 U.S.C. § 504(b) (2004).

<sup>52</sup> Harris v. Emus Records Corp., 734 F.2d 1329, 1335 (9th Cir. 1984) (“The [district] court has wide discretion in determining the amount of statutory damages to be awarded, constrained only by the specified maxima and minima. The award will be overturned only for abuse of discretion.” (citations omitted)). See also 17 U.S.C. § 504(c)(1) (2004) (Statutory damages can currently range anywhere from \$250 to \$150,000 per work.).

<sup>53</sup> 17 U.S.C. §§ 502 (injunctions), 503 (impounding and disposition of infringing articles), 506 (punishments for criminal offenses) (2004).

<sup>54</sup> Kohn, *supra* note 2, at 779-81.

<sup>55</sup> *Id.* at 778-79.

<sup>56</sup> *Id.* at 410-11.

<sup>57</sup> See David v. Showtime/The Movie Channel, Inc., 697 F. Supp. 752 (S.D.N.Y. 1988).

<sup>58</sup> *Id.* at 754.

<sup>59</sup> *Id.* at 755.

<sup>60</sup> *Id.* at 763-64.

<sup>61</sup> *Id.* at 764.

- 62 2 Copyright Law Revision Studies Prepared for the Subcomm. on Patents, Trademarks, and Copyrights of the Senate Comm. on the Judiciary, 86th Cong., 2d Sess. 118 (1960).
- 63 E.g., *Thomson v. Larson*, 147 F.3d 195, 199 (2d Cir. 1998); *Zuill v. Shanahan*, 80 F.3d 1366, 1370 (9th Cir. 1996). See also 1 Nimmer, *supra* note 2, § 6.09.
- 64 E.g., *King v. Oakmore Homes Ass'n*, 241 Cal. Rptr. 140 (Ct. App. 1987).
- 65 *Jerry Vogel Music Co. v. Miller Music, Inc.*, 74 N.Y.S.2d 425, 426 (N.Y. App. Div. 1947), aff'd 87 N.E.2d 681 (N.Y. 1949).
- 66 See generally *Sofer*, *supra* note 15.
- 67 Vern G. Davidson, Comment, *Problems in Co-Ownership of Copyrights*, 8 UCLA L. Rev. 1035, 1035 (1961) (citations removed).
- 68 *Carter v. Bailey*, 64 Me. 458, 464 (1874).
- 69 *Schering Corp. v. Roussel-UCLAF SA*, 104 F.3d 341, 345 (Fed. Cir. 1997).
- 70 *LaLance & Grosjean Mfg. Co. v. Haberman Mfg. Co.*, 93 F. 197, 198 (C.C.S.D.N.Y. 1899), quoted in *LaLance & Grosjean Mfg. Co. v. Haberman Mfg. Co.*, 107 F. 487, 487 (C.C.S.D.N.Y. 1901) (holding that one co-owner of a patent cannot “by its sole license and release pendente lite defeat the other’s right to recover in their suit of infringement”).
- 71 *LaLance & Grosjean*, 93 F. at 198-99 (quoting *In re Horsley & Knighton’s Patent*, L.R. 8 Eq. 475 (M.R. 1869)).
- 72 35 U.S.C. § 262 (2004).
- 73 *Id.*
- 74 *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456, 1468 (Fed. Cir. 1998).
- 75 *Schering*, 104 F.3d at 345.
- 76 *LaLance & Grosjean*, 107 F. at 487 (“[F]or one of the complainants without the knowledge of the other to settle with the defendants for \$20,000 and refuse to give the other complainant a dollar seems, in the language just quoted, ‘contrary to natural justice.’”).
- 77 *Copyright.net Music Publ’g LLC v. MP3.com*, No. 01 Civ. 7321, 2003 WL 740757, at \*1 n.1 (S.D.N.Y. Mar. 4, 2003).
- 78 1 Nimmer, *supra* note 2, § 6.10[C].
- 79 Kohn, *supra* note 2, at 410-11.
- 80 Kohn, *supra* note 2 (quoting Ronald H. Gertz, *Hung Up on Splintered Rights*, *Billboard*, Jan. 1984).

81 Plaintiffs' Declarations in Opposition to MP3.com's Motion for Summary Judgment on Retroactively Licensed Compositions, Copyright.net Music Publ'g LLC v. MP3.com, No. 01 Civ. 7321, 2003 WL 740757 (S.D.N.Y. Mar. 4, 2003).

82 Copyright.net, 2003 WL 740757, at \*1. One is perhaps reminded of Judge Learned Hand's wisdom regarding tort duty that "a whole calling ... may never set its own tests, however persuasive be its usages. Courts must in the end say what is required ...." The T. J. Hooper, 60 F.2d 737, 740 (2d Cir. 1932). Coincidentally, Hand himself struggled to define the rights of joint authors almost a century ago, finding "strangely little law" on the subject. Maurel v. Smith, 220 F. 195, 199 (S.D.N.Y. 1915).

83 Declaration of Charles J. Sanders, Copyright.net, 2003 WL 740757.

84 Id. PP 3, 6, 12.

85 Id. P 4.

86 Copyright.net, 2003 WL 740757, at \*1; Country Rd. Music, Inc. v. MP3.com, Inc., 279 F. Supp. 2d 325, 329 (S.D.N.Y. 2003).

87 Davidson, *supra* note 67, at 1044-47.

88 "Nothing contained in section 301 precludes the owner of a material embodiment of a copy or a phonorecord from enforcing a claim of conversion against one who takes possession of the copy or phonorecord without consent." H.R. Rep. No. 94-1476, at 133 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748.

89 17 U.S.C. § 301(a) (2004). E.g., *Dielsi v. Falk*, 916 F. Supp. 985, 992 (C.D. Cal. 1996). But see *Korman v. Iglesias*, 736 F. Supp. 261, 264-65 (S.D. Fla. 1990).

90 E.g., *Wilson v. S.L. Rey, Inc.*, 21 Cal. Rptr. 2d 552, 556 (Ct. App. 1993) ("It would be an elevation of form over substance to hold that a fiduciary relationship exists between strangers merely because they have acquired interest in the same piece of property."). See also *Sofer*, *supra* note 15, at 13-15.

91 *Noble v. D. Van Nostrand Co.*, 164 A.2d 834, 838 (N.J. Super. Ct. Ch. Div. 1960) ("[T]he courts have steadfastly restricted the remedy of a co-owner to an accounting....").

92 Copyright.net, 2003 WL 740757, at \*1 n.1.

93 Press Release, National Music Publishers Association, Inc., Music Publishers and MP3.com Reach Landmark Agreement (Oct. 20, 2000), at <http://www.nmpa.org/pr/mp3agree.html>.

94 17 U.S.C. § 501(b) (2004). See also H.R. Rep. No. 94-1476, at 159 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5775 (noting that parts of section 501 are intended to supplement the Federal Rules of Civil Procedure); Fed. R. Civ. P. 19.

95 See 1 Nimmer, *supra* note 2, § 12.03 (contending that the better view is probably that one co-owner should be able to sue without joining the other co-owners (citing *Edward B. Marks Music Co. v. Jerry Vogel Music Co.*, 140 F.2d 268, 269-70 (2d Cir. 1944) (ruling that the copyright co-owners were not indispensable parties "because their rights can be reserved in the judgment" and ordering that the plaintiff's recovery be limited "to the plaintiff's own part; that is to say, to its own actual damages, to its proper share of any statutory damages, and to its proper share of the profits," rather than the full recovery to all co-owners))).

96        Id.

13 TXIPLJ 65