

**OF RIGHTS AND MEN: THE RE-ALIENABILITY OF
TERMINATION OF TRANSFER RIGHTS IN
*PENGUIN GROUP V. STEINBECK***

By Adam R. Blankenheimer

From its inception, United States copyright law has granted authors reversionary interests in their copyrightable works.¹ Because an author's initial bargaining position with a publisher may be relatively weak,² Congress has consistently given the author the right to regain his copyright after the work has already been published and exploited on the market.³ With copyright back in hand and knowledge of its fair market worth, the author has a second opportunity to sell it for a price that better reflects the work's value.⁴

The Copyright Act of 1976 introduced the modern incarnation of the author's reversionary interest in his copyright: the right to terminate a transfer. During the statutory period, the author or his statutory heirs may terminate any prior assignment of his exclusive rights to the work.⁵ Whereas an author's reversionary rights prior to the 1976 Act were assignable or waivable,⁶ in 1976 Congress mandated that termination of transfer

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1. See Lee Ford Tritt, *Liberating Estates Law From the Constraints of Copyright*, 38 RUTGERS L.J. 109, 147 (2006) (reviewing the history of copyright recapture rights).

2. See *Stewart v. Abend*, 495 U.S. 207, 218-19 (1990) ("It not infrequently happens that the author sells his copyright outright to a publisher for a comparatively small sum." (quoting H.R. REP. NO. 2222, at 14 (1909))).

3. See Melville B. Nimmer, *Termination of Transfers Under the Copyright Act of 1976*, 125 U. PA. L. REV. 947, 950 (1977) ("[T]he most compelling justification for a reversionary right: an author's property, unlike other forms of property, is by its very nature incapable of accurate monetary evaluation prior to its exploitation.").

4. See *Stewart*, 495 U.S. at 218-19.

5. 17 U.S.C. §§ 203(a), 304(c)-(d) (2006). Section 203(a) gives authors the right to terminate post-1978 transfers, 304(c) gives authors the right to terminate pre-1978 transfers, and 304(d) gives authors a second chance to terminate pre-1978 transfers.

6. See *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643, 656-59 (1943) (upholding an author's assignment of his renewal right under the 1909 Act).

rights were inalienable by providing that “[t]ermination . . . may be effected notwithstanding any agreement to the contrary. . . .”⁷

However, the Second Circuit recently ruled in *Penguin Group (USA) Inc. v. Steinbeck* that when the author’s widow renegotiated a 1938 assignment of publication rights to the author’s works in 1994, the author’s statutory heirs lost their § 304(d) right to terminate the assignment.⁸ The court found that the 1994 agreement superseded the 1938 agreement, and thus there was no pre-1978 grant for the heirs to terminate.⁹ The court held that as a post-1978 re-grant of copyright, the 1994 assignment was not void as an “agreement to the contrary,” even though it had the effect of extinguishing the right to terminate a pre-1978 grant of copyright.¹⁰ Accordingly, the Second Circuit ruled that an author or his heirs could either renegotiate a pre-1978 copyright assignment or exercise the statutory right to terminate it, but not both.¹¹

The *Steinbeck* decision carves out an exception to the statutory inalienability of termination of transfer rights, and it illustrates the tension between Congress’s intent to prevent authors and their heirs from selling future copyright interests and courts’ unwillingness to curtail freedom of contract. This Note will argue that, regardless of the wisdom of granting an inalienable reversionary interest in copyright, the *Steinbeck* court wrongly interpreted the statute and incorrectly distinguished its own precedent in *Marvel Characters, Inc. v. Simon*,¹² that the court reached a result inconsistent with the Copyright Act’s statutory inheritance scheme, and that the court’s decision does not offer a predictable standard for future termination of transfer cases.

I. EVOLUTION OF REVERSIONARY RIGHTS IN COPYRIGHTS

Though authors have consistently retained reversionary interests in their works, Congress has several times amended the Copyright Act to alter the statutory period in which those interests vest, in whom they vest, and the conditions under which they are alienable or extinguishable. This Part will first present the legislative history and policy considerations of copyright renewal leading up to the 1976 Act. It will then explain the sta-

7. 17 U.S.C. §§ 203(a)(5), 304(c)(5).

8. 537 F.3d 193, 204 (2d Cir. 2008).

9. *Id.* at 202-03.

10. *See id.* at 204.

11. *Id.*

12. 310 F.3d 280 (2d Cir. 2002).

tutory formalities and effects of termination of transfer rights. Finally, it will discuss how and why Congress made termination of transfer rights inalienable.

A. 1790 to 1978: The Copyright Renewal System

Prior to the 1976 Act, an author could renew copyright for a second term after the initial term of protection expired. Although renewal theoretically gave the author a second opportunity to capitalize on his copyright, courts ruled that it was alienable. As a result, publishers often required the author to assign them the right of renewal prior to initial publication of the work. Consequently, publishers, rather than authors, enjoyed the benefit of the optional renewal term of copyright protection. The right to renew copyright appears in the first United States copyright statute.

1. *The Right of Renewal Under the Copyright Acts of 1790 and 1831*

Congress modeled the two-term renewal system of the Copyright Act of 1790 after England's Statute of Anne.¹³ Under the Statute of Anne, an author enjoyed an initial fourteen-year term of copyright protection for his work and the right to renew for another fourteen years, but if the author died before the initial term expired, his renewal right dissolved and the work entered the public domain.¹⁴ Unlike its British counterpart, the 1790 Act explicitly allowed the author to assign his right of renewal.¹⁵ If the author survived beyond the initial fourteen years, the statute provided that he, his executor, or his assigns could exercise the right to renew copyright protection for a second fourteen-year term.¹⁶

The Copyright Act of 1831 doubled the initial copyright term to twenty-eight years and preserved the right to renew for an additional fourteen years.¹⁷ Yet unlike the 1790 Act, the 1831 Act mandated that if the author died before expiration of the original term, his right of renewal passed to

13. Compare Act of May 31, 1790, ch. 15, 1 Stat. 124 (repealed 1831) with Statute of Anne, 1710, 8 Ann, c. 19 (Eng.). See also *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643, 648-49 (1943) (reviewing the history of the Copyright Act).

14. See *Fred Fisher Music Co.*, 318 U.S. at 647. However, an English court interpreting the Statute of Anne held that an author who conveyed "all his interest in the copyright" at the beginning of the first term also conveyed his interest in the renewal term. *Carnan v. Bowles*, 2 Bro. C.C. 80 (1786), discussed in Diane Leenheer Zimmerman, *Authorship Without Ownership: Reconsidering Incentives in a Digital Age*, 52 DEPAUL L. REV. 1121, 1138 n.70 (2003).

15. Compare Act of May 31, 1790, ch. 15, 1 Stat. 124 (repealed 1831) with Statute of Anne, 1710, 8 Ann, c. 19 (Eng.).

16. Act of May 31, 1790, ch. 15, 1 Stat. 124 (repealed 1831).

17. Act of Feb. 3, 1831, ch. 16, 4 Stat. 436 (repealed 1909).

his surviving spouse and children.¹⁸ Notably, the 1831 Act excised the 1790 Act's provision that the author's assigns may have the right to renew the copyright.¹⁹ Still, the Supreme Court held in *Paige v. Banks* that if an author assigned his copyright "forever" during the first term and survived into the renewal term, then the right of renewal vested in the assignee rather than the author.²⁰ The *Paige* decision, by validating an author's assignment of the right to renew under the 1831 Act despite congressional intent to vest the right in the author or his heirs, foreshadowed the Court's interpretation of the renewal provision of the Copyright Act of 1909 Act in *Fred Fisher Music v. Witmark & Sons*.²¹

2. *The Right of Renewal Under the 1909 Act*

In 1905, on Theodore Roosevelt's suggestion, the House Patent Committee undertook revising the Copyright Act to reflect the sentiment that "authors no longer needed to be . . . protected from their own incompetence by the renewal device."²² Nevertheless, perhaps persuaded by Mark Twain's testimony that he had only made money from *Innocents Abroad* because he owned the right to renew its copyright,²³ Congress preserved the dual copyright term renewal system in the Copyright Act of 1909.²⁴

Under the 1909 Act, copyright subsisted for an initial twenty-eight years followed by an optional twenty-eight year renewal term.²⁵ Section 23 provided that the right of renewal vested in the author during the twen-

18. *Id.*

19. *Id.* See also *Fred Fisher Music Co.*, 318 U.S. at 651; Michael Rosenbloum, *Give Me Liberty and Give Me Death: The Conflict Between Copyright Law and Estates Law*, 4 J. INTEL. PROP. L. 163, 167 (1996). One commentator theorizes that Congress intended to prevent the author from conveying the reversionary interest to anyone but his family. See William F. Patry, *The Copyright Term Extension Act of 1995: Or How Publishers Managed to Steal The Bread From Authors*, 14 CARDOZO ARTS & ENT. L.J. 661, 670 (1996).

20. 80 U.S. (13 Wall.) 608, 614-15 (1871) ("The fair and just interpretation of the terms of the agreement indicate unmistakably that the author of the manuscript . . . intended to vest in the publishers a full right of property thereto.").

21. 318 U.S. at 656-59 (validating an author's assignment of the renewal right); see also Rosenbloum, *supra* note 19, at 167-68.

22. Kathleen M. Bragg, *The Termination of Transfers Provision of the 1976 Copyright Act: Is it Time to Alienate it or Amend it?*, 27 PEPP. L. REV. 769, 770 (2000).

23. Patry, *supra* note 19, at 670 (citing Arguments Before the Committees on Patents on S. 6330 and H.R. 19853, 59th Cong., 1st Sess. 116-21 (1906) (statement of Mark Twain)). Patry notes the irony that Mr. Twain in fact testified in support of a single copyright term of life plus a fixed duration.

24. Copyright Act of 1909, Pub. L. No. 349, 35 Stat. 1075 (repealed 1976).

25. *Id.*

ty-eighth year of the first copyright term.²⁶ If the author was no longer alive, the renewal right would vest in the following order: to the author's widow and children; to the author's executor; or, in the absence of a will, to the author's next of kin.²⁷ Theoretically, the right of renewal gave the author or his statutory heirs a chance to renegotiate the terms of a license or transfer with the enhanced leverage of knowing the market valuation of the copyrighted work.²⁸ In practice, copyright renewal proved difficult and confusing due to unwieldy renewal formalities, which often led to works lapsing into the public domain.²⁹

Moreover, publishers often required an author to assign the right of renewal before it vested, a practice the Supreme Court upheld in *Fred Fisher Music*.³⁰ Though the Court noted the House Committee's sentiment "that it should be the exclusive right of the author to take the renewal term . . . so that he could not be deprived of that right,"³¹ the Court enforced an author's pre-assignment of his renewal copyright interest in his musical composition "When Irish Eyes Are Smiling."³² Justice Frankfurter inferred that if Congress had intended to forbid the author from assigning his right of renewal, it would have made the restriction explicit in the Copyright Act itself.³³ Consequently, the Court refused to nullify an assignment of renewal rights because there was no statutory language to that effect in the 1909 Act.³⁴

B. 1978 to Present: The Right to Terminate Transfer of Copyright

Publishers' practice of compelling authors to assign their renewal rights, validated in *Fisher*, prevented authors from getting a second oppor-

26. *Id.*

27. *Id.*

28. *See* *Stewart v. Abend*, 495 U.S. 207, 218-19 (1990) (citing H.R. REP. NO. 2222, at 14 (1909)).

29. *See* Stephen W. Tropp, *It Had to Be Murder or Will Be Soon – 17 U.S.C. § 203 Termination of Transfers: A Call for Legislative Reform*, 51 J. COPYRIGHT SOC'Y U.S.A. 797, 802 (2004) ("the formalities associated with registration of the renewal term often led to forfeiture"); *see also* MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT § 9.03 et seq.* (2008); R. Anthony Reese, *Reflections on the Intellectual Commons: Two Perspectives on Copyright Duration and Reversion*, 47 STAN. L. REV. 707, 717 (1995) ("[t]he bipartite term increased the availability to the public of creative works . . . since any author desiring continued protection could obtain it by filing for the renewal term.").

30. *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643, 656-59 (1943).

31. *Id.* at 654 (quoting H.R. REP. NO. 2222, at 14-15 (1909)).

32. *Id.* at 656-59.

33. *Id.* at 655-56.

34. *Id.*

tunity to control their copyrights, and thereby eroded the justification for copyright renewal and the dual term copyright regime.³⁵ With the Court's admonition from *Fisher* in mind,³⁶ authors' rights groups petitioned Congress to explicitly restrict the alienability of copyright reversionary interests.³⁷ The Copyright Act of 1976 incorporated their proposal.

The 1976 Act eliminated the dual copyright term in favor of a single duration of the life of the author plus fifty years. The Sonny Bono Copyright Term Extension Act of 1998 (CTEA) lengthened the single term to life plus seventy years.³⁸ For pre-1978 works in their original or renewal copyright term, the 1976 Act and the CTEA granted an additional nineteen and twenty years of copyright protection, respectively.³⁹

Since the single term copyright regime precluded an authors' right to a renewal period, the 1976 Act and the CTEA replaced it with the right to terminate assignments of copyrights.⁴⁰ Sections 203(a) and 304(c) granted the right to terminate post-1978 and pre-1978 assignments, respectively.⁴¹ Because neither party to a pre-1978 assignment agreement could have contemplated new legislation extending the copyright term, the assignee might have received a windfall from the extended term of copyright protection.⁴² Instead, Congress intended that authors should receive the windfall and consequently granted authors the right to terminate pre-1978 copyright transfers.⁴³

35. See *Stewart v. Abend*, 493 U.S. 207, 218 (1990); *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 185 (1985) (White, J., dissenting); see also Bill Gable, *Taking it Back*, LOS ANGELES LAWYER, June 2008, at 34. Gable makes the interesting observation that after *Fisher*, a speculation market developed for third parties to buy up authors' renewal rights in the hopes that the underlying works were successful.

36. Justice Frankfurter proclaimed that if Congress had intended "statutory restraints upon the assignment by authors of their renewal rights, it is almost certain that such purpose would have been manifested." 318 U.S. at 655-56.

37. See Tropp, *supra* note 29, at 803-07.

38. 17 U.S.C. § 302(a) (2006).

39. 17 U.S.C. § 302(a)(2).

40. 17 U.S.C. §§ 203(a), 304(c). Note that the statute excludes from termination all copyrights in works made for hire.

41. *Id.*

42. See John Molinaro, Note, Who Owns Captain America? Contested Authorship, Work-For-Hire, and Termination Rights Under the Copyright Act of 1976, 21 GA. ST. U. L. REV. 565, 573-74 (2004) (citing H.R. REP. NO. 94-1476, at 140 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5756).

43. 17 U.S.C. § 304(c). See also H.R. REP. NO. 94-1476, at 140 ("[T]he author or the dependents of the author should be given a chance to benefit from the extended term. . . . [T]here are strong reasons for giving the author, who is the fundamental beneficiary of copyright under the Constitution, an opportunity to share in it."); *id.* at 124 (not-

The following three sections will explain the mechanics of termination rights, the effects of terminating a transfer, and the inalienability of termination rights.

1. *Conditions of § 203(a) and § 304(c)-(d) Termination*

a) *Timing and Formalities*

To exercise the right to terminate any exclusive or non-exclusive post-1978 copyright grant, the author or his statutory heirs must serve notice to the grantee and the Copyright Office between the twenty-fifth and thirty-third year of the grant and exercise the termination right between the thirty-fifth and fortieth year.⁴⁴ To terminate a pre-1978 grant of copyright entered into before January 1, 1978, the author or his heirs must serve notice between ten and two years before the termination right vests⁴⁵ and exercise it during a five-year period beginning at the end of fifty-six years from the date on which copyright was secured, or January 1, 1978, whichever is earlier.⁴⁶ If the author or his heirs do not exercise the termination right within this period, they will have another opportunity to terminate the assignment beginning at the end of seventy-five years from the date on which the copyright was secured.⁴⁷

b) *Who May Exercise the Termination Right*

If the author dies before he can exercise his termination rights, the statute mandates that the rights pass in one of the following ways: fifty percent to his surviving spouse and fifty percent to the surviving children and/or surviving children of dead children to be split evenly between them; solely to his surviving spouse, if the author has no living children or grandchildren; or solely to his surviving children and surviving children of any dead children, if the author has no surviving spouse.⁴⁸ Furthermore, a per stirpes majority of the statutory rights holders must join together to effect termination of a grant.⁴⁹ However, if a party other than the author

ing that Congress granted termination of transfer rights in order to protect “authors against unremunerative transfers”); Molinaro, *supra* note 42, at 573-74.

44. 17 U.S.C. § 203(a)(3)-(4). Note that a post-1978 transfer must be made by the author himself to be eligible for statutory termination.

45. 17 U.S.C. § 304(c)(4)-(d)(1).

46. 17 U.S.C. § 304(c).

47. 17 U.S.C. § 304(d)(2).

48. 17 U.S.C. § 203(a)(2).

49. 17 U.S.C. § 203(a)(1). *See also* Allison M. Scott, *Oh Bother: Milne, Steinbeck, and an Emerging Circuit Split Over the Alienability of Copyright Termination Rights*, 14 J. INTELL. PROP. L. 357, 368 n.66 (2007) (reasoning that “[b]ecause a fractionated termi-

enters into a pre-1978 grant, only that party pursuant to § 304(a)(1)(C) has the authority to terminate it.⁵⁰

2. *Effects of § 203(a) and § 304(c)-(d) Termination*

Upon termination of a grant, ownership of the copyright reverts to the author or his statutory heirs, even those statutory heirs that owned a minority interest in the termination right and did not join with the majority to exercise it.⁵¹ Each statutory heir obtains an ownership interest in the reverted copyright proportional to his interest in the termination right.⁵²

The practical effect of this scheme is that a further grant of the reverted copyright, or an agreement to make a further grant, is only valid if signed by a majority interest of the right holders⁵³ and made after the effective date of termination, unless it is a re-grant to the original assignee and is made after proper notice of termination.⁵⁴ If valid, the further grant is binding on the minority termination right holders, who can hold an accounting for their share of the benefits of the grant.⁵⁵

C. **The Inalienability of Termination of Transfer Rights**

The statute permits the author or his statutory heirs to terminate a grant of copyright “notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant.”⁵⁶ Indeed, the Supreme Court in *Stewart v. Abend* characterized the termination of transfer rights as “inalienable.”⁵⁷ By establishing that the termination of transfer right “cannot be waived . . . or contracted away,”⁵⁸ Congress avoided the

nation interest must be exercised ‘on a per stirpes basis,’ a majority of heirs will not necessarily represent a majority of the interest.”).

50. 17 U.S.C. § 304(c)(1).

51. 17 U.S.C. § 203(b).

52. 17 U.S.C. § 203(b)(2).

53. 17 U.S.C. § 203(b)(3).

54. 17 U.S.C. § 203(b)(4).

55. 17 U.S.C. § 203(b)(3).

56. 17 U.S.C. § 304(c)(5)-(d)(1). Note that this applies to both § 203(a) and § 304(c)-(d).

57. *Stewart v. Abend*, 495 U.S. 207, 230 (1990); *See also* David Nimmer & Peter S. Menell, *Sound Recordings, Works for Hire, and the Termination-of-Transfers Time Bomb*, 49 J. COPYRIGHT SOC’Y U.S.A. 387, 396 (2001) (noting that “Congress made the termination rights inalienable”). *But see* *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1043 (9th Cir. 2005) (“The only discussion in *Stewart* pertaining to inalienability is the Court’s relatively brief portrayal of the evolution of copyright law.”).

58. H.R. REP. NO. 94-1476, at 125 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5740.

“Witmark problem”⁵⁹ by guaranteeing that authors and their heirs would keep a reversionary copyright interest.

Despite this seemingly clear statutory language, the Ninth Circuit held in *Milne v. Stephen Slesinger, Inc.* that a post-1978 re-grant of *Winnie the Pooh* copyrights superseded the original pre-1978 grant such that A.A. Milne’s statutory heirs lost their right to terminate the initial agreement.⁶⁰ The *Milne* court reasoned that the post-1978 agreement was not an “agreement to the contrary” simply because it had the collateral effect of extinguishing the right to terminate the original agreement.⁶¹ A post-1978 renegotiated agreement thus served “as an alternative to [§ 304(c)] termination.”⁶² The Second Circuit found *Milne* persuasive when it addressed the same issue in *Penguin (USA) v. Steinbeck*.

II. *STEINBECK* CASE SUMMARY

A. Facts

In 1938, John Steinbeck and Viking Press entered into an agreement (1938 Agreement) for the exclusive right to publish Steinbeck’s books in the United States and Canada in exchange for net royalties.⁶³ Viking later assigned the United States publishing right to Penguin Group (USA) Inc., which assumed the contractual duties owed to Steinbeck.⁶⁴

Steinbeck renewed all copyrights covered by the 1938 Agreement during his lifetime.⁶⁵ He died in 1968, leaving the entire interest in his copyrights to his widow, Elaine Steinbeck.⁶⁶ Steinbeck’s sons from a previous marriage, Thomas Steinbeck and John Steinbeck IV, each received a sum of money, but Steinbeck’s will excluded his sons from ownership of the copyrights.⁶⁷ When Congress granted the § 304(c) statutory termination

59. Nimmer, *supra* note 3, at 951 (referring to *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643 (1943), in which the Supreme Court frustrated Congress’ attempt to give authors a chance to regain copyright by validating assignments of renewal rights prior to vesting).

60. 430 F.3d 1036, 1046 (9th Cir. 2005), *cert. denied*, 126 S.Ct. 2969 (2006).

61. *Id.* at 1046.

62. *Id.* It is not clear whether the Ninth Circuit’s ruling extends to renegotiation of a post-1978 copyright grant as a viable alternative to § 203(a) termination.

63. *Penguin Group (USA) Inc. v. Steinbeck*, 537 F.3d 193, 196 (2d Cir. 2008).

64. *Id.*

65. *Id.* at 196-97.

66. *Id.* at 196.

67. *Id.* at 196-97.

right in 1978, Steinbeck's sons and his widow each had a one-half interest in the right to terminate.⁶⁸

The parties never came together to form the majority interest necessary to terminate the 1938 grant under § 304(c). Instead, Elaine Steinbeck, as owner of the copyrights to Steinbeck's books, entered into a new agreement with Penguin in 1994 (1994 Agreement) to publish the works covered by the 1938 Agreement and some additional works.⁶⁹ She received a larger guaranteed advance and an increased royalty rate, and the parties explicitly provided that the 1994 Agreement would terminate and supersede the earlier publishing agreement.⁷⁰ Thomas and John Steinbeck IV were not parties to the 1994 Agreement because, although they shared a portion of the statutory right to terminate transfer of the copyrights, they did not have an ownership interest in the copyrights themselves.⁷¹

When Elaine Steinbeck died in 2003, she left her ownership interest in John Steinbeck's copyrights to a variety of heirs,⁷² but her will specifically excluded Thomas Steinbeck, John Steinbeck IV, and their heirs.⁷³ Because Elaine's share of the § 304(d) termination right was not devisable or inheritable, it expired upon her death, leaving Thomas and the surviving child of John IV (collectively the "Steinbeck Descendants") with the totality of the termination interest between the two of them.⁷⁴ In June 2004, the Steinbeck Descendants served a notice to terminate the 1938 Agreement and recapture the copyrights from Penguin.⁷⁵ Penguin immediately filed suit in the United States District Court for the Southern District of New York seeking declaratory judgment against the Steinbeck Descendants that their notice of termination was invalid because the 1938 Agreement, having been superseded by the 1994 Agreement, was no longer terminable.⁷⁶ Elaine's heirs and estate filed suit seeking the same declaration, and the district court consolidated the actions.⁷⁷

68. See 17 U.S.C. § 304(c)(2)(A)-(B) (2006).

69. *Steinbeck*, 537 F.3d at 196.

70. *Id.*

71. *Id.* at 196-97.

72. None of Elaine's devisees were related to John Steinbeck. See *Steinbeck v. McIntosh & Otis, Inc.*, 433 F. Supp. 2d 395, 400 (S.D.N.Y. 2006).

73. *Id.* at 197.

74. *Id.* at 196-97.

75. *Id.* at 197.

76. *Id.* at 199.

77. *Id.* at 199.

B. The District Court Decision

The district court found that the Steinbeck Descendants' termination notice was valid, and granted summary judgment against Penguin and Elaine Steinbeck's heirs.⁷⁸ The court held that the termination was valid for three reasons: (1) the 1994 Agreement did not supersede the 1938 Agreement because it did not change any of the parties' rights and obligations from the earlier agreement;⁷⁹ (2) the 1994 Agreement intended to preserve the statutory termination right because it contemplated a future exercise of the right;⁸⁰ and (3) even if the 1994 Agreement superseded the 1938 Agreement, it was void under the Copyright Act as "an agreement to the contrary" to the extent that it barred the Steinbeck Descendants from exercising their inalienable termination right.⁸¹ The *Steinbeck* district court found that the plain language of the phrase "notwithstanding any agreement to the contrary" nullified "any contract the effect of which is in contravention of or which negates [§ 304(c)-(d)] termination rights."⁸² To interpret the 1994 Agreement as stripping Steinbeck's statutory heirs of their termination right to the benefit of Elaine and her heirs, the court reasoned, would be "contrary to the very purpose of the termination statute."⁸³ Penguin appealed and the Second Circuit reviewed the lower court's decision.⁸⁴

C. The Second Circuit Decision

On appeal, the Second Circuit found that the district court was in error on all three issues. It reversed and remanded for entry of summary judgment against the Steinbeck Descendants and declared their notice of termination invalid.

1. *The 1994 Agreement Superseded the 1938 Agreement*

The Second Circuit overruled the district court finding that the 1938 Agreement survived because the 1994 Agreement did not alter the parties' rights and obligations under the earlier Agreement.⁸⁵ The court stated that

78. *Steinbeck v. McIntosh & Otis, Inc.*, 433 F. Supp. 2d 395, 401 (S.D.N.Y. 2006).

79. *Id.* at 401-02.

80. *Id.* at 401 (the court asserted that the 1994 Agreement "explicitly carries forward possible future termination under the statute, reading: 'If Elaine Steinbeck exercises her right to terminate grants made to Publisher in this agreement (in accordance with *Section 304(c) of Title 17 of the U.S. Code . . .*)'").

81. *Id.* at 399 (citing 17 U.S.C. § 304(c)(5) (2006)).

82. *Id.*

83. *Id.* at 402 n. 23.

84. *Penguin Group (USA) Inc. v. Steinbeck*, 537 F.3d 193, 199-200 (2d Cir. 2008).

85. *Id.* at 200-01.

its “central inquiry is . . . [the parties’] intent to terminate the 1938 Agreement.”⁸⁶ Under New York state contract law, a subsequent agreement terminates and replaces the original agreement if the subsequent agreement expresses a clear intent to do so.⁸⁷ Because the 1994 Agreement stated it would “cancel and supercede the previous agreements,” the court held that this was the parties’ intent, and the 1994 Agreement therefore superseded the 1938 Agreement.⁸⁸

2. *Even if the 1994 Agreement Contemplated Survival of the Termination Right, the Right Was Extinguished Because There Was No Pre-1978 Transfer to Terminate*

The court further ruled that the Steinbeck Descendants did not have a valid termination right because, since the 1994 Agreement superseded the 1938 Agreement, there was no pre-1978 grant of copyright.⁸⁹ Though the lower court observed that the 1994 Agreement intended to preserve the termination rights, the Second Circuit found this conclusion insignificant.⁹⁰ The court reasoned that whether or not the author’s heirs could exercise the termination right depended on the existence of a pre-1978 grant to satisfy the statute, rather than on the contractual intent of the parties.⁹¹ In addition, the court concluded that neither the statute nor its legislative history expressed the intent that an original grant of copyright should survive a subsequent grant solely for the purposes of exercising future termination rights.⁹² Therefore, because the 1994 Agreement clearly superseded the 1938 Agreement, the court found that the Steinbeck Descendants had no right to terminate the assignment and recapture copyright.⁹³

3. *The 1994 Agreement Was Not Void as an “Agreement to the Contrary”*

Finally, the court held that the 1994 Agreement was not void as an “agreement to the contrary” under the statute. It refused to read “agreement to the contrary” broadly, as the district court had, to mean any

86. *Id.* at 201.

87. *Id.* at 200.

88. *Id.*

89. *Id.* at 202.

90. *Id.* at 201.

91. *Id.*

92. *Id.* at 203 (citing *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1046 (9th Cir. 2005)).

93. *Id.* at 201.

agreement that has the effect of eliminating a termination right.⁹⁴ Based on this reading, the court concluded that neither the plain language nor legislative intent of the Copyright Act precluded authors and their heirs from losing the right to terminate a pre-1978 grant by renegotiating it.⁹⁵ It satisfied the statute that Elaine, Steinbeck's widow, devisee of copyright and statutory successor to half of the termination interest, used her termination right as bargaining power to renegotiate the agreement with Penguin.⁹⁶

Nor did the court consider the 1994 Agreement an "agreement to the contrary" because it barred exercise of the § 304(d) termination right, which Congress did not grant, and therefore did not exist, until 1998.⁹⁷ The court reasoned that because § 304(d) termination is available only if the rights-holder(s) has not already exercised § 304(c), the statute affords but one opportunity to use the termination right.⁹⁸ Moreover, since Elaine used the § 304(c) termination right as a bargaining chip to renegotiate the original publishing agreement, she "exhausted the single opportunity provided by statute."⁹⁹ Thus, though the 1994 Agreement precluded the exercise of § 304(d) termination rights, the court held that it did not violate the statute as an "agreement to the contrary."¹⁰⁰

4. Policy Underpinning of the Steinbeck Decision

Steinbeck interprets the reversionary interest provision of the Copyright Act to favor the publisher, despite Congress's desire to protect au-

94. *Id.* at 202.

95. *Id.* at 203.

96. *Id.* at 204 (reasoning that "nothing in the statute suggests that an author or an author's statutory heirs are entitled to more than one opportunity, between them, to use termination rights to enhance their bargaining power or to exercise them."). However, note that because Elaine only had a fifty percent share of the termination interest, she could not have effected termination unless she had agreed to do so with the Steinbeck Descendants.

97. *Id.* at 202-03 ("We cannot see how the 1994 Agreement could be an 'agreement to the contrary' solely because it had the effect of eliminating termination rights that did not yet exist."). Still, the 1976 Congress intended for the § 304(c) termination right to give authors, rather than their assignees, the windfall from an unforeseen extension of copyright term. See Molinaro, *supra* note 42, at 573-74 (citing H.R. REP. NO. 94-1476, at 140 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5756). When Congress extended the copyright term in 1998 it granted authors a second termination opportunity, suggesting a similar intent to § 304(d).

98. *Steinbeck*, 537 F.3d at 202-03 (citing 17 U.S.C. § 304(d) (2006)).

99. *Id.* at 204.

100. *Id.*

thors and their heirs.¹⁰¹ There have been, and continue to be, compelling policy reasons for courts to rule that the authors' reversion interests are alienable, although the Second Circuit did not expressly discuss them in its decision.¹⁰² Echoing Justice Frankfurter's sentiment in *Fred Fisher Music*,¹⁰³ scholars have frequently criticized sections 203 and 304 as paternalistic and overprotective of authors.¹⁰⁴ Under standard economic theory, the argument goes, restricting an author's ability to part with termination rights might prove detrimental to both authors and publishers because it devalues the copyright as an asset.¹⁰⁵ Though the common justification for an inalienable termination right is that the author cannot demand fair compensation for the work before it has been exploited because its accurate value is not then known, the author and the publisher each take the reciprocal risk that the work might be worth more or less than what they bargained for.¹⁰⁶ Additionally, termination rights are intended to correct the balance of bargaining powers between author and publisher, but "the present statute creates its own imbalance by assuming that all authors have no bargaining power."¹⁰⁷

III. DISCUSSION

This Part will contend that the Second Circuit erred in its construction of the termination of transfers statute, that *Steinbeck* is inconsistent with the statutory inheritance scheme for termination rights, and that *Steinbeck* does not provide a reliable rule for future cases.

101. See *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 172-73 (1985) (noting that the legislative history and plain text of the statute show that "[t]he principal purpose of the amendments in § 304 was to provide added benefits to authors.").

102. Note, however, that the Second Circuit approvingly cited the *Milne* decision, in which the Ninth Circuit was far more explicit about such policy considerations. See *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1046 (9th Cir. 2005).

103. *Fred Fisher Music v. M. Witmark & Sons*, 318 U.S. 643, 657 (1943) ("While authors may have habits making for intermittent want, they may have no less a spirit of independence which would resent treatment of them as wards under guardianship of the law.").

104. See Bragg, *supra* note 22, at 769-70.

105. See *id.* at 657 ("Nobody would pay an author for something he cannot sell.").

106. See Reese, *supra* note 29, at 736-37 (the Nozickian view would "likely regard the reversion of rights to an author as an expropriation of the assignee's justly acquired property . . . [t]he minimal state should have no role in allocating these risks" between author and publisher).

107. Bragg, *supra* note 22, at 802.

A. The Steinbeck Court Construed “Any Agreement to the Contrary” Narrowly

The *Steinbeck* court’s holding that an author’s termination rights can be alienable recalls the Court’s holding in *Fred Fisher Music*. However, the *Fisher* Court interpreted the 1909 Act, which did not explicitly restrict alienability of renewal rights.¹⁰⁸ The 1976 Act, in fact, added the provision that termination of transfer rights “may be effected notwithstanding any agreement to the contrary” so as to directly override *Fisher*.¹⁰⁹ The *Steinbeck* court construed this statute narrowly, but neither its interpretation methods nor its distinguishing of the Second Circuit’s precedent in *Marvel v. Simon* were satisfactory.

1. Plain Language

According to the canons of statutory interpretation, a court first focuses on the plain language of the statute.¹¹⁰ If the language is unambiguous, “judicial inquiry is complete.”¹¹¹ If there is ambiguity, the court then looks to the legislative history and purpose of the statute and “must ‘construct an interpretation that comports with [the statute’s] primary purpose and does not lead to anomalous or unreasonable results.’”¹¹²

Although the *Steinbeck* district court found that the plain language of the phrase “notwithstanding any agreement to the contrary” nullified “any contract the effect of which is in contravention of or which negates [§ 304(c)-(d)] termination rights,”¹¹³ the Second Circuit in *Marvel*¹¹⁴ and the Ninth Circuit in *Milne*¹¹⁵ concluded that this language *was* ambiguous, and those courts subsequently examined the statute’s history and purpose.

The Second Circuit in *Steinbeck*, by contrast, did not address whether the statute was ambiguous. Instead, the court began its analysis by stating:

We do not read the phrase “agreement to the contrary” so broadly that it would include any agreement that has the effect of eli-

108. See *Fisher*, 318 U.S. at 647.

109. See NIMMER & NIMMER, *supra* note 29, § 11.01.

110. See *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 739 (1989).

111. *Connecticut Nat’l Bank v. Germain*, 503 U.S. 249, 253 (1992) (citing *Rubin v. United States*, 449 U.S. 424, 430 (1981)).

112. *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 290 (2d Cir. 2002) (quoting *Connecticut ex rel. Blumenthal v. United States DOI*, 228 F.3d 82, 89 (2d Cir. 2000)).

113. *Steinbeck v. McIntosh*, 433 F. Supp. 2d 395, 399 (S.D.N.Y. 2006) (citing 17 U.S.C. § 304(c)(5) (2006)).

114. *Marvel Characters*, 310 F.3d at 290.

115. *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1046 (9th Cir. 2005), *cert. denied*, 126 S.Ct. 2969 (2006).

minating a termination right. To do so would negate the effect of other provisions of the Copyright Act that explicitly contemplate the loss of termination rights.¹¹⁶

As an example of a provision of the Copyright Act that envisions “loss of termination rights,” the court offered the hypothetical of a majority of termination rights-holders agreeing not to exercise termination, which would extinguish the right as to the minority interests.¹¹⁷ While the court was correct that majority interest holders could eliminate the minority’s interest by not exercising termination, the statute explicitly forbids an *agreement* not to exercise termination: “[t]ermination . . . may be effected notwithstanding any agreement to the contrary.”¹¹⁸ Any such agreement would be unenforceable under the plain language of § 304(c)(5). The Second Circuit’s analogy fails because it equates a de facto extinction of termination rights with a legal agreement effecting such a loss. For this reason, the court’s logic is an imprecise and unsatisfactory attempt at statutory interpretation.

2. *Distinguishing Marvel, Following Milne*

The *Steinbeck* court distinguished its own precedent in *Marvel Characters v. Simon*, and instead followed the Ninth Circuit’s ruling in *Milne*. In *Marvel*, the court considered whether a settlement agreement between the author and a publisher characterizing the *Captain America* comic book as a work made for hire barred the author from exercising his § 304(c) termination rights.¹¹⁹ Because it was uncertain that the settlement agreement was an “agreement to the contrary” by the plain language of the statute, the *Marvel* court looked to the legislative intent.¹²⁰ After considering the legislative background, the court reasoned that the statute intended “to prevent authors from waiving their termination rights by contract.”¹²¹ Accordingly, the court ruled that the settlement agreement classifying the work as a work made for hire was void as an “agreement to the contrary” to the extent that it stripped the author of his right to terminate the transfer.¹²²

116. *Penguin Group (USA) Inc. v. Steinbeck*, 537 F.3d 193, 202 (2d Cir. 2008).

117. *Id.* at 204 (citing 17 U.S.C. § 304(d)). Because a per stirpes majority is needed to exercise termination, the minority rights-holders lose their interest if the majority agrees not to terminate.

118. 17 U.S.C. § 304(c)(5) (2006).

119. *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 285 (2d Cir. 2002).

120. *Id.* at 290.

121. *Id.*

122. *Id.*

The *Steinbeck* court distinguished *Marvel* as holding “only that backward-looking attempts to recharacterize existing grants of copyright so as to eliminate the right to terminate under § 304(c) are forbidden by § 304(c)(5).”¹²³ However, the court omitted any discussion of *Marvel*’s statutory construction of the termination provision. Instead, the *Steinbeck* court adopted the Ninth Circuit’s reasoning in *Milne* that because Congress intended authors to get a second chance to benefit from their copyright, a renegotiated grant that precludes exercise of the termination right is not void as an “agreement to the contrary.”¹²⁴ Even assuming that *Steinbeck* was correct in following *Milne*, the court was careless to distinguish *Marvel* without addressing *Marvel*’s conclusion that Congress intended the statute to prohibit any contract that would strip authors of termination rights. In so doing, *Steinbeck* charts a course that greatly diverges from both the plain language and the intent of the statute.

B. Steinbeck’s Outcome Contravenes the Copyright Act’s Statutory Inheritance Scheme for Reversionary Rights

The most compelling justification for the Second Circuit’s ruling is that Elaine Steinbeck accomplished exactly what Congress envisioned for authors and their heirs: she renegotiated an assignment of copyrights at a time when she knew what they were worth on the market, thus securing more of the works’ value.¹²⁵ Yet Congress did not intend to benefit the author’s widow alone if the author has living children or grandchildren.¹²⁶

123. Penguin Group (USA) Inc. v. Steinbeck, 537 F.3d 193, 203 (2d Cir. 2008).

124. *Id.* (citing *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1046 (9th Cir. 2005)).

125. *Milne*, 430 F.3d at 1046 (quoting H.R. REP. NO. 94-1476, at 124 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5740). The court stated:

The rationale behind the legislation was to “safeguard[] authors against unremunerative transfers” and improve the “bargaining position of authors” by giving them a second chance to negotiate more advantageous grants in their works after the works had been sufficiently “exploited” to determine their “value.” . . . Congress sought to foster this purpose by permitting an author’s heirs to use the increased bargaining power conferred by the imminent threat of statutory termination to enter into new, more advantageous grants.

Id. Still, it is doubtful that Elaine did in fact wield an “imminent threat of statutory termination” during her 1994 renegotiations with Penguin, because “without a majority termination interest, it appears that Elaine Steinbeck would have been unable to terminate the 1938 Agreement on her own.” *Steinbeck*, 537 F.3d at 203 n.5.

126. *See* H.R. REP. NO. 94-1476, at 125 (“There are three different situations in which the shares . . . of a dead author’s widow or widower, children, and grandchildren, must be divided under the statute: (1) The right to effect a termination; (2) the ownership

Just as the termination provisions restrict an author's freedom of contract, so too do they interfere with the author's freedom of testation.¹²⁷ The author is free to devise his copyright ownership interest, but the statute mandates that his family receive the termination of transfer rights upon his death. In this way, the Copyright Act protects the author's family from disinheritance.¹²⁸

By contrast, Elaine Steinbeck completely disinherited the Steinbeck Descendants when she re-granted the publication rights to Penguin. That the author's successor in ownership of copyright can unilaterally prevent the statutory class of heirs from realizing their reversionary interest is inconsistent with the statute.¹²⁹ The *Steinbeck* court erred in following *Milne*'s reasoning that renegotiation of a grant of copyright is a legal "alternative" to termination. Renegotiation, unlike termination, does not necessarily benefit all, or even some of the statutory heirs.¹³⁰ Perhaps a court would reach a different result if the author devised his copyrights, and with them the right to renegotiate grants, to his dry cleaner, say, instead of his widow.¹³¹

C. Steinbeck Fails to Provide a Predictable Rule

When the *Steinbeck* district court decided for the Steinbeck Descendants, some commentators anticipated a split between the Ninth and Second Circuits on the question of whether or not termination rights "can be relinquished or otherwise alienated through contractual arrangements prior to their formal exercise."¹³² However, the Second Circuit in *Steinbeck*

of the terminated rights; and (3) the right to make further grants of reverted rights."). *See also* 17 U.S.C. §§ 203(a)(2), 304(c)(2) (2006).

127. *See generally* Rosenbloum, *supra* note 19 (reviewing how copyright law preempts the author's conveyance of his contingent copyright interests).

128. *See Saroyan v. William Saroyan Found.*, 675 F. Supp. 843, 846 (S.D.N.Y. 1987) (holding that an author's reversionary copyright interest belonged to the statutory heirs "regardless of the author's own wishes"). *See also* Rosenbloum, *supra* note 19, at 164-65.

129. For a general overview of the how copyright law conflicts with a deceased author's testament, see Tritt, *supra* note 1, at 182-86.

130. This result also undermines the court's intent to encourage parties' freedom of contract. *See* Scott, *supra* note 49, at 386-87 ("[A]llowing one heir to use his termination rights as a bargaining tool to negotiate a post-transfer contract completely deprives other heirs of their ability to similarly use their termination rights as a basis for negotiating their own bargains.").

131. Under the *Steinbeck/Milne* rule, if an author devised ownership of his copyrights to a party not belonging to the statutory inheritance class, and that party subsequently renegotiated the grant of copyright, none of the author's statutory heirs would be able to exercise termination rights or indeed receive any benefit from the author's works.

132. Scott, *supra* note 49, at 387-88; *see also* Roxanne E. Christ, *Milne v. Slesinger: The Supreme Court Refuses to Review the Ninth Circuit's Limits on the Rights of Au-*

adopted the *Milne* rule, and the circuits now agree that renegotiating a pre-1978 grant of copyright dissolves the right to terminate it.¹³³ Consequently, the Supreme Court, which denied the petition for certiorari in *Milne*,¹³⁴ is unlikely to address the issue.

It is unlikely that the rule in *Steinbeck* and *Milne* will yield reliable results. In the recent case *Classic Media, Inc. v. Mewborn*, for instance, the Ninth Circuit found valid an heir's termination interest in the *Lassie* copyright, because even though the heir renegotiated an assignment with the production company, her termination rights had not vested at the time.¹³⁵ Thus, she had "nothing in hand with which to bargain," and so the new assignment did not extinguish her termination interest.¹³⁶ The court distinguished *Milne* as a case where the rights-holder "had—and knew that he had—the right to vest copyright in himself at the very time he revoked the prior grants and leveraged his termination rights to secure the benefits of the copyrighted works for A.A. Milne's heirs."¹³⁷

Similarly, to determine whether a re-grant dissolves termination rights, a court's inquiry might now become: (1) whether the subsequent agreement superseded the original, and (2) whether or not the author or his heirs in fact used their termination interest as leverage. This is neither a logical nor dependable method to determine the availability of copyright interests granted by federal statute. The first factor requires courts to apply state contract law. The *Steinbeck* court, for instance, looked to New York law to resolve whether the subsequent grant superseded the original. If the other circuits adopt the *Steinbeck* and *Milne* rule, application of differing state contract laws could generate a lack of uniformity in future termination cases. It could also encourage forum shopping. The second factor of *Steinbeck/Milne* rule is similarly unpredictable, as it "require[s] a very

thors and Their Heirs to Reclaim Transferred Copyrights, 14 UCLA ENT. L. REV. 33, 44-45 (2007) (theorizing that "[w]ith *Marvel Characters, Inc.* as binding precedent, there is at least a greater likelihood in the Second Circuit than in the Ninth Circuit that the termination right would be considered inalienable.").

133. The Ninth and Second Circuits agree that termination rights may be either exercised or used as leverage in negotiations, but not both. It will be interesting to see if the *Steinbeck* Descendants subsequently attempt to hold Elaine's estate for an accounting of fifty percent of the profits from the 1994 Agreement on the theory that they are statutorily determined beneficiaries of the termination interest from which only Elaine derived benefits.

134. *Milne v. Stephen Slesinger, Inc.*, 126 S. Ct. 2969 (2006).

135. 532 F.3d 978, 989 (9th Cir. 2008). At the time *Mewborn*'s heir re-assigned the copyright, she was at the earliest six years away from serving the notice of termination that would vest her right to terminate the grant.

136. *Id.*

137. *Id.*

speculative evaluation of whether or not [the benefits from the agreement] are equivalent to what the heirs would have received through the formal exercise of their termination rights.”¹³⁸ Having courts judge the adequacy of such bargains is almost certain to fuel an increase in litigation over the exercise of copyright grant termination.

IV. CONCLUSION

The Second Circuit ruled in *Steinbeck* that termination of transfer rights may either be exercised or used as leverage in renegotiating a copyright grant. It joined the Ninth Circuit in holding that statutory termination rights are alienable by contract just so long as the author or his heirs have the opportunity to exercise them. In so doing, the Second Circuit has undermined legislative intent and further complicated what was an already complex statute.¹³⁹ Authors and their heirs should be extremely wary about renegotiating the terms of a copyright assignment, as it will likely have the effect, intended or not, of extinguishing their reversionary interests.

138. Scott, *supra* note 49, at 387.

139. One practitioner has cautioned that termination of transfers are “potentially fraught with peril.” Gable, *supra* note 35, at 34.