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Introduction

Few things are as dismaying to a lawyer at a music publishing company as receiving a call or letter advancing a previously-unknown claim to total or partial ownership of a song in the company's catalog and claiming back royalties. The number of such claims seems to have increased since the flurry of catalog acquisitions which began in the late 1980s. Recent years have seen a considerable number of decisions which, in the main, have illuminated the issues and imposed time limitations upon such claims.

For instance, the following are representative of claims which have been received by my company, Warner/Chappell Music, Inc., in recent years:

1) A and B co-wrote a song in 1956, and conveyed it to our predecessors-in-interest. C and D, two other writers, apparently conveyed the same song to a different company. The song was on a hit record in 1964. In 1981, for the first time, A contacted our predecessors, who apparently took no action. In 1993, six years after we acquired the predecessor company, A contacted us and we made a claim against the other company, which (predictably) denied the claim. A then died. In 1997, B requested that Warner/Chappell bring suit against the other company.

2) A and B wrote a song in 1969. A claimed 100% ownership of the copyright when he filed a registration certificate with the Copyright Office. A then conveyed 50% of the song to Company X in early 1970. Warner/Chappell's predecessor acquired that 50% in 1975. In 1996, A contacted Warner/Chappell demanding compensation for his 50% share of the publisher's share of income,[1] retroactive to 1976. When the matter was not resolved to his satisfaction, A's attorney contacted us in June 1997. The Royalty Department checked the song listing on our computer, which indicated that A did, indeed, own 50% of the publishing interest in the song. Going back as far as the financial records would permit, the department sent A a substantial adjusting payment. However, A's attorney was not satisfied with this effort, and demanded that we pay A an amount equal to the average share of publishing income which A would have received had earnings been consistent from 1976 on. Upon further investigation, however, we found that after conveying 50% to Company X in 1970, A conveyed

1. Traditionally, the songwriter gets a 50% share and the publisher gets a 50% share of the income from a song. Thus, if the songwriter retains 50% of the publisher's share, the songwriter will receive an aggregate of 75% of the income (50% as songwriter and 25% as co-publisher).

50% of his remaining 50% (i.e., 25% of the total publishing interest) to Company Y. Prior to that transaction, A had filed a publisher clearance form with BMI,[2] listing A and Company X as each being entitled to receive 50% of the publisher's share of public performance income from the song. Company X sold its 50% of the song to our predecessor company in 1975. Company Y sold its 25% of the song to Company Z a couple of years later. This interest in the song was ultimately acquired by us in 1987. Therefore, Warner/Chappell owned 75% of the song, and A owned only 25%. Nonetheless, A had received 50% of the publisher's share of BMI income from 1970 on. In addition, of the forty-four so-called "mechanical" licenses[3] issued from 1970 onward by The Harry Fox Agency, Inc.,[4] forty-two (thirty of which were issued prior to the conveyance by Company X to our predecessor in 1975) specified that 75% of the income was to be paid directly by the licensee to A. Thus, it would appear that A collected the share of both writers (50% of the whole) plus one-half of the publishers' share (25% of the whole) of income generated by these mechanical licenses. Meanwhile, Warner/Chappell and its predecessors had apparently split their 25% share with A and B.

3) A and B may have co-written a song in 1971. Warner/Chappell and its predecessors have accounted consistently to A and B as though this was the case. A contacted us recently to tell us that B did not, in fact, co-write the song. Up to that point, Warner/Chappell was unaware of any potential problem with this song. Upon reviewing the song file, the company discovered an unsigned agreement under which A acknowledged B as a co-writer. However, a fully executed copy of the agreement was absent from the file.

The aforementioned examples represent only a limited number of claims received by Warner/Chappell. Without a doubt, other music publishers have had—and are having—similar experiences.

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2. Broadcast Music, Inc., one of the two leading U.S. performing rights societies (the other being ASCAP, the American Society of Composers, Authors and Publishers). Performing rights societies license the performance of musical works in live venues, on radio, and on television. Revenues are divided (after deduction of the society's administration fee) 50% to the writer(s) and 50% to the publishers.

3. Licenses which permit a song to be duplicated on phonorecords. They are called "mechanical" licenses because early licenses were for such items as music rolls and wax cylinders, which were truly mechanical reproductions. The nomenclature, however, survives even now, when recordings are read by laser beams.

4. A subsidiary of the National Music Publishers Association, which acts as a mechanical licensing agent for thousands of music publishing firms.

I
Limitations on Claims of Ownership

For more than a hundred years,[5] it has been black letter law that exclusive rights in copyrighted works can only be acquired through a written assignment, a concept reaffirmed by the Copyright Act of 1976.[6] In addition, as a general principle a conveyance of property made under duress is subject to subsequent revocation by the grantor.[7] However, this is just part of the story. In recent years, courts have begun to react negatively to dilatory claims of copyright ownership as well as attempts to set aside earlier conveyances, recognizing that the passage of time and the needs of the commercial community are valid reasons for limiting the time to assert ownership rights.

In the case of *Jackson v. Axton*,[8] the Ninth Circuit rejected the claim of Jackson, a session player, to part ownership of "Joy to the World." The song was written in large part at a demo session held at the home of Hoyt Axton, who claimed sole authorship of the song from the outset.[9] Jackson was aware that Axton had filed for copyright in his name alone, and that both records and sheet music embodying the song had accorded Axton sole credit. However, Jackson waited more than twenty years after the initial release of the song to file suit to vindicate his claim to part ownership.[10] The Ninth Circuit dismissed Jackson's claim, stating:

> We hold that laches may be a defense to an action seeking a declaration of coauthorship and resulting co-ownership of a copyrighted work. Claims of ownership are traditionally subject to the defense of laches (Citations omitted.) ... [The defendants] have shown that circumstances have changed in a way that would not have occurred had [plaintiff] sued earlier... Numerous business transactions have been made in reliance on [defendant's] ownership of the Song.[11]

In further support, a California court recently held that a claim to *sole* authorship was barred by reason of limitations and laches where

5. *See, e.g.*, § 89 of the Copyright Act of 1870, 16 Stat. 198, and § 28 of the Copyright Act of 1909, 35 Stat. 1075.

6. 17 U.S.C. § 204(a) (1996). *See also* R. NIMMER, NIMMER ON COPYRIGHT § 10.03 [A] 10-36 (1997).

7. *See* WITKIN, SUMMARY OF CALIFORNIA LAW, CONTRACTS §§ 106-107, 416-421 (9th ed. 1987 & Supp. 1997). Although the problems discussed in this commentary could arise in any jurisdiction, most of them come up in New York, California and Tennessee, where most of the significant music publishers are based. This commentary limits its discussion to the laws of those states, and to the decisions of courts located therein.

8. 25 F.3d 884 (9th Cir. 1994).

9. Jackson v. Axton, 814 F. Supp. 42, 43 (C.D. Cal. 1993).

10. *Id.* at 43-44.

11. *Jackson*, 25 F.3d at 887-88.

the claimant received co-writer royalties without objection for 28 years, even though the writer claimed that the 1966 agreement bearing his signature was a forgery.[12]

A wait of decades in such matters is not required. In *Zuill v. Shanahan*,[13] the Ninth Circuit affirmed summary judgment in favor of the defense under the three-year Copyright Act statute of limitations, where the alleged creators of the music for a learn-to-read program waited four years to sue after the creator of the program repudiated their claim.

In *Merchant v. Levy*,[14] the Second Circuit overturned a decision by the Southern District of New York[15] in favor of members of the recording group "Frankie Lymon and the Teenagers." The district court had held that the group members could recover the copyright in their song, "Why Do Fools Fall In Love?," because it had been acquired from them under duress by the late Morris Levy.[16] Moreover, they had been afraid to bring suit during Mr. Levy's lifetime for fear of potentially violent retaliation if they did so.[17] Nevertheless, the Second Circuit held that, absent evidence that the plaintiffs did not know or have reason to know of the three-year statute of limitations for copyright claims, their claim was barred.[18]

In both *Zuill* and *Merchant*, the songs in question had been conveyed by the original owners to bona fide purchasers without knowledge of the adverse claims. The courts held in favor of the bona fide purchasers, because permitting writers (in the case of Jackson, the alleged co-writer, and Hudspeth, the alleged sole author) to sit idle for a generation before coming forward to claim or reclaim their works for the first time would unduly burden the flow of commerce in the industry.

On the other hand, the Fifth Circuit in *Goodman v. Lee*, permitted the plaintiff to pursue a thirty year old claim.[19] In *Goodman*, the plaintiff, Shirley Goodman, asserted that she was co-author of the 1956 hit, "Let The Good Times Roll."[20] To circumvent a laches de-

12. Hudspeth v. Barton Music & Affiliates, Case No. CV 96-8286 MRP (C.D. Cal. 1996).
13. 80 F.3d 1366 (9th Cir. 1996).
14. 92 F.3d 51 (2d Cir. 1996), *cert. denied*, 136 L. Ed. 2d 833 (1997).
15. 828 F. Supp. 1048 (S.D.N.Y. 1993).
16. 92 F.3d at 51.
17. *Id.*
18. *Id.* at 56.
19. 78 F.3d 1007 (5th Cir. 1996).
20. *Id.* at 1009.

fense, Goodman argued that, until 1984, she was unaware and had no reason to know that the song had been registered for copyright in the sole name of Leonard Lee, the co-author.[21] The Fifth Circuit rejected Lee's heirs' argument that Goodman's claim was barred by the Copyright Act's three-year statute of limitations.[22] The court held that while the question of whether or not Goodman was a co-author was a question arising under the Copyright Act, once it was established that she *was* a co-author, the applicable limitations period was to be found in Louisiana state law, which provided a ten-year limitations period in actions for accountings.[23] In addition, Goodman's claim was not barred by laches, because there was no inexcusable delay on her part in bringing suit.[24] Of course, one might well ask whether there could *ever* be "reason to know" if the failure of a professional songwriter and performer to notice the absence of royalties for almost thirty years was insufficient. This case represents a distinctly minority position.

II
Limitations on Claims for Royalties

A. Contractual Claims

Most music publishing contracts contain limitations, usually two to four years, on the period during which the writer may audit the company and/or sue. In addition, several publishing companies specify that an accounting period will be deemed final and binding if specific written objection is not received by the company within a specified period, usually in the neighborhood of two years.

Such clauses will generally be enforced if they are reasonable in scope and do not constitute a penalty.[25] Courts have upheld periods as short as one year,[26] and even 90 days.[27] This will not be the case, however, if the claim is based upon fraud.[28] For example, while the general

21. *Id.* at 1010.
22. *Id.* at 1013.
23. *Id.*
24. *Id.* at 1014.
25. *See* 1 N.Y. JUR. 2D 164; Sapinkopf v. Cunard S.S. Co., 254 N.Y. 111 (1930).
26. Rudin v. Disanza, 202 A.D.2d 202 (1st Dept.), *app. denied*, 83 N.Y.2d 760 (1994).
27. Krohn v. Felix Indus., 226 A.D.2d 506 (2d Dept. 1996).
28. RESTATEMENT (SECOND) OF CONTRACTS § 171(2) (1979). Of course, fraud must be pleaded with specificity. 5 WITKIN, CAL. PROCEDURE, PLEADINGS § 669, 125 (4th ed. 1997). The mere failure to pay royalties does not amount to fraud. Nolan v. Sam Fox Publishing Co., 499 F.2d 1394, 1397 (2d Cir. 1974). *See also* Cafferty v. Scotti Bros. Records,

contractual statute of limitations in New York—in the absence of a contrary contractual provision—is six years from the occurrence of the breach, the limitations period in an action based upon fraud is the longer of eight years following the occurrence, or two years following the date when the claimant discovered the fraud or could have done so with reasonable diligence.[29]

Furthermore, claimants under contract to a music publishing company or its predecessor-in-interest frequently seek to avoid contractual time limitations or to extend the available time periods by claiming that the music publisher is a fiduciary. Such claims are based upon the theory that a fiduciary owes a beneficiary the highest duties of care, and the statute of limitations applicable to a fiduciary generally should therefore run only from the time when the beneficiary discovers a breach of obligation on the part of the fiduciary.[30]

However, courts have been reluctant to characterize the relationship between a music publisher and a writer as fiduciary. Rather, it is viewed as generally that of debtor and creditor. In *Carter v. Goodman Group Music Publishers*, the court held that "[i]n the absence of special circumstances, no fiduciary relationship exists between a music publisher and composers as a matter of law."[31]

In *Carter*, the music publisher had purchased catalogs for $200,000 in 1965. Upon discovering that some of the songs conveyed by one of the sellers turned out not to be owned by that seller, the publisher stopped paying royalties to that seller by notice sent in 1970, relying upon contractual warranties and representations.[32] In 1968, the other seller requested a loan from the publisher. As a condition of the loan, the publisher required the borrower to waive songwriter royalties if the loan was not recouped or repaid within two years. The borrower was unable to satisfy the loan either through repayment or recoupment and the publisher ceased making royalty payments.[33]

Inc., 969 F. Supp. 1993 (S.D.N.Y. 1997).

29. N.Y. C.P.L.R. §§ 203(f), 213 subd. 2(d) (McKinney 1990).

30. In California, this period is three years from the discovery by the aggrieved party of the facts constituting the fraud. CAL. CIV. PROC. CODE § 338(d) (West 1996).

31. 848 F. Supp. 438, 445 (S.D.N.Y. 1994) (citing Rodgers v. Roulette Records, Inc., 677 F. Supp. 731, 738-39 (S.D.N.Y. 1988)) (finding royalty agreement was solely contractual in nature and created no fiduciary relationship between the parties). *See also* Mellencamp v. Riva Music Ltd., 698 F. Supp. 1154, 1159-60 (S.D.N.Y. 1988) (finding as a matter of law that the relationship between composer and publisher is only contractual and no other relationship exists).

32. *Carter*, 848 F. Supp. at 440.

33. *Id.*

Although the writer's heirs admitted knowing as far back as 1986 that their predecessor had felt himself cheated by the 1965 agreements, they did not file suit for over seven years thereafter.[34] The court granted summary judgment for the publisher, finding that no acts had been alleged which would serve to establish a special relationship, and that the plaintiffs' time to sue had elapsed even under the fraud statute of limitations.[35] It is also worth noting that the court found that the statute of limitations applicable to cases of duress and unconscionability had also expired.[36]

Notwithstanding the favorable outcome of *Carter*, publishers face uncertainty because many older agreements contain no mention of audit rights whatsoever and set no limits upon the time for commencement of actions for back royalties. What then? Is there any right to audit, and if so, is it unlimited in time? Since, as the court indicates in *Carter*, the writer/publisher relationship is based upon a purely contractual relationship,[37] there would appear to be no right of the writer to force an audit in the absence of a contractual provision therefor. Since the mere necessity that an accounting be rendered in order for plaintiff to ascertain the amount due on a contract with the defendant is insufficient to justify an equitable action for an accounting,[38] it would seem *a fortiori* that the contractual right to receive royalties does not carry with it the inherent right to audit.[39] If the claimant is receiving royalty statements, the answer may depend upon the degree to which the publisher's royalty statements disclose the basis upon which royalties are paid (or are not paid). If the statements fairly disclose that basis, the recipient may be chargeable with constructive notice and the statute of limitations should run from the point of receipt of the statement. In any case, retention of a statement without objection for an unreasonable length of time may result in an account stated.[40] Subsequent statements on the same account will not serve to extend the time within which suit may be brought.[41] Even if the claim-

34. *Id.* at 444.

35. *Id.* at 445 (citing N.Y. C.P.L.R. § 213(8) (McKinney 1990)).

36. *Id.*

37. *Id.*

38. *See, e.g.*, 1 N.Y.JUR. 2D *Accounts & Accounting* § 18; Klonick v. Equitable Life Ins. Co., 77 Misc. 2d 246 (Sup. Ct. Monroe Co. 1974).

39. *See, e.g.*, Elliiot-McGowan Prods. v. Republic Prods., Inc., 145 F. Supp. 48 (S.D.N.Y. 1956) (no right to audit after expiration of contractually-prescribed two-year audit period).

40. *See, e.g.*, 1 N.Y.JUR. 2D *Accounts & Accounting* § 19.

41. National Lumber Co. v. Tejunga Valley Rock Co., 22 Cal. App. 2d 726, 730 (2d Dist. 1913).

ant is not receiving royalty statements, but should have been, the company may nonetheless be able to take the position that the claimant should have come forward at some earlier point in time.[42]

B. Non-Contractual Claims

Non-contractual claims arise frequently where rights have reverted because of the death of the writer of a pre-January 1, 1978 composition who has granted renewal rights to a publisher prior to the second term of copyright, but dies prior to the commencement of the twenty-eighth year of the first term of copyright. Such claims also occur where income is collected during the nineteen-year extension created by the Copyright Act of 1976 although rights have been recaptured by the writer or the writers' successors-in-interest. In such cases, the claimants have terminated the rights previously granted to the publisher by contract and the claim will probably be based upon copyright. In these instances, the damage claim will be limited to three years prior to the filing of the action, pursuant to the 1976 Copyright Act.[43]

Suppose state law provides a longer statute of limitation in cases of conversion or constructive trust. Although *Goodman v. Lee*[44] appears to be a minority view, the possibility exists that longer statute of limitations periods may be applied in late-claim situations. And, of course, if fraud is present, a whole different set of rules is invoked.[45] However, the *Zuill* court indicated that:

> [B]ecause [the plaintiffs] have no infringement claim, we cannot identify an asserted right of plaintiffs which can withstand the statute of limitations. The remedy they seek is a declaration that they are co-owners, and none of the subsidiary remedies, for accounting and so forth, are independent of that remedy.[46]

It seems, therefore, that in the majority of jurisdictions, the Copyright Act limitations period would similarly foreclose pendent state remedies based upon the same, essentially copyright, claim. But

42. *See, e.g.*, Merchant v. Levy, 92 F.3d 51, 56 (2d Cir. 1996).

43. 17 U.S.C. § 507(a) (1996). However, it should be noted that in the case of *Ahlert v. Warner/Chappell Music, Inc.*, 96 Civ. 0985 (S.D.N.Y. 1997), the court did not recognize any such limitation. The court ordered Warner/Chappell Music, Inc. to pay over to the plaintiff all mechanical royalties collected from inception of the 19-year extension period, except for sales of the original A&M catalog-numbered record embodying a recording by Joe Cocker, with respect to "Bye Bye Blackbird" in 1982. The order is currently on appeal to the Second Circuit.

44. 78 F.3d 1007 (5th Cir. 1996).

45. A discussion of the rules regarding fraud is beyond the scope of this paper.

46. 80 F.3d at 1366.

this would not necessarily be the case where the claim is *contractually* based.

III
Conclusion

To ensure the efficient administration of copyright interests, courts should apply the applicable statute of limitations as well as the equitable doctrine of laches to limit claims to copyright ownership and claims for royalty payments, where these claims are truly stale. Music publishing companies such as Warner/Chappell are good faith purchasers of publishing rights, and as such must rely upon notions of commercial stability within the marketplace. To allow the prosecution of stale claims would impede the continued growth and vitality of the music publishing industry. It is also prohibitive for companies to defend against these claims. Thus, the courts should not allow heirs of copyrighted works or other suitors to revive claims which have long since lapsed.