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NEW YORK COURT OF APPEALS CASE COMPILATIONS: GREENFIELD V. PHILLES RECORDS, INC.

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GREENFIELD V. PHILLES RECORDS, INC.¹

(decided October 17, 2002)

I. SYNOPSIS

In writing for the majority, Judge Graffeo of the New York Court of Appeals, modified in part and affirmed in part the order of the appellate division and held that the “unconditional transfer of ownership rights to a work of art includes the right to use the work in any manner unless those rights are specifically limited by the terms of the contract.”² The court found that defendant Phil Spector did not breach his contract with the Ronettes when he licensed the Ronettes’ master recordings for synchronization because he was granted the unconditional rights to such masters under their 1963 contract.³ Subsequent to rendering its decision, the court remitted to the supreme court for further proceedings in accordance with its opinion.⁴

II. BACKGROUND

In 1963, plaintiffs the Ronettes, a singing group, signed a five-year personal service music recording contract (“Agreement”) with defendant Phil Spector’s production company (“Spector”).⁵ Each member of the Ronettes, in their individual capacity, agreed to perform exclusively for Spector, and in exchange Spector acquired full ownership rights to the Ronettes’ master recordings (“masters”).⁶ The Agreement set forth a royalty schedule to compensate the Ronettes for their services and Spector advanced the Ronettes approximately \$15,000 in cash.⁷ Other than this initial advance, the Ronettes received no royalty payments from Spector.⁸

1. 98 N.Y.2d 562 (2002).

2. *Id.* at 572.

3. *Id.* at 570.

4. *Id.* at 574.

5. *Greenfield v. Philles Records, Inc.*, 2000 N.Y. Misc. LEXIS 336, at *2 (Sup. Ct. 2000).

6. *Id.*

7. *Greenfield*, 98 N.Y.2d at 567.

8. *Greenfield*, 2000 N.Y. Misc. LEXIS 336, at *2.

Between 1963 and 1967, the Ronettes recorded approximately 28 songs for defendant Spector, including a No. 1 hit entitled "Be My Baby."⁹ The Ronettes disbanded in 1967 and, thereafter, plaintiff Ronnie Greenfield of the Ronettes married Phil Spector.¹⁰ Eventually, Spector's company went out of business and his relationship with Greenfield ended in divorce.¹¹ As part of the divorce settlement, Spector and Greenfield executed mutual general releases under California law, purporting to resolve all past and future claims and obligations that existed between them.¹²

Yet beginning in 1981, due to the resurgence of public interest in 1960s music, Spector began to license the Ronettes masters for use in synchronism with movies, television shows and commercials ("synchronization").¹³ Moreover, Spector licensed the masters to third parties for production and distribution in the United States.¹⁴ Although Spector's licensing endeavors produced substantial income, the Ronettes received no royalty income.¹⁵

Consequently, the Ronettes brought suit in the Supreme Court of New York, New York County, for breach of contract and unjust enrichment in 1987, alleging that the Agreement did not grant Spector the right to license the masters for synchronization and domestic redistribution.¹⁶ Spector filed a motion to dismiss pursuant to N.Y. C.P.L.R. 3211(a)(5), (7) and (8).¹⁷ The supreme court denied Spector's motion and Spector appealed interlocutory.¹⁸ On April 17, 1990, the appellate division, First Department, unanimously affirmed the supreme court's denial.¹⁹

Subsequently, Spector filed a motion to strike the Ronettes' demand for a jury trial and a motion *in limine* to exclude evidence of custom and practice in the recording industry, i.e., evidence that the standard royalty rate for income derived from synchronization

9. *Greenfield*, 2000 N.Y. Misc. LEXIS 336, at *3.

10. *Greenfield*, 98 N.Y.2d at 567-68.

11. *Id.*

12. *Id.*

13. *Greenfield*, 2000 N.Y. Misc. LEXIS 336, at *3-4.

14. *Greenfield*, 98 N.Y.2d at 567.

15. *See id.*

16. *Id.*

17. *See Greenfield v. Philles Records, Inc.*, 553 N.Y.S.2d 117, 772 (App. Div. 1990).

18. *See id.*

19. *Greenfield v. Philles Records, Inc.*, 674 N.Y.S.2d 1 (App. Div. 1997).

was 50%.²⁰ The supreme court denied both motions and Spector again appealed interlocutory.²¹ The appellate division reversed the supreme court and granted Spector's motion to strike the Ronettes' demand for a jury trial, yet affirmed the supreme court's denial of Spector's motion *in limine*.²²

After a bench trial, the supreme court ruled in favor of the Ronettes and awarded approximately \$3 million in damages and interest.²³ The court found that the Agreement was ambiguous as to synchronization and redistribution, and thus did not confer all rights to Spector free from any obligation to the Ronettes.²⁴ Spector appealed to the Supreme Court of New York, Appellate Division, First Department.²⁵ The appellate division affirmed the decision of the supreme court, finding that the supreme court's resolution of the relevant ambiguity was premised on a fair interpretation of the evidence.²⁶ The New York Court of Appeals granted Spector leave to appeal.²⁷

III. DISCUSSION

The court of appeals' analysis consisted of: (1) an inquiry into the language of the Agreement and a determination of New York's view on the introduction of extrinsic evidence in contract cases;²⁸ (2) a comparison of case precedent discussing similar contract disputes;²⁹ and (3) a justification for remittance of the case.³⁰ The court held that, under New York's guiding principles of contract interpretation, the Agreement's silence on synchronization and domestic licensing created no ambiguity justifying the introduction of extrinsic evidence to determine the intent of the parties.³¹

20. *Greenfield*, 674 N.Y.S.2d 1.

21. *Id.*

22. *See id.*

23. *Greenfield*, 98 N.Y.2d at 568.

24. *Greenfield*, 2000 N.Y. Misc. LEXIS 336, at *6.

25. *Greenfield v. Philles Records, Inc.*, 732 N.Y.S.2d 856 (App. Div. 2001).

26. *Id.* at 857.

27. *Greenfield*, 98 N.Y.2d at 568.

28. *See supra* Part III.A and accompanying notes.

29. *See supra* Part III.B and accompanying notes.

30. *See supra* Part III.C and accompanying notes.

31. *Greenfield*, 98 N.Y.2d at 570.

A. *Contract Interpretation*

The court of appeals began its analysis with an inquiry into the standard recording contracts used by producers in the 1960s, specifically looking at the Agreement language regarding ownership rights.³² The ownership rights clause of the Agreement provides that:

All recordings made hereunder and all records and reproductions made therefrom together with the performances embodied therein, shall be entirely [Spector's] property, free from any claims whatsoever by [the Ronettes] or any person deriving any rights of interest from [the Ronettes.] Without limitation of the foregoing, [Spector] shall have the right to make phonograph records, tape recordings or other reproductions of the performances embodied in such recordings by any method now or hereafter known. . .³³

The Ronettes contended that the language in the agreement did not bestow upon Spector the right to exploit the masters in new markets or mediums because the Agreement was silent on such issues.³⁴ Yet the Ronettes conceded that the Agreement unambiguously gave Spector the unconditional ownership rights to the masters.³⁵ As such, Spector argued that, because the Agreement granted him full ownership rights to the masters, the only restrictions upon Spector's rights were those expressly enumerated by the Ronettes in the Agreement.³⁶ Accordingly, Spector argued that the absence of specific references to synchronization and domestic licensing was irrelevant.³⁷

To evaluate the foregoing contentions, the court of appeals turned to the long-settled common-law contract rules that govern interpretation of agreements.³⁸ Indeed, it is a fundamental princi-

32. *Greenfield*, 98 N.Y.2d at 568-69.

33. *Id.*

34. *Id.* at 569.

35. *Id.*

36. *Id.*

37. *Id.*

38. *Greenfield*, 98 N.Y.2d at 569. The court also noted that, although the Copyright Act was amended in 1971 to extend protection to sound recordings, the contract at issue predated such amendment. *Id.* n.4.

ple of contract interpretation that agreements be construed in accordance with the parties' intent.³⁹ The plain meaning of the contract language is the best evidence of the parties' intent if the agreement is "complete, clear and unambiguous on its face. Thus, extrinsic evidence may be considered only if the agreement is ambiguous."⁴⁰

Further, an agreement is ambiguous if its language does not have a "definite and precise meaning, unattended by danger of misconception in the purport of the agreement itself, and concerning which there is no reasonable basis for a difference of opinion."⁴¹ The court cited examples where this court asserted that if there is only one reasonably susceptible meaning on its face, then a court is not free to alter the agreement to reflect its personal notions of fairness and equity.⁴²

In applying these principles to interpret the Agreement between the Ronettes and Spector, the court concluded that there were no ambiguities in the terms of the Agreement and thus Spector was entitled to exercise complete ownership rights to the masters.⁴³ Yet Spector, of course, was still subject to pay the Ronettes any applicable royalties for such exercise.⁴⁴ Essentially, the Agreement's silence on synchronization and domestic licensing did not create an ambiguity allowing the introduction of extrinsic evidence to determine the parties' intent.⁴⁵

B. Supporting Authority

The court of appeals next looked to New York precedent on the issue of retention of rights to artistic property once the work is unconditionally transferred.⁴⁶ The first case the court cited was *Pushman v. New York Graphic Soc'y*,⁴⁷ which involved the uncondi-

39. *Greenfield*, 98 N.Y.2d at 569 (citing *Slatt v. Slatt*, 64 N.Y.2d 966, 967 (1985)).

40. *See id.* (citing *R/S Associates v. New York Job Dev. Auth.*, 98 N.Y.2d 29, 32 (2002)).

41. *Id.* (citing *Breed v. Ins. Co. of N. Am.*, 46 N.Y.2d 351, 355 (1979)).

42. *See id.* at 569-70 (citations omitted).

43. *Id.* at 570.

44. *Id.*

45. *Greenfield*, 98 N.Y.2d at 570.

46. *See id.* at 570-74.

47. 287 N.Y. 302 (1942).

tional transfer of a painting.⁴⁸ In *Pushman*, this court held that the common-law did not permit an artist who unconditionally sold a painting to enjoin the owner from making reproductions of the work.⁴⁹ The *Pushman* court avowed that "an artist must, if he wishes to retain or protect the reproduction right, make some reservation of that right when he sells the painting."⁵⁰

The court also looked to the analogous case of *Burnett v. Warner Bros. Pictures*.⁵¹ In *Burnett*, the plaintiffs unconditionally transferred their rights in a play to defendant, who subsequently adapted the play into a movie and television spinoff series.⁵² Again, this court noted that if the plaintiff intended to retain certain rights, then specific clauses to that effect should have been included in the agreement.⁵³

Likewise, the court noted that the United States Court of Appeals for the Second Circuit reached the same conclusion in *Boosey & Hawkes Music Publs. Ltd. v. Walt Disney Co.*⁵⁴ In *Boosey*, the Agreement granted Walt Disney the right to record the musical composition "The Right of Spring" in "any manner, medium or form" for use in the motion picture *Fantasia*.⁵⁵ Walt Disney, however, reproduced the song in video-cassette and laser disc for foreign distribution.⁵⁶ The plaintiff brought suit alleging that the agreement did not grant Walt Disney the right to distribute the song in new technological mediums.⁵⁷ The Second Circuit reiterated its established precedent that a licensee may properly pursue any uses that may reasonably be said to fall within the "medium" defined in the agreement.⁵⁸ Specifically, the Second Circuit concluded that the broad language of the agreement permitted Walt Disney to use the song

48. *Pushman*, 287 N.Y. 302.

49. *Id.* at 308.

50. *Id.*

51. 493 N.Y.S.2d 326 (App. Div. 1985), *aff'd*, 67 N.Y.2d 912 (1986).

52. *Id.* at 327.

53. *Id.* at 328.

54. 145 F.3d 481 (2d Cir. 1998).

55. *Id.* at 486.

56. *Id.* at 485.

57. *Id.*

58. *Id.* at 486 (quoting *Bartsch v. Metro-Goldwyn-Mayer*, 391 F.2d 150, 155 (2d Cir. 1968)).

in any medium, in the absence of any contractual language to the contrary.⁵⁹

The court summarized the prevalent rules of contract construction and interpretation, stating that the unconditional transfer of ownership rights to a work of art includes the right to use the work in any manner, unless those rights are specifically limited by the terms of the contract.⁶⁰ Essentially, the grantor will retain unenumerated rights only where the agreement grants less than full ownership or specifies only certain rights to use the property.⁶¹

Accordingly, the court applied this principle to the present case.⁶² The Ronettes conceded that Spector owned the masters.⁶³ The Agreement expressly grants Spector the right to make reproductions "by any method now or thereafter known."⁶⁴ As such, Spector has the right to reproduce the masters by any current or future technological methods, including synchronization.⁶⁵

The court went on to reject the Ronettes' further contentions.⁶⁶ First, the court rejected the Ronettes' contention that the royalty schedule restricts Spector's ownership rights.⁶⁷ In fact, the royalty schedule merely provides compensation to the Ronettes, rather than inhibiting Spector's ability to use the masters.⁶⁸

Second, the court distinguished the case-law that the Ronettes cited as supporting authority.⁶⁹ In *Thomas v. Gusto Records, Inc.*,⁷⁰ involving a contract's compensation clause, the Sixth Circuit decided whether the plaintiff was entitled to royalties from the issuance of domestic licenses.⁷¹ The court of appeals distinguished this case because it did not concern the scope of the owners' rights to use the property, as the Ronette/Spector dispute did.⁷² Moreo-

59. Boosey, 145 F.3d 481 (2d Cir. 1998) (and the cases cited therein).

60. *Greenfield*, 98 N.Y.2d at 572.

61. *Id.*

62. *See id.* at 572-73.

63. *Id.* at 572.

64. *Id.*

65. *Id.*

66. *Greenfield*, 98 N.Y.2d at 572-73.

67. *Id.* at 572.

68. *Id.*

69. *Id.* at 573.

70. 939 F.2d 395 (6th Cir. 1991).

71. *Id.*

72. *Greenfield*, 98 N.Y.2d at 573.

ver, *Thomas* conflicts with New York precedent because the Sixth Circuit looked beyond the four corners of the agreement, stating that the silence as to certain categories of royalties equated to contractual ambiguity.⁷³ Thus, the court of appeals distinguished *Thomas*.⁷⁴

As a result, the court refused to follow the holding of *Caldwell v. ABKCO Music & Records, Inc.*⁷⁵ because it cited the *Thomas* court for the proposition that any rights not specifically granted by an artist in an agreement are reserved to the artist.⁷⁶ Furthermore, *Caldwell* also held that the owner of such property, absent unambiguous language, is not free to do whatever he or she wishes with it.⁷⁷ Similarly, the court declined to follow any case that involved the transfer of only partial ownership rights.⁷⁸

Accordingly, the court held that the Agreement, when read as a whole to determine the parties' intent, is susceptible to only one reasonable interpretation - that Spector is authorized to license the masters for use in synchronization and other domestic releases by third parties.⁷⁹

C. Remittance To The Supreme Court

The court's last action was to remit the case to the Supreme Court to recalculate plaintiffs' damages for royalties due on all such sales.⁸⁰ Although the court found in Spector's favor, Spector acknowledged that the royalty schedule for domestic sales encompassed the sale of records, compact discs and other audio reproductions by entities holding domestic third-party licenses from Spector.⁸¹ Therefore, while Spector did not have to pay the Ronettes royalties for all the synchronization licenses, he did have

73. *Greenfield*, 98 N.Y.2d at 573 (citing *Reiss v. Fin. Performance Corp.*, 97 N.Y.2d 195, 199 (2001)).

74. *See id.*

75. 703 N.Y.S.2d 97 (App. Div. 2000).

76. *Greenfield*, 98 N.Y.2d at 573.

77. *Id.* (citing *Caldwell v. ABKCO Music & Records*, 703 N.Y.S.2d 97 (App. Div. 2000)).

78. *See id.* at 573 (refusing to follow *Warner Bros. Pictures v. Columbia Broad. Sys.*, 216 F.2d 945 (9th Cir. 1954)).

79. *Id.* at 572.

80. *Id.* at 573.

81. *Id.*

to pay the Ronettes royalties for the domestic third-party licenses.⁸² As such, the court remitted the case to determine damages pursuant to the applicable schedule in the Agreement, rather than based on the industry standard of 50%.⁸³

In so doing, the court of appeals rejected Spector's argument that the general release under California law executed by Greenfield and Spector in their divorce proceeding barred Greenfield from sharing in any royalties.⁸⁴ The court looked to California's principles of contract interpretation because the release was executed under California law.⁸⁵ Ironically, and contrary to New York, California looks at all extrinsic evidence as a preliminary matter, essentially looking beyond the "four corners."⁸⁶ The court determined that the extrinsic evidence admitted in the lower court's proceeding supported Greenfield's contention and evinced that her right to royalties under the Agreement was not an intended subject of the release.⁸⁷ Therefore, the court affirmed the appellate division's holding that Greenfield was entitled to her share of the royalties from the domestic third-party licensing.⁸⁸

IV. CONCLUSION

In *Greenfield v. Philles Records, Inc.*, the New York Court of Appeals held that the unconditional transfer of ownership rights to a work of art includes the right to use the work in any manner, unless those rights are specifically limited by the terms of the contract.⁸⁹ The court held that the Agreement's silence on synchronization and domestic licensing did not prevent Spector from engaging in such uses because the Ronettes granted Spector complete ownership rights of their masters.⁹⁰

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82. *Greenfield*, 98 N.Y.2d at 573.

83. *Greenfield*, 98 N.Y.2d at 573-74.

84. *Id.* at 574.

85. *Id.*

86. *Id.* (citing *Pacific Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co.*, 442 P.2d 641, 644 (Cal. 1968)).

87. *Id.*

88. *Id.*

89. *Greenfield*, 98 N.Y.2d at 572.

90. *Id.* at 570.

