

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

August Term, 2006

(Argued October 26, 2006 Decided July 24, 2007)

Docket No. 05-7017-cv

PETER PHILLIPS, professionally known as Pete Rock,
Plaintiff-Appellant,

v.

AUDIO ACTIVE LIMITED, trading as Barely Breaking Even,
STUDIO DISTRIBUTION and SANDBOX AUTOMATIC, INC.,
Defendants-Appellees,

HIPHOPSITE.COM,

Defendant.

Before:

CARDAMONE, WALKER, and STRAUB,
Circuit Judges.

Peter Phillips, p/k/a Pete Rock, appeals the November 30, 2005 decision and order and the December 8, 2005 final judgment of the United States District Court for the Southern District of New York (Daniels, J.) dismissing his complaint against defendant music companies for improper venue under Federal Rule of Civil Procedure 12(b)(3).

Affirmed in part, reversed in part, and remanded.

1
2
3
4
5
6
7
8
9
10

PAUL A. CHIN, Law Offices of Paul A. Chin, New York, New York,
for Plaintiff-Appellant.

DOROTHY M. WEBER, New York, New York (Judith A. Meyers, Shukat
Arrow Hafer Weber & Herbsman, LLP, New York, New York, of
counsel), for Defendants-Appellees.

1 CARDAMONE, Circuit Judge:

2 A plaintiff may think that as the initiator of a lawsuit he
3 is the lord and master of where the litigation will be tried and
4 under what law. But if he is a party to a contract that contains
5 forum selection and choice of law clauses his view of himself as
6 ruler of all he surveys may, like an inflated balloon, suffer
7 considerable loss of altitude. Such is the situation plaintiff
8 faces in the appeal before us, where we revisit an issue last
9 addressed by us 15 years ago: what is the effect of a forum
10 selection clause on a complaint that asserts claims arising under
11 the Copyright Act? See Corcovado Music Corp. v. Hollis Music,
12 Inc., 981 F.2d 679 (2d Cir. 1993).

13 Plaintiff Peter Phillips, professionally known as Pete Rock
14 (plaintiff or appellant), is a musician who in 2002 entered into
15 a recording contract with defendant Audio Active Limited t/a
16 Barely Breaking Even (BBE), a music company. This contract gave
17 fruit to two albums in 2004 and 2005. The first album all agree
18 was governed by the recording contract and, except for Phillips'
19 contention that BBE owes him money, it appears to have been
20 produced, released and distributed according to plan. The second
21 album is the source of the principal controversy between the
22 parties.

23 In his complaint against BBE and defendants Studio
24 Distribution (Studio), Navarre Corporation (Navarre),
25 HipHopSite.com and Sandbox Automatic, Inc. (Sandbox)
26 (collectively defendants), Phillips averred that the recording

1 contract contemplated the first album only, and that the release
2 of the second album, over his objections, infringed his
3 copyrights in the 15 songs comprising the album. BBE and Studio
4 moved to dismiss plaintiff's complaint on the basis of a forum
5 selection clause in the contract pursuant to which the parties
6 had agreed to litigate in England any proceeding arising out of
7 the contract.

8 The United States District Court for the Southern District
9 of New York (Daniels, J.) held the forum clause governed
10 Phillips' action, including his copyright claims relating to the
11 second album. Phillips appeals from the district court's
12 November 30, 2005 decision and order and its December 8, 2005
13 judgment granting BBE and Studio's Rule 12(b)(3) motion to
14 dismiss his complaint for improper venue. Plaintiff contends
15 that the district court erred in reading the forum clause to
16 require -- rather than permit -- proceedings to be brought in
17 England, that his copyright claims did not arise out of the
18 recording contract and should have been exempted from operation
19 of the forum clause, and that the clause should be set aside
20 because its enforcement would be unreasonable.

21 We agree with the district court's interpretation of the
22 clause as mandatory and its holding that enforcement of the
23 clause would not be unreasonable and affirm the dismissal of
24 Phillips' breach of contract claim. However, plaintiff's
25 remaining claims predicated on defendants' alleged infringement

1 of his copyrights were improperly dismissed under the forum
2 selection clause.

3 BACKGROUND

4 A. The Recording Contract

5 Phillips entered into the recording contract with BBE in
6 September 2002 under the terms of which he agreed to provide his
7 services as a recording artist and producer to create musical
8 compositions, and BBE agreed to pay the costs of production and
9 to pay royalties to Phillips, including a \$90,000 advance payable
10 in two installments.

11 The contract required Phillips to produce "no less than ten
12 (10) newly recorded and previously unreleased tracks . . . of no
13 less than sixty (60) minutes" and defined these tracks as the
14 "master recordings." The minimum number of tracks was not paired
15 with a maximum anywhere in the contract, but the master
16 recordings were later defined as the album, which was
17 provisionally entitled "Soul Survivor 2." BBE acquired the right
18 to exploit all products of Phillips' services under the contract
19 and the entire copyright in the master recordings. The final
20 paragraph of the recording contract contains a choice of law and
21 forum clause that reads: "[t]he validity[,] construction[,] and
22 effect of this agreement and any or all modifications hereof
23 shall be governed by English Law and any legal proceedings that
24 may arise out of it are to be brought in England." Phillips also
25 signed a letter agreement, which is attached to the recording
26 contract, authorizing Soul Brother Records, Inc. to offer

1 Phillips' services under the contract and stating that the letter
2 agreement "shall be subject to the same laws and exclusive
3 jurisdiction as the above agreement." Phillips received \$55,000
4 from BBE in a first installment of his advance on royalties.
5 Pursuant to the contract, the balance of the advance was payable
6 upon delivery to BBE of the last of the master recordings.

7 B. Release of Second Album

8 In 2004 BBE released an album comprised of Phillips' musical
9 compositions entitled, as foreseen in the contract, Soul Survivor
10 2. While Phillips was preparing the songs that were released on
11 Soul Survivor 2, he composed and recorded additional music.
12 Plaintiff alleges that in 2004, BBE and Studio, a second
13 recording company, sought his permission to release the
14 additional songs, but Phillips, believing the tracks were not
15 ready for release, denied their request. BBE, Studio and
16 Navarre, a distribution company, nonetheless proceeded to release
17 a second album in August or September of 2004 containing 15
18 additional songs created by Phillips. Phillips asserts that
19 Sandbox and HipHopSite.com, both Internet-based distributors of
20 digital media, sold copies of the allegedly infringing album.
21 Plaintiff settled his claims against HipHopSite.com and these
22 were dismissed with prejudice by the district court on May 3,
23 2005.

24 C. Prior Legal Proceedings

25 Plaintiff commenced the instant action in the Southern
26 District of New York on January 26, 2005. His second amended

1 complaint contained five counts against the defendants. Count
2 One stated that BBE had breached the recording contract by
3 failing to pay the second installment of the royalties advance.
4 Counts Two and Three were for direct and contributory copyright
5 infringement under the Copyright Act, 17 U.S.C. § 101 et seq.,
6 and requested remedies provided by the Act. Counts Four and Five
7 asserted alternative state law claims for unjust enrichment and
8 unfair competition on the basis of defendants' exploitation of
9 the additional tracks.

10 On May 27, 2005 BBE and Studio moved to dismiss under Rules
11 12(b)(1), (3) and (6) on the grounds that the forum selection
12 clause in the recording contract required Phillips to bring his
13 suit in England. In a decision and order dated November 30, 2005
14 and a final judgment dated December 8, 2005, the trial court
15 granted BBE and Studio's motion to dismiss for improper venue
16 under Fed. R. Civ. P. 12(b)(3). The district court classified
17 the forum selection clause as mandatory rather than permissive,
18 and it held that Phillips had failed to show that enforcement of
19 the clause would be unreasonable. With respect to plaintiff's
20 copyright claims, Judge Daniels determined that any dispute
21 concerning the defendants' rights to exploit this music was
22 primarily contractual because the defendants had acquired
23 possession of the music legitimately under the contract.
24 Phillips appeals the November 30, 2005 decision and order and the
25 December 8, 2005 final judgment.

1 DISCUSSION

2 I Forum Selection Clause

3 A. Dismissal

4 Determining whether to dismiss a claim based on a forum
5 selection clause involves a four-part analysis. The first
6 inquiry is whether the clause was reasonably communicated to the
7 party resisting enforcement. See, e.g., D.H. Blair & Co. v.
8 Gottdiener, 462 F.3d 95, 103 (2d Cir. 2006). The second step
9 requires us to classify the clause as mandatory or permissive,
10 i.e., to decide whether the parties are required to bring any
11 dispute to the designated forum or simply permitted to do so.
12 See John Boutari & Son, Wines & Spirits, S.A. v. Attiki Imps. &
13 Distrib. Inc., 22 F.3d 51, 53 (2d Cir. 1994). Part three asks
14 whether the claims and parties involved in the suit are subject
15 to the forum selection clause. See, e.g., Roby v. Corp. of
16 Lloyd's, 996 F.2d 1353, 1358-61 (2d Cir. 1993).

17 If the forum clause was communicated to the resisting party,
18 has mandatory force and covers the claims and parties involved in
19 the dispute, it is presumptively enforceable. See id. at 1362-
20 63. The fourth, and final, step is to ascertain whether the
21 resisting party has rebutted the presumption of enforceability by
22 making a sufficiently strong showing that "enforcement would be
23 unreasonable or unjust, or that the clause was invalid for such
24 reasons as fraud or overreaching." M/S Bremen v. Zapata Off-
25 Shore Co., 407 U.S. 1, 15 (1972) (establishing federal standard
26 relating to enforcement of forum clauses applicable in admiralty

1 and international transactions); see Bense v. Interstate Battery
2 Sys. of Am., Inc., 683 F.2d 718, 721 (2d Cir. 1982) (applying
3 Bremen standard to contractual dispute between domestic parties
4 in non-admiralty context).

5 B. Standard of Review

6 Where the district court has relied on pleadings and
7 affidavits to grant a Rule 12(b)(3) motion to dismiss on the
8 basis of a forum selection clause, our review is de novo. See
9 Asoma Corp. v. SK Shipping Co., 467 F.3d 817, 822 (2d Cir. 2006);
10 Gulf Ins. Co. v. Glasbrenner, 417 F.3d 353, 355 (2d Cir. 2005)
11 (adopting standard applied in Rule 12(b)(2) dismissals to review
12 of Rule 12(b)(3) dismissals). In analyzing whether the plaintiff
13 has made the requisite prima facie showing that venue is proper,
14 we view all the facts in a light most favorable to plaintiff.
15 See New Moon Shipping Co. v. Man B&W Diesel AG, 121 F.3d 24, 29
16 (2d Cir. 1997). Contract interpretation as a question of law is
17 also reviewed de novo on appeal. Lee v. BSB Greenwich Mortgage
18 L.P., 267 F.3d 172, 178 (2d Cir. 2001).

19 C. Impact of Choice of Law Clause

20 In the absence of an applicable choice of law provision, it
21 is well established in this Circuit that the rule set out in M/S
22 Bremen applies to the question of enforceability of an apparently
23 governing forum selection clause, irrespective of whether a claim
24 arises under federal or state law. AVC Nederland B.V. v. Atrium
25 Inv. P'ship, 740 F.2d 148, 156 (2d Cir. 1984) (applying M/S
26 Bremen in federal question case); Bense, 683 F.2d at 720-21

1 (same); Jones v. Weibrecht, 901 F.2d 17, 18-19 (2d Cir. 1990)
2 (reaffirming Second Circuit rule that Bremen standard applies to
3 diversity cases).

4 Here, where the parties have agreed that the validity,
5 construction and effect of the recording contract is to be
6 governed by English law, we confront a different legal issue. In
7 analyzing a forum selection clause, what effect should we give to
8 a choice of law provision contained in the same contract?

9 Largely for the reasons we hold parties to their contractual
10 promises to litigate in a specified forum, federal courts give
11 substantial weight to choice of law provisions. See Roby, 996
12 F.2d at 1362-63 (discussing presumptive validity of choice of law
13 clauses in international transactions); State Trading Corp. of
14 India, Ltd. v. Assuranceforeningen Skuld, 921 F.2d 409, 417 (2d
15 Cir. 1990) ("[A] contractual choice of law clause generally takes
16 precedence over choice of law rules"); Richards v.
17 Lloyd's of London, 135 F.3d 1289, 1292-93 (9th Cir. 1998)
18 (extending Bremen standard to evaluation of choice of law
19 clauses). But see Advani Enters., Inc. v. Underwriters at
20 Lloyds, 140 F.3d 157, 162 (2d Cir. 1998) (incorporating choice of
21 law provision into multi-factor test to determine "points of
22 contact" between transaction and potential fora in admiralty
23 case).

24 Despite the presumptive validity of choice of law clauses,
25 our precedent indicates that federal law should be used to
26 determine whether an otherwise mandatory and applicable forum

1 clause is enforceable under Bremen, i.e., step four in our
2 analysis. This is because enforcement of forum clauses is an
3 essentially procedural issue, Jones, 901 F.2d at 19, while choice
4 of law provisions generally implicate only the substantive law of
5 the selected jurisdiction. See Siegelman v. Cunard White Star,
6 221 F.2d 189, 194 (2d Cir. 1955); cf. Woodling v. Garrett Corp.,
7 813 F.2d 543, 551-52 (2d Cir. 1987) (explaining New York rule
8 honoring parties' choice of law to govern substantive but not
9 procedural issues). Were it otherwise, choice of law provisions
10 selecting jurisdictions that disfavor forum clauses would put a
11 district court to the awkward choice of either ignoring the
12 parties' choice of law or invalidating their choice of forum.
13 See, e.g., Bense, 683 F.2d at 722 (declining to apply law
14 specified in contract where such application would render the
15 forum selection clause meaningless).

16 We find less to recommend the invocation of federal common
17 law to interpret the meaning and scope of a forum clause, as
18 required by parts two and three of our analysis. Little
19 discussion of the issue can be found in federal court decisions.
20 See Yavuz v. 61 MM, Ltd., 465 F.3d 418, 427 (10th Cir. 2006).
21 For example, we have turned to federal precedent to interpret
22 forum clauses, but the underlying choice of law question has been
23 left unaddressed. See, e.g., Boutari, 22 F.3d at 52-53 (applying
24 federal precedent to ascertain meaning of forum clause where
25 parties had elected Greek law); Roby, 996 F.2d at 1361 (applying
26 federal precedent to assess scope of clause where parties had

1 chosen English law); see also Manetti-Farrow Inc. v. Gucci Am.,
2 Inc., 858 F.2d 509, 513 (9th Cir. 1988) ("[B]ecause enforcement
3 of a forum clause necessarily entails interpretation of the
4 clause before it can be enforced, federal law also applies to
5 interpretation of forum selection clauses."). But see AVC
6 Nederland, 740 F.2d at 155 (noting that interpretation of Dutch-
7 language forum selection clause in contract among predominantly
8 Dutch principals executed in the Netherlands required application
9 of Dutch law). See generally Jacob Webb Yackee, Choice of Law
10 Considerations in the Validity & Enforcement of International
11 Forum Selection Agreements: Whose Law Applies?, 9 UCLA J. Int'l
12 L. & Foreign Aff. 43, 67 (2004) (describing practice of federal
13 courts reflexively to disregard choice of law provisions when
14 assessing forum selection clauses); Yavuz, 465 F.3d at 427
15 (same).

16 The Tenth Circuit recently discussed the novel question
17 posed by contracts containing choice of law and forum provisions.
18 Yavuz, 465 F.3d at 427-31. Reviewing a clause reading, "[t]his
19 convention is governed by the Swiss law Place of courts
20 is Fribourg," id. at 427, the court noted that before deciding
21 whether to enforce the clause, it had to resolve several
22 subsidiary questions: whether the clause was mandatory or
23 permissive, and whether it governed all of plaintiff's claims.
24 Id. Yavuz observed that the Supreme Court's guidance on forum
25 clauses did not extend to the choice of law question before it
26 (and now before us) because the meaning of each forum or

1 arbitration provision before the Supreme Court in M/S Bremen and
2 its progeny has never been in question. Id. at 430.

3 In light of the Supreme Court's invocation of compelling
4 reasons to uphold contractual choice of law -- like choice of
5 forum -- provisions, Yavuz held that "under federal law the
6 courts should ordinarily honor an international commercial
7 agreement's forum-selection provision as construed under the law
8 specified in the agreement's choice of law provision," id. at
9 428-30; see also Abbott Labs. v. Takeda Pharm. Co., 476 F.3d 421,
10 423 (7th Cir. 2007) ("Simplicity argues for determining the
11 validity and meaning of a forum selection clause . . . by
12 reference to the law of the jurisdiction whose law governs the
13 rest of the contract in which the clause appears.").

14 Without the benefit of briefing by the parties on this
15 issue, we cannot understand why the interpretation of a forum
16 selection clause should be singled out for application of any law
17 other than that chosen to govern the interpretation of the
18 contract as a whole. See Yavuz, 465 F.3d at 428. However, the
19 parties neither objected to the district court's citation to
20 federal precedent in its interpretation of the clause before us,
21 nor construed the clause under English law in their briefs. We
22 will assume from the parties' briefing that they do not rely on
23 any distinctive features of English law and apply general
24 contract law principles and federal precedent to discern the
25 meaning and scope of the forum clause. See Motorola Credit Corp.
26 v. Uzan, 388 F.3d 39, 61 (2d Cir. 2004) ("[T]he parties' briefs

1 assume that New York law controls this issue, and such implied
2 consent . . . is sufficient to establish choice of law."); John
3 Wyeth & Brother Ltd. v. CIGNA Int'l Corp., 119 F.3d 1070, 1074
4 (3d Cir. 1997) (Alito, J.) (applying general contract law
5 principles to interpret forum clause where parties made little
6 reference to English law).

7 II The Forum Clause Requires that any Covered Proceeding
8 Be Brought in England
9

10 Forum selection clauses may serve two distinct purposes.
11 Contracting parties may intend to agree on a potential situs for
12 suit so as to guarantee that at least one forum will be available
13 to hear their disputes. A so-called permissive forum clause only
14 confers jurisdiction in the designated forum, but does not deny
15 plaintiff his choice of forum, if jurisdiction there is otherwise
16 appropriate. See Boutari, 22 F.3d at 53 (reversing dismissal
17 based on permissive choice of forum clause); AVC Nederland, 740
18 F.2d at 155 ("[A] jurisdiction-conferring clause . . . provid[es]
19 a plaintiff with a guaranteed forum, [but] does not deprive him
20 of the right to sue in another having personal jurisdiction over
21 the defendant."); see also Blanco v. Banco Indus. de Venez.,
22 S.A., 997 F.2d 974, 980, 984 (2d Cir. 1993) (granting motion for
23 dismissal based on inconvenient forum despite permissive choice
24 of forum clause specifying forum chosen by plaintiff).
25 Alternatively, contracting parties may intend to agree in advance
26 on a forum where any and all of their disputes must be brought to
27 eliminate surprise of having to litigate in a hostile forum.

1 Roby, 996 F.2d at 1363. A mandatory forum clause is entitled to
2 the Bremen presumption of enforceability. Id.

3 Our inquiry is one of contract interpretation. Hence, our
4 initial focus is on the language of the contract. Here that
5 language provides that "any legal proceedings that may arise out
6 of [the agreement] are to be brought in England." A forum
7 selection clause is viewed as mandatory when it confers exclusive
8 jurisdiction on the designated forum or incorporates obligatory
9 venue language. See Boutari, 22 F.3d at 52-53.

10 The district court found this clause mandatory. We agree.
11 The parties' use of the phrase "are to be brought" establishes
12 England as an obligatory venue for proceedings within the scope
13 of the clause. The reference to a particular location, although
14 lacking the specificity of a particular court or city, adequately
15 distinguishes the parties' language from the clause we reviewed
16 in Boutari. 22 F.3d at 52. In that case, we construed the
17 phrase "[a]ny dispute . . . shall come within the jurisdiction of
18 the . . . Greek Courts" as a permissive clause because it dealt
19 solely with jurisdiction without indicating that such
20 jurisdiction was exclusive. Id. at 52-53. We recognized in
21 Boutari that obligatory venue language suffices to give mandatory
22 force to a forum selection clause. Id. at 53; see Seward v.
23 Devine, 888 F.2d 957, 962 (2d Cir. 1989); Docksider, Ltd. v. Sea
24 Tech., Ltd., 875 F.2d 762, 764 (9th Cir. 1989). Further, the
25 mandatory force of the words "are to be" differentiates the
26 instant clause from the language used by the parties in Blanco,