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Wilson, et. al. v. Dynatone, et. al.

1 UNITED STATES COURT OF APPEALS
2 FOR THE SECOND CIRCUIT

3
4 August Term, 2017

5
6 (Argued: January 24, 2018 Decided: June 6, 2018)

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8 Docket No. 17-1549-cv
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13 John Wilson, Charles Still, Terrance Stubbs,
14

15 *Plaintiffs-Appellants,*
16

17 v.
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19 Dynatone Publishing Company, UMG Recordings, Inc., Unichappell Music,
20 Inc.,
21

22 *Defendants-Appellees.*
23
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25 Before:

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27 PIERRE N. LEVAL, GUIDO CALABRESI and JOSE A. CABRANES,
28 *Circuit Judges.*
29

30 Plaintiffs appeal from the dismissal of their suit by the United States
31 District Court for the Southern District of New York (Paul A. Engelmayer,
32 *District Judge*). Plaintiffs John Wilson, Charles Still, and Terrance Stubbs are
33 former members of a musical group called "Sly Slick & Wicked." They claim
34 authorship of, and ownership of the renewal term copyrights in, the musical
35 composition and sound recording of a song entitled "Sho' Nuff," pursuant to
36 17 U.S.C. § 304(a)(3)(A) & (B). Plaintiffs brought this action alleging that
37 Defendants, Dynatone Publishing Company, UMG Recordings, Inc., and
38 Unichappell Music, Inc., collected royalties from the sampling of Sho' Nuff in
39 2013, during the renewal terms, and that Plaintiffs were entitled to those
40 royalty payments. The district court granted Defendants' Rule 12(b)(6) motion
41 to dismiss for untimeliness. We AFFIRM the dismissal of Plaintiffs' state law

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1 accounting claim and otherwise VACATE the judgment and REMAND to the
2 district court.

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4 LITA ROSARIO, PLLC,
5 Washington, DC, *for Plaintiffs-Appellants*.
6

7
8 ROBERT A. JACOBS
9 MANATT, PHELPS & PHILLIPS LLP
10 Los Angeles, CA, *for Defendants-*
11 *Appellees*.
12

13 LEVAL, *Circuit Judge*:

14 Plaintiffs, John Wilson, Charles Still, and Terrance Stubbs, appeal from
15 the judgment of the United States District Court for the Southern District of
16 New York (Paul A. Engelmayer, J.) dismissing their copyright claims for
17 failure to state a claim because of untimeliness. Plaintiffs are former members
18 of the musical performance group called “Sly Slick & Wicked.” They claim
19 authorship of, and ownership of the renewal term copyrights in, the musical
20 composition and sound recording of a song entitled “Sho’ Nuff” (“Sho’ Nuff”
21 or the “Song”). They allege that Defendants, Dynatone Publishing Company,
22 UMG Recordings, Inc., and Unichappell Music, Inc., collected royalties from
23 the sampling of Sho’ Nuff in popular songs by Justin Timberlake and J. Cole
24 in 2013 during the renewal terms, and that they, rather than the Defendants,
25 were entitled to these royalty payments. The district court granted

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1 Defendants' motion to dismiss pursuant to Rule 12(b)(6). The court reasoned
 2 that the claims were time-barred because the Defendants had repudiated
 3 Plaintiffs' claims of copyright ownership many years earlier, during the initial
 4 copyright terms. The district court erred in concluding that a repudiation of
 5 Plaintiffs' claims with respect to the original terms constitutes a repudiation
 6 of the renewal terms. We affirm the dismissal of Plaintiffs' state law
 7 accounting claim for failure to allege a fiduciary duty and remand for further
 8 proceedings as to Plaintiffs' renewal term copyright claims.

9 BACKGROUND

10 I. Facts

11 The Amended Complaint alleges the following facts, set forth here in
 12 the light most favorable to Plaintiffs.

13 1. *The Sho' Nuff Musical Composition*

14 a. Original Term Claims: Plaintiff Wilson wrote the Sho' Nuff
 15 musical composition prior to April 1973 while traveling with Sly Slick &
 16 Wicked. On May 12, 1973, Plaintiffs filed a registration for the Song with the
 17 United States Copyright Office listing the three Plaintiffs as authors.
 18 Thereafter, two others asserted claims to the composition. On July 9, 1973, a

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1 musical promoter named Edward Perrell filed a registration with Broadcast
2 Music Inc. ("BMI"), a membership organization that collects royalties on
3 behalf of songwriters and music publishers, listing Perrell Music, Belinda
4 Music, and Dynatone Music as the publishers. Approximately one year later
5 on June 26, 1974, Chappell & Co., predecessor-in-interest to Defendant-
6 Appellee Unichappell Music, Inc., filed a Copyright Office registration of the
7 composition, listing Plaintiffs as the writers and Dynatone Publishing
8 Company as the claimant.

9 b. Renewal Term Claims: On November 19, 2015, Plaintiffs filed a
10 renewal registration in the Copyright Office asserting ownership of the
11 renewal term for the composition. They had not executed any written
12 agreements with People Records, Belinda Music, or Dynatone Publishing
13 transferring interests in the renewal term copyright for the composition.

14 2. *The Sho' Nuff Sound Recording*

15 Shortly after Plaintiff Wilson wrote Sho' Nuff, Perrell encouraged
16 Plaintiffs to record the Song. As Sly Slick & Wicked, they made a sound
17 recording of Sho' Nuff circa April 1973. Perrell and Plaintiffs then met with
18 representatives from People Records, a record label owned by James Brown.

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1 Perrell and Brown modified the recording by “sweetening” through addition
2 of strings and bells. Around June 28, 1973, People Records released a
3 commercial recording of Plaintiffs’ recording of Sho’ Nuff, with the
4 sweetening added by Perrell and Brown. The record label listed Perrell and
5 Brown as the producers and Polydor, successor-in-interest to People Records
6 and predecessor-in-interest to Defendant-Appellee Universal Music Group,
7 Inc. (“UMG”), as copyright owner for the sound recording.

8 a. Original Term Claims: On or about June 26, 1973, Polydor
9 registered a copyright in the Sho’ Nuff sound recording, claiming sole
10 ownership and asserting that the recording was a work made for hire. The
11 registration identified Polydor as the “Employer for Hire.”

12 b. Renewal Term Claims: According to the Amended Complaint,
13 Plaintiffs never executed any written agreements with either Perrell or People
14 Records that included a “work for hire” provision, and never transferred their
15 renewal term copyrights to either Perrell or People Records. Defendant UMG
16 registered a renewal term copyright in the sound recording with the
17 Copyright Office on December 21, 2001.

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1 3. *The Sho' Nuff Samplings*

2 Nearly forty years after People Records released the Sho' Nuff sound
3 recording, Sho' Nuff attained new commercial life through a practice known
4 as "sampling." On or about January 15, 2013, the multi-platinum and
5 Grammy award-winning musician Justin Timberlake inserted a sample from
6 the Sho' Nuff sound recording (with Plaintiffs' vocal performances) in his
7 own successful commercial release of a new single, "Suit & Tie." Suit & Tie
8 sold over 3,000,000 units in the United States alone, achieved platinum status
9 in numerous other countries, and received more than 92,000,000 YouTube
10 views.

11 On or about June 2013, another platinum-selling recording artist J. Cole
12 released a new single, "Chaining Day," which included a sample from the
13 Sho' Nuff master recording.

14 II. Proceedings Below

15 On January 6, 2016, Plaintiffs brought this action¹ against Dynatone,
16 UMG, Unichappell, Edward Perrell d/b/a Perrell Music, BMI, and Anheuser-

¹ The original Complaint listed Wilson and Still as the Plaintiffs. The Amended Complaint added Stubbs as the third Plaintiff.

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1 Busch International, Inc. in the United States District Court for the Southern
2 District of New York.

3 The Amended Complaint sought a declaratory judgment that Plaintiffs
4 own the renewal term copyright for the Sho' Nuff composition pursuant to 17
5 U.S.C. § 304(a); an accounting and award of earnings collected from the
6 commercial exploitation of the composition between January 6, 2013 and
7 January 6, 2016; and a declaratory judgment that the June 26, 1974 copyright
8 registration in the composition by Defendant Unichappell's predecessor is
9 invalid.

10 The Amended Complaint also sought a declaratory judgment that
11 Plaintiffs, along with Perrell and UMG, co-own the renewal term copyright in
12 the Sho' Nuff sound recording pursuant to 17 U.S.C. § 304(a); and an
13 accounting and award of earnings collected from the commercial exploitation
14 of the sound recording between January 6, 2013, and January 6, 2016.

15 Plaintiffs reached settlement agreements with Perrell, BMI, and
16 Anheuser-Busch International, Inc. The remaining Defendants moved to
17 dismiss for failure to state a claim under Fed. R. Civ. P. 12(b)(6). The district
18 court granted Defendants' motion in its entirety. *Wilson v. Dynatone Publ. Co.*,

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1 *UMG Recordings, and Unichappell Music*, No. 16 Civ. 00104(PAE), 2017 WL
2 1330336 (S.D.N.Y. April 10, 2017). Judgment was entered in favor of
3 Defendants on April 11, 2017. Plaintiffs timely filed notice of this appeal.

4 DISCUSSION

5 On appeal, Plaintiffs contend that the district court erred in granting
6 Rule 12(b)(6) dismissal of (1) their claims to renewal term copyrights in the
7 composition and sound recording of Sho' Nuff and (2) their accounting
8 claims. They do not challenge the district court's dismissal of their claims to
9 the original term copyrights or their demand for a declaratory judgment
10 invalidating the June 26, 1974 copyright registration for the Sho' Nuff
11 composition by Unichappell's predecessor, Chappell & Co.

12 In ruling on a Rule 12(b)(6) motion, the court must consider only those
13 facts alleged in the complaint, and must draw all reasonable inferences in
14 favor of the plaintiff. *See Doe v. Columbia University*, 831 F.3d 46, 48 (2d Cir.
15 2016).

16 I. Renewal Term Claims

17 Section 304 of the Copyright Act applies to "[c]opyrights in their first
18 term on January 1, 1978." 17 U.S.C. § 304(a). It establishes that authors who

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1 are still living when the original 28-year copyright term expires “shall be
2 entitled to a renewal and extension of the copyright in such work for a further
3 term of 67 years.” 17 U.S.C. § 304(a)(1)(C). If no application is made to register
4 the renewal copyright, then the renewal term vests automatically in the living
5 author. 17 U.S.C. § 304(a)(2)(B)(ii). If a registration application is made within
6 one year of the expiration of the original term, then the renewal term will vest
7 “in the proprietor of the copyright who is entitled to claim the renewal of
8 copyright at the time the application is made.” 17 U.S.C. § 304(a)(2)(B)(i).

9 Congress intended the renewal term to give authors an opportunity to
10 renegotiate with patrons after their work has been tested in the market. *See*
11 *Stewart v. Abend*, 495 U.S. 207, 218-19 (1990). Accordingly, the renewal term is
12 a “new estate . . . clear of all rights, interests or licenses granted under the
13 original copyright.” *G. Ricordi & Co. v. Paramount Pictures, Inc.*, 189 F.2d 469,
14 471 (2d Cir. 1951). This Court has recognized “a presumption against the
15 conveyance of renewal rights.” *PC Films Corp. v. MGM/UA Home Video Inc.*,
16 138 F.3d 453, 457 (2d Cir. 1998).

17 Section 507(b) of the Copyright Act states: “No civil action shall be
18 maintained under the provisions of this title unless it is commenced within

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1 three years after the claim accrued.” 17 U.S.C. § 507(b). The three-year
 2 limitations period applies to ownership claims. *Gary Friedrich Enters., LLC v.*
 3 *Marvel Characters, Inc.*, 716 F.3d 302, 316 (2d Cir. 2013). A copyright ownership
 4 claim “accrues only once, when ‘a reasonably diligent plaintiff would have
 5 been put on inquiry as to the existence of a right.’” *Kwan v. Schlein*, 634 F.3d
 6 224, 228 (2d Cir. 2011) (quoting *Stone v. Williams*, 970 F.2d 1043, 1048 (2d Cir.
 7 1992)). This Court has identified at least three types of events that can put a
 8 potential plaintiff on notice and thereby trigger the accrual of an ownership
 9 claim: public repudiation; private repudiation in communications between
 10 the parties; and implicit repudiation “by conspicuously exploiting the
 11 copyright without paying royalties.” *Friedrich*, 716 F.3d at 317.

12 The district court dismissed Plaintiffs’ claims of a renewal term
 13 beginning in 2001 because Plaintiffs were on notice that, during the 1970s,
 14 Defendants had repudiated Plaintiffs’ ownership of the original term
 15 copyrights, and “[t]his state of affairs persisted past the start of the renewal
 16 term in 2001” *Wilson*, 2017 WL 1330336 at *5. The court based this finding
 17 on the following facts. The record label for the 1973 commercial release
 18 credited Defendants as publisher of the musical composition and as copyright

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1 owner for the sound recording. Defendants registered copyrights in the
2 sound recording and musical composition in 1973 and 1974, respectively,
3 identifying Defendant UMG's predecessor (Polydor) as "Employer for Hire"
4 as to the sound recording. Finally, Plaintiffs received neither royalties from
5 Defendants nor even a partial accounting of royalties. The district court
6 concluded that Defendants repudiated Plaintiffs' ownership of the original
7 term copyrights "starting in 1973 and/or 1974. . . . And defendants' conduct in
8 the ensuing decades continued to put plaintiffs on notice, including into the
9 renewal term of the recording and composition that began in 2001." *Wilson*,
10 2017 WL 1330336 at *5. We respectfully disagree.

11 This Court considered a similar issue in *Friedrich*. There, the Defendant,
12 Marvel Characters, Inc., argued that it had repudiated a comic creator's
13 ownership of the renewal term copyright by placing a notice on the comic's
14 initial 1972 publication that identified Marvel as the copyright owner.
15 *Friedrich*, 716 F.3d at 317-18. We concluded that, "in 1972, the notice would
16 have only indicated that Marvel held the rights to the initial term copyright. It
17 would not have conclusively demonstrated that Marvel was the author or

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1 otherwise had the right to register the renewal term." *Friedrich*, 716 F.3d at
2 318.

3 Here, the copyright notice on the 1973 record label and Defendants'
4 1974 copyright registration occurred during the original term. Construing the
5 facts alleged in the complaint most favorably to Plaintiffs, as required on a
6 motion attacking the sufficiency of the complaint, those acts, while they may
7 have repudiated Plaintiffs' claim to the initial terms, did not repudiate
8 Plaintiffs' ownership of the renewal terms. If Plaintiffs were the authors of the
9 Sho' Nuff composition and sound recording, as alleged, they were entitled
10 under § 304 to the renewal terms regardless of whether they abandoned their
11 rights to the initial terms, and the renewal terms vested automatically with
12 them. Nor does the lack of royalty payments during the original terms
13 support a finding that Defendants repudiated Plaintiffs' ownership of the
14 renewal term copyrights. As we explained in *Friedrich*, failure to pay royalties
15 during the original terms "is irrelevant, as it would be merely consistent"
16 with the assignment of the initial copyright terms. 716 F.3d at 318, n.15.

17 In support of the district court's ruling, Defendants rely on Defendant
18 UMG's 2001 registration of a renewal term copyright *in the sound recording*,

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1 and the sampling of the Sho' Nuff recording without paying royalties, which
2 began on or about January 15, 2013. Neither fact supports a finding that this
3 action is time-barred. At least in these circumstances, UMG's registration of
4 the renewal term with the Copyright Office did not amount to a repudiation
5 of the Plaintiffs' claim triggering their obligation to bring suit. If mere
6 registration of a copyright without more sufficed to trigger the accrual of an
7 ownership claim, then rightful owners would be forced to maintain constant
8 vigil over new registrations. Such a requirement would be vastly more
9 burdensome than the obligations that "a reasonably diligent plaintiff" would
10 undertake. *Kwan*, 634 F.3d at 228 (internal citation and quotation marks
11 omitted). Authors would regularly lose their rights merely by virtue of failing
12 to monitor. The mere fact of UMG's 2001 registration did not cause Plaintiffs'
13 claims to accrue.

14 As to the sampling of Sho' Nuff without paying Plaintiffs royalties,
15 allegedly this did not begin until on or about January 15, 2013. This action,
16 commenced on January 6, 2016, is untimely if Plaintiffs' claim to the renewal
17 term copyrights accrued prior to January 6, 2013. The sampling thus occurred
18 within the three-year statute of limitations.

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1 The absence of royalty payments during the renewal terms does not
2 show repudiation because there is no indication that Plaintiffs were entitled
3 to royalties prior to January 6, 2013, much less that they would have known of
4 such entitlement. *See Friedrich*, 716 F.3d at 318-19 (observing that failure to
5 pay royalties must be sufficiently obvious to put “a reasonably diligent
6 person” on notice in order to imply repudiation).

7 The June 26, 1973 registration of the Sho’ Nuff sound recording by
8 UMG’s predecessor calls for some further discussion. That registration
9 asserted a claim as “Employer for Hire.” A repudiation of the Plaintiffs’ initial
10 term copyright claim in the sound recording by asserting ownership *as a work*
11 *for hire* would effectively repudiate Plaintiffs’ claim for the renewal term, as
12 well as for the initial term. That is because, under § 304, in the case of works
13 created (in the relevant time period) for an “employer for whom such work is
14 made for hire,” the employer for hire becomes effectively the author and
15 owns not only the initial term, but also the renewal term. 17 U.S.C.
16 § 304(a)(1)(B) (“In the case of . . . any work copyrighted . . . by an employer for
17 whom such work is made for hire, the proprietor of such copyright shall be

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1 entitled to a renewal and extension of the copyright in such work for the
2 further term of 67 years.”).

3 Nonetheless, as explained above, the mere act of registering an adverse
4 claim in the Copyright Office was not an effective repudiation. An author is
5 not under a duty to constantly monitor filings in the Copyright Office on pain
6 of losing her copyright. Construing the facts alleged in the light most
7 favorable to the Plaintiffs, the Plaintiffs did not have reasonable notice that
8 Defendants had filed a registration *in the capacity of employer for hire*. At least
9 to the extent revealed in the Amended Complaint, Defendants did not call to
10 Plaintiffs’ attention that the registration of the sound recording claimed it was
11 a work for hire.² The registration thus did not constitute an effective
12 repudiation, triggering an obligation on Plaintiffs to bring suit, so as to
13 protect their copyright. In any event, that work for hire registration by UMG’s
14 predecessor covered only the sound recording. It would not have repudiated
15 the Plaintiffs’ claimed ownership of a copyright in the renewal term for the
16 musical composition.

² We do not preclude the possibility that Defendants might win partial summary judgment with respect to the sound recording based on the proposition that UMG’s predecessor, by listing itself as copyright owner on the record label, put “a reasonably diligent plaintiff” on notice to check the Copyright Office registration, *Kwan*, 634 F.3d at 228, which would have revealed that UMG’s predecessor had listed itself as “Employer for Hire.”

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1 II. Accounting Claims

2 Plaintiffs are also appealing from the dismissal of their New York law
3 claims for an accounting covering three years prior to the filing of the
4 Complaint and an award of revenues collected by Defendants from the
5 commercial exploitation of Sho' Nuff during that period. The district court
6 dismissed the claim for an accounting on two bases: first, that it was
7 untimely, and second, that Plaintiffs had failed to allege that they were the
8 beneficiaries of a fiduciary duty owed by the Defendants, which, under New
9 York law, is an essential prerequisite to a claim for an accounting. *See*
10 *Kosowsky v. Willard Mtn., Inc.*, 90 A.D.3d 1127, 1132 (N.Y. App. Div. 3d Dept.
11 2011) (“[P]laintiffs’ cause of action seeking an accounting required factual
12 allegations or evidence of a fiduciary relationship”) (internal quotations
13 and citations omitted); *Van Valkenburgh, Nooger & Neville, Inc. v. Hayden Pub.*
14 *Co.*, 306 N.Y.S. 2d 599, 601 (N.Y. App. Div. 1st Dept. 1969) (concluding that an
15 author-publisher relationship can be “a purely commercial relationship”
16 where “no fiduciary relationship exists”).

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1 To the extent the accounting claim was dismissed on grounds of
2 untimeliness, that was error for the same reasons explained above in
3 connection with the copyright claims.

4 To the extent, however, that the dismissal was based on the failure of
5 the Amended Complaint to allege a fiduciary duty, we find no error. Our
6 affirmance of the dismissal of the claim for an accounting does not bar
7 Plaintiffs from employing discovery to learn of revenues collected by
8 Defendants on account of Sho' Nuff in which Plaintiffs were entitled to share
9 and seeking an award of their entitlements if they prevail in their copyright
10 claims.

11 We have considered Defendants' remaining arguments and find them
12 to be without merit. Accordingly, we vacate the district court's dismissal of
13 Plaintiffs' claims seeking a declaratory judgment that they own the renewal
14 term copyright in the Sho' Nuff musical composition and co-own the renewal
15 term copyright in the Sho' Nuff sound recording, and we remand for further
16 proceedings.

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1 CONCLUSION

2 The judgment of the district court is hereby AFFIRMED as to its
3 dismissal of the demand for an accounting and is otherwise VACATED. The
4 case is REMANDED for further proceedings consistent with this opinion.