

February 27, 2018

Second Circuit Holds that Assignees of Bare Right to Sue Cannot Bring Copyright Infringement Claims

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Introduction

On February 16, 2018, in *John Wiley & Sons, Inc. v. DRK Photo*,¹ the Second Circuit held that the Copyright Act does not permit the assignee of a bare right to sue for copyright infringement that is neither a legal or beneficial owner of any of the exclusive rights conveyed by Section 106 of the Act to sue for copyright infringement. The court affirmed the district court's grant of summary judgment in favor of an educational publisher in its declaratory judgment action against a stock photography agency that had sued the publisher for exceeding the scope of its license. Judge Barrington D. Parker dissented. The majority decision highlights a potential vulnerability in copyright infringement claims brought by photography licensing agencies on behalf of third-party photographers.

Background

DRK Photo ("DRK") maintains a collection of photographs available for licensing.² John Wiley & Sons, Inc. ("Wiley") is a textbook publisher.³ DRK typically granted Wiley a one-time, non-exclusive right to use certain photographs in its educational materials, with the use not to exceed a certain number of copies.⁴ In return, Wiley paid DRK a licensing fee.⁵

In order to have a collection of photographs available for licensing, DRK entered into "Representation Agreements" with photographers.⁶ In these agreements, photographers granted DRK the rights to include their photographs in DRK's collection as well as to license those photos to third parties (such as Wiley).⁷ While DRK's Representation Agreements sometimes conveyed exclusive rights to DRK, the Representation Agreements at issue on appeal established non-exclusive agency relationships between DRK and photographers, with those photographers remaining free to enter into licensing arrangements with other agents.⁸

In 2008, DRK also entered into Assignment Agreements with photographers in an effort to streamline the copyright registration process with the U.S. Copyright Office and to aggregate copyright claims for purposes of enforcement.⁹ A "Granting Clause" in the Assignment Agreements provided, in relevant part:

The undersigned photographer, the sole owner of the copyrights in the undersigned's images ("the Images") selected by [DRK] and included in DRK's collection, hereby grants to DRK all copyrights and complete legal title in the Images. DRK agrees to reassign all copyrights and complete legal title back to the undersigned immediately upon completion of the registration of the Images...and resolution of

infringement claims brought by DRK relating to the Images.¹⁰

A “Right-to-Sue Clause” in those agreements provided, in relevant part:

The undersigned agrees and fully transfers [to DRK] all right, title and interest in any accrued or later accrued claims, causes of action, choses in action—which is the personal right to bring a case—or lawsuits, brought to enforce copyrights in the Images...¹¹

After DRK threatened to sue Wiley for copyright infringement for exceeding the scope of its licenses, Wiley commenced a declaratory judgment action in the Southern District of New York.¹² DRK counterclaimed for copyright infringement. Most of the alleged infringements involved photographs for which DRK was a non-exclusive agent.¹³

The district court granted summary judgment to DRK on the claims arising out of photographs subject to exclusive Representation Agreements, and Wiley did not appeal that judgment.¹⁴ With respect to photographs governed by non-exclusive Representation Agreements, the district court granted summary judgment to Wiley and dismissed DRK’s infringement claims.¹⁵ The district court held that Second Circuit precedent and the language of the Representation and Assignment Agreements compelled the conclusion that DRK was not entitled to sue for infringement.¹⁶ DRK appealed.¹⁷

The Majority Opinion

Second Circuit Precedent Was Not Dispositive

The majority opinion by Judge Susan L. Carney first reviewed two prior appellate decisions cited by the district court—*Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27 (2d Cir. 1982) and *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 944 F.2d 971 (2d Cir. 1991)—to determine whether the Second Circuit already had “definitively” addressed the issue of whether a non-exclusive agent that has been assigned the right to enforce a copyright but is not the legal or beneficial owner of any of the six exclusive rights enumerated in Section 106 of the Copyright Act can sue for copyright infringement.¹⁸ Section 106 provides copyright owners with the exclusive rights to: (1) reproduce the work,

(2) prepare derivative works, (3) distribute copies of the work to the public, (4) perform the work publicly, (5) display the work publicly, and (6) in the case of copyrighted sound recordings, perform the work by means of digital transmission.¹⁹ Section 106 does not address the right to sue for infringement, which is covered in Section 501.

The court noted that in *Eden Toys* the licensee had been granted “the right, at its option . . . to institute appropriate legal action against [an] infringer [of the primary copyright],” but only in the event that the licensor/copyright owner “elect[ed] to take no legal action.”²⁰ The *Eden Toys* court found that the licensee could bring a copyright infringement claim for its own derivative works and licensed uses but not for the infringing uses of the primary copyright as to which the licensor/copyright owner retained the right to sue.²¹

In a footnote that has given rise to competing interpretations by subsequent courts, litigants, and commentators, the court in *Eden Toys* stated that the Copyright Act does not permit “holders of rights under copyrights to choose third parties to bring suits on their behalf” and observed that “while F[ed]. R. Civ. P. 17(a) ordinarily permits the real party in interest to ratify a suit brought by another party, the Copyright Law is quite specific in stating that only the ‘owner of an exclusive right under a copyright’ may bring suit.”²² Citing the ambiguity as to whether an assignee of the right to sue would have standing, the appellate court found *Eden Toys* not dispositive.²³

The court also found that *ABKCO* did not directly address whether the Copyright Act permits suit by a mere assignee of the right to sue.²⁴ Rather, the court noted that *ABKCO* involved the different issue of an entity’s ability to settle claims that had accrued prior to its acquisition of exclusive copyright rights.²⁵

The court thus turned to the text of the Copyright Act itself.²⁶

Section 501(b) of the Copyright Act Does Not Permit Suit by Assignees of a Bare Right To Sue

Section 501(b) of the Copyright Act provides, in relevant part:

The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to

the requirements of section 411, *to institute an action for any infringement of that particular right committed while he or she is the owner of it*. The court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.²⁷

The court found “the most natural reading” of Section 501(b) to be that “by identifying who may bring suit under the Act, Congress signaled that others may not.”²⁸ Because copyright rights exist only under the acts of Congress, only Congress (not a court) may determine who may enforce the rights Congress has created.²⁹ Guided by the interpretative canon of *expressio unius est exclusio alterius*, the court also found that because Congress only provided a cause of action for copyright infringement for “legal or beneficial owner[s]” of the six enumerated copyright rights and chose not to include the right to sue as one of those rights, only holders of one of the enumerated exclusive rights can sue for infringement.³⁰

The court expressed reluctance to recognize a non-exclusive agent’s right to sue for copyright infringement, in light of Section 106(b)’s “limits on the right to sue,”³¹ and it observed that Section 501(b) makes no “mention of or accommodation for entities that are mere assignees of the right to sue and whose rights are divorced from all of the exclusive rights.”³² Indeed, Section 501(b)’s notice and joinder provisions only extend to actions brought by a “legal or beneficial owner,” further supporting the conclusion that only a “legal or beneficial owner” of an exclusive copyright right, not a non-exclusive agent, can bring an infringement action even if the agent has been assigned the right to sue.³³ Finally, the court noted that a “central thrust” of the 1976 modifications to the Copyright Act was “to abandon the prohibition on divisibility of copyright,”³⁴ and it found significant, in light of this thrust, that the right to sue for infringement was not listed as a separate right in Section 106.³⁵

The court acknowledged common law principles that otherwise permit the free assignability of federal claims, but it found support for its reading of Section 501(b) in light of the close kinship between copyright law and patent law and Supreme Court precedent holding that the right to sue for past patent infringement is not a chose in action that is freely assignable.³⁶

While the court saw “equitable merit in allowing stock photography companies like DRK to aggregate copyright infringement claims otherwise accrued to their clients” and acknowledged that Congress “might reasonably have chosen to permit such aggregation by assignment,” it held that “as drafted” the Act does not permit DRK to assert those claims without more than a bare right to sue for infringement.³⁷ The court observed: “It is for Congress, not our Court, to say otherwise.”³⁸

DRK’s Agreements with its Photographers Did Not Convey Legal or Beneficial Ownership of Copyrights

The court next considered whether DRK was “a legal or beneficial owner” of an exclusive copyright right under the Representation Agreements and Assignment Agreements and concluded that it was not.³⁹ The court found that the Representation Agreements did not purport to establish an exclusive relationship between DRK and the photographers and that the photographers had not conveyed an exclusive copyright right to DRK.⁴⁰ The Assignment Agreements appeared on their face to convey to DRK “all copyrights and complete legal title” to the covered images, but they required DRK to reassign those rights back to the photographers at the conclusion of any enforcement proceedings.⁴¹ Applying Arizona state contract law,⁴² the court considered extrinsic evidence, including emails and deposition testimony, and found that the Assignment Agreements were not actually intended to convey to DRK any of the photographers’ exclusive copyright rights, merely a bare right to sue.⁴³

As to beneficial ownership, the court noted that the Copyright Act does not define “beneficial owner” and that the legislative history of the Act indicates only that a beneficial owner includes an author who decided to part with legal title to copyright in exchange for percentage royalties based on sales or license fees.⁴⁴ Assuming without deciding that

a beneficial ownership may extend beyond the specific circumstance identified in the legislative history, the court held that DRK was not a beneficial owner because it was only one of many potential non-exclusive agents that could generate revenue from the use of the photographs.⁴⁵

The Dissent

Judge Barrington D. Parker dissented.⁴⁶ While agreeing with the majority that Section 501(b) is “silent on the assignability of claims,” Judge Parker interpreted that silence differently.⁴⁷ He first observed that, prior to the 1976 Act, assignees of the bare right to sue could bring copyright infringement claims, and Congress could have expressly limited their continued ability to do so.⁴⁸ Indeed, he noted that a central purpose of the 1976 Act was “to expand the ability to bring suits for infringement.”⁴⁹ Judge Parker also took issue with the majority’s application of the interpretative canon of *expressio unius est exclusio alterius*. He observed that common law trumps canons of statutory interpretation, and statutes that invade the common law (here, the common law of assignability of choses of action) “must be read with a presumption favoring the retention of longstanding principles of common law ‘except when a statutory purpose to the contrary is evident’ from the text of the statute.”⁵⁰

Judge Parker found the actual text of the Copyright Act not “reasonably susceptible” to the majority’s reading.⁵¹ He found the language in Section 501(b) identifying “legal or beneficial owner[s]” as “entitled” to bring a copyright infringement suit not dispositive of whether others may also be entitled to sue.⁵² He also criticized the majority’s holding as difficult to reconcile with the Second Circuit’s decision in *ABKCO*, in which the court held that an owner of rights under a copyright could sell the rights and, at the same time, sell claims for infringement that had accrued prior to the sale.⁵³

Because Judge Parker considered the text of the Copyright Act and the lack of any express intent to displace common law principles regarding assignability dispositive, he would not have reached the issue of whether DRK possessed beneficial ownership of exclusive copyright rights or the applicability of Arizona state contract law to the Assignment Agreements.⁵⁴ He noted only that, in his view, the record did not allow the court to reach its

conclusion with any confidence.⁵⁵

Key Takeaways

The Second Circuit’s ruling that Section 501(b) does not permit a copyright owner to retain the copyright and convey a mere right to sue is consistent with other courts’ holdings on this issue,⁵⁶ and it provides important clarity given the competing interpretations of *Eden Toys*. From a practical standpoint, agencies and the rights-holders they represent on a non-exclusive basis may need to revisit agreements intended to permit the agencies to enforce copyright infringement claims on their behalf to examine whether those agreements actually convey a right to sue in light of this decision. It remains to be seen whether Congress will act upon the court’s invitation to address the policy and equitable issues at stake through legislative reform.

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1. No. 15-1134, 2018 WL 913119 (2d Cir. Feb. 16, 2018).
 2. *See id.* at *2.
 3. *See id.*
 4. *See id.*
 5. *See id.*
 6. *See id.*
 7. *See id.*
 8. *See id.* at *2, *3.
 9. *See id.* at *2-*3.
 10. *See id.* at *3.
 11. *See id.*
 12. *See id.*
 13. *See id.*
 14. *See id.*
 15. *See id.*; *see also John Wiley & Sons, Inc. v. DRK Photo*, 998 F. Supp. 2d 262 (S.D.N.Y. 2014).
 16. *See* 998 F. Supp. 2d at 275-84.
 17. *See* 2018 WL 913119, at *4.
 18. *See id.* at *4-*7.
 19. 17 U.S.C. § 106.
 20. *See* 2018 WL 913119, at *5 (quoting *Eden Toys*, 697 F.2d at 30 n.2).
 21. *See id.* (citing *Eden Toys*, 697 F.2d at 32-37).
 22. *Id.* (quoting *Eden Toys*, 697 F.2d at 32 n.3).

23. *See id.* at *6, *7. The Second Circuit also noted, “*Eden Toys* at least supports our decision, and no reading of *Eden Toys* prevents us now from adopting that view.” *Id.*
24. *See id.* at *6.
25. *See id.*
26. *See id.* at *7.
27. 17 U.S.C. § 501(b) (emphasis added).
28. *See* 2018 WL 913119, at *7.
29. *See id.*
30. *See id.*
31. *See id.* at *8.
32. *See id.*
33. *See id.*
34. *See id.* at *9.
35. *See id.*
36. *See id.* at *9-*11 (discussing *Sprint Communications Co. v. APCC Services, Inc.*, 554 U.S. 269 (2008) and *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24 (1923)).
37. *See id.* at *15.
38. *See id.*
39. *See id.* at *11-*15.
40. *See id.* at *12.
41. *See id.*
42. The Assignment Agreements did not contain a choice of law provision, so the majority court determined which state had the most significant relationship to the transaction and the parties (the photographers and DRK). *See id.* at *13.
43. *See id.* at *14.
44. *See id.* at *15 (citing H.R. Rep. No. 94-1476, at 159).
45. *See id.* at *14-*15.
46. *See id.* at *16-*21.
47. *See id.* at *16.
48. *See id.* at *16-*18.
49. *See id.* at *18.
50. *See id.* at *17 (quoting *U.S. v. Texas*, 507 U.S. 529, 535 (1993)).
51. *See id.* at *18.
52. *See id.*
53. *See id.*
54. *See id.* at *21.
55. *See id.*
56. *See*, e.g., *Silvers v. Sony Pictures Entm’t, Inc.*, 402 F.3d 881, 890 (9th Cir. 2005) (“The bare assignment of an accrued cause of action is impermissible under 17 U.S.C. § 501(b)”).

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