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#### Second Circuit Says No Retroactive Copyright Licensing

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by [Craig B. Whitney](#)

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The Second Circuit Court of Appeals ruled last month that all retroactive copyright transfers and licenses are invalid. In *Davis v. Blige*,—F.3d—, 2007 WL 2893003, 84 U.S.P.Q.2d 1353 (2d Cir. 2007), the court found that “retroactive transfers violate the basic principles of tort and contract law, and undermine the policies embodied by the Copyright Act.” Although the decision appears sound under the facts of the case, its broad conclusions could have far-reaching effects in the world of copyright licensing.

Sharice Davis, a co-owner of two musical composition copyrights at issue, sued Bruce Miller, the alleged transferee of the rights of the other co-owner, Bruce Chambliss. Davis also sued a host of alleged licensees of the disputed compositions who obtained licenses from Miller and others, including recording artist Mary J. Blige. According to the district court’s summary judgment decision, *Davis v. Blige*, 419 F. Supp. 2d 493 (S.D.N.Y. 2005), Chambliss and Miller documented the transfer of Chambliss’s interest in the disputed compositions *after* the defendants recorded and distributed the disputed compositions—in fact, the transfer was not reduced to writing until the day before Chambliss’s deposition in the case. Chambliss and Miller claimed that the writing merely ratified an earlier oral agreement that Chambliss would grant Miller certain rights in the compositions, but the district court held that the existence of this alleged oral agreement was a genuinely disputed fact issue. Nevertheless, the district court granted defendants’ summary judgment motion based on its view that the disputed fact issue was immaterial, because, in the district court’s view, past infringement could be cured through the grant of a retroactive assignment of the Chambliss copyright to Miller.

The Second Circuit disagreed, and stated that retroactive licenses and assignments are categorically impermissible. In doing so, the court distinguished district court precedent upholding retroactive licenses as valid, because the agreements in those cases were the result of negotiated settlements of accrued infringement claims. The court noted that settlements are generally retrospective in that they are a remedy for past infringement. Absent explicit language to the contrary, a settlement does not permit the unauthorized party to continue its unauthorized conduct past the date of the settlement. Licenses and assignments, on the other hand, are prospective. “They permit use by a non-owner who would not otherwise have a right to use the property....” A *retroactive* license or assignment, on the contrary, “purports to authorize a past use that was originally unauthorized. Unlike a settlement, which recognizes an unauthorized use but waives a settling owner’s accrued claims of liability, a retroactive license or assignment would—if given legal effect—erase the unauthorized use from history with the result that the nonparty co-owner’s right to sue for infringement, which accrues when the infringement first occurs, is extinguished.”

The Second Circuit’s primary concern in *Davis* was the fact that a retroactive license by one co-owner would eviscerate the rights of other co-owners to sue for infringement, which the court recognized as “one of the most valuable sticks in the bundle of rights of copyright.” A copyright infringer could essentially agree to settle with a single co-owner and eliminate the claims of other co-owners. But, as the court stated, a settlement agreement by one co-owner cannot “settle accrued claims held by co-owners who are not themselves parties to the agreement.” With this statement, the court essentially overruled the contrary opinion in *Country Road Music, Inc. v. MP3.com, Inc.*, 279 F. Supp. 2d 325 (S.D.N.Y. 2003), cited by the district court.

The court reasoned that permitting a co-owner to act in this way would run afoul of both tort and contract law principles. A retroactive license by one co-owner destroys the non-consenting co-owner's valuable and vested right to enforce her claim. It also effectively binds the non-consenting co-owner to a contract to which she was not a party. The court also noted other justifications for its decision, including the equivalent principles enforced under patent law, public policy considerations, and the possibility of usurping the damages framework under copyright law.

The court's broad statements in support of its holding, however, may cause some unintended complications down the road. The court's analysis focused heavily on the damage to the rights of an un-consenting co-owner if the other co-owners were permitted to license or transfer their rights retroactively. But the court's opinion is not limited to such a scenario. Instead, the court stated broadly and boldly that "a license or assignment in copyright can *only* act prospectively." Logically, this statement includes licenses and transfers entered into by *all co-owners* as well. As a result, the court may have placed constraints on copyright transactions entered into by all co-owners, even where all parties involved feel there would be enhanced value by including a retroactive transfer of copyright ownership.

In its reliance on patent law, the court cited *Schering Corp. v. Roussel-UCLAF SA*, 104 F.3d 341 (Fed. Cir. 1997), for the proposition that retroactive patent licenses are also impermissible. While the *Schering* court did hold that "the grant of a license by one co-owner cannot deprive the other co-owner of the right to sue for accrued damages for past infringement"—noting that in patent law, unlike copyright law, one co-owner cannot sue for infringement without voluntary joinder or consent of the other—the Federal Circuit did not decide that retroactive patent licenses were categorically invalid, such as when all owners consent. With regard to copyrights, however, that is precisely what the Second Circuit stated in *Davis*.

The *Davis* court also addressed whether an oral transfer, which is invalid under copyright law, could later be ratified by a written agreement. The court held (perhaps unnecessarily, given the lack of any finding as to whether an oral agreement existed) that the written agreement between Chambliss and Miller could *not* operate to ratify the alleged earlier oral transfer. While the Copyright Act expressly requires all transfer agreements to be in writing, many courts have interpreted invalid oral transfers to operate as nonexclusive licenses, which may be granted orally. In holding that "a written confirmation of an earlier oral transfer agreement cannot extinguish a copyright owner's accrued infringement claims," the Second Circuit may have undermined this approach. In the opinion's final footnote, the court stated that it need not decide whether the alleged oral agreement granted Miller a nonexclusive license to use the disputed compositions, because—even though a nonexclusive license might immunize Miller from Davis's infringement claims—Miller would still not have been able to grant licenses to the other defendants. This logic seems to beg the question, however, of whether—absent the subsequent licensing of the disputed compositions to Blige and the other defendants—the alleged oral transfer from Chambliss to Miller could in fact be interpreted as a nonexclusive license to Miller and hence effectively absolve Miller of any liability in this case. It remains to be seen how this opinion may be used to argue against the approach taken by many district courts of treating invalid oral transfers as valid nonexclusive licenses.

A final potentially unintended consequence of the *Davis* decision lies in its brisk reference (again, perhaps unnecessarily) to *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 944 F.2d 971 (2d Cir. 1991). The court cited *ABKCO* in support of the principle that a copyright owner may "convey his interest in prosecuting accrued causes of action for infringement." In doing so—although this principle was not at issue in *Davis*—the Second Circuit may have refuted the Ninth Circuit's en banc reading of *ABKCO* in *Silvers v. Sony Pictures Entm't, Inc.*, 402 F.3d 881 (9th Cir. 2005). In *Silvers*, the Ninth Circuit interpreted *ABKCO* to hold that a third party may sue for accrued infringement claims only where the same entity purchased *both* the copyright and the accrued claims. The *Davis* court's reference to *ABKCO* appears to confirm that transfer of only the accrued claims is enough.

Whether the Second Circuit intended the reach of *Davis* to be as broad as it reads is unclear; but, as it stands, the language is unambiguous that all copyright licenses and assignments can only act prospectively. Less certain, however, is how this opinion will be used to enforce or invalidate retroactive licenses consented to by all owners. Also uncertain is how it will be used to challenge the approach of interpreting invalid oral transfers as valid nonexclusive licenses.