No. 08-1039

In The

Supreme Court of the United States

THOMAS STEINBECK and BLAKE SMYLE,

Petitioners,

v.

PENGUIN GROUP (USA) INC., et al.,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Second Circuit

BRIEF *AMICUS CURIAE* OF PROFESSORS PETER S. MENELL AND DAVID NIMMER IN SUPPORT OF PETITIONERS

PETER S. MENELL
UNIVERSITY OF CALIFORNIA, BERKELEY
SCHOOL OF LAW
2240 Piedmont Avenue
Berkeley, California 94720-2150
(510) 642-5489

DAVID NIMMER
Counsel of Record
UNIVERSITY OF CALIFORNIA, LOS ANGELES
SCHOOL OF LAW
405 Hilgard Avenue
Los Angeles, California 90095-1476
(310) 203-7079

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INTERESTS OF *AMICI*[1]

Professors Peter S. Menell and David Nimmer submit this brief based on their longstanding academic interest in the sound development of copyright policy and their specific concern with its termination-of-transfer provisions, which underlie this case.

David Nimmer is Professor from Practice at the UCLA School of Law, where he teaches seminars on advanced copyright doctrine. Since 1985, he has authored the updates to *Nimmer on Copyright*. In addition, he writes numerous articles about domestic and international copyright law.

Peter S. Menell is Professor of Law at the University of California at Berkeley School of Law and Director, Berkeley Center for Law & Technology, where he writes and teaches in the field of intellectual property law.

In addition to their independent efforts, Professors Menell and Nimmer often collaborate in the explication of copyright law, most recently in

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[1] The parties have consented to the filing of this brief.

Counsel of record for all parties received notice at least 10 days prior to the due date of the *amici curiae*'s intention to file this brief.

No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the University of California made a monetary contribution to its preparation or submission.

Unwinding Sony, 95 Cal. L. Rev. 941 (2007), and *Legal Realism in Action: Indirect Copyright Liability's Continuing Tort Framework and* Sony*'s De Facto Demise*, 55 UCLA L. Rev. 143 (2007). An ongoing aspect of their collaboration has been the termination-of-transfer doctrine of U.S. copyright law. *See Sound Recordings, Works for Hire, and the Termination-of-Transfers Time Bomb*, 49 J. Copyright Soc'y 387 (2001); *Preexisting Confusion in Copyright's Work For Hire Doctrine*, 50 J. Copyright Soc'y 399 (2003).

Apart from scholarly pursuits, Prof. Nimmer served as counsel of record on behalf of Clare Milne, granddaughter of *Winnie-the-Pooh* author A.A. Milne, in a prominent termination-of-transfer copyright case, referenced below in the substance of this brief. *See Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036 (9th Cir. 2005), *cert. denied*, 548 U.S. 904 (2006). The termination-of-transfer aspect of that case is over, albeit a contract aspect continues as to other parties in district court; Ms. Milne is not a party to the ongoing case, and Prof. Nimmer is not involved in it. None of the parties to that case have advised, participated, or supported this *amicus* filing.

The authors of this brief have received no compensation for their efforts, from any source. The University of California has kindly defrayed all printing expenses.

SUMMARY OF ARGUMENT

For a century, Congress has sought to protect authors and their families by allowing them to grant their copyrights for exploitation and then, decades later, recapture those same rights. After judicial interpretation of the 1909 Act frustrated this intent, Congress spoke unambiguously in 1976: "Termination of the grant may be effected notwithstanding ***any*** agreement to the contrary. . . ." 17 U.S.C. § 304(c)(5) (emphasis added). Yet, in the case below, the Second Circuit has eviscerated that clear Congressional command by enabling a grantee to renegotiate the terms of the grant so as to frustrate recapture by the author's family. *Penguin Group (USA) Inc. v. Steinbeck,* 537 F.3d 193 (2d Cir. 2008). Notwithstanding the unequivocal meaning of the word "any" in § 304(c)(5), explicated unmistakably in the legislative history, the Second Circuit decision invites grantees to engage in all manner of opportunistic behavior to frustrate Congress' clearly expressed language and intent. The Second Circuit's decision conflicts with the Ninth Circuit's recent holding that a re-grant did not block an author's statutory successors from exercising termination. *See Classic Media, Inc. v. Mewborn*, 532 F.3d 978 (9th Cir. 2008). By granting certiorari in this case, this Court can address this division in the circuit courts, restore the intergenerational equity that Congress legislated, and remove the cloud now hanging over innumerable copyrighted works.

ARGUMENT

I. Statutory Background of Copyright Recapture

Prior to the 1976 Act, an author's future interest in his work was the right to renew copyright for a second term. In theory, the right of renewal gave authors and their families a second chance to benefit from the work by canceling unremunerative transfers and regaining copyright. Yet authors rarely got what Congress had originally intended, as publishers routinely required authors and their families to assign renewal rights in advance. Because Congress concluded that alienable reversionary interests did not adequately compensate authors for their works, it explicitly made those rights inalienable and unwaivable when it granted the termination-of-transfer right under the current Act in 1976 and again via an amendment in 1998. 17 U.S.C. §§ 203(a)(5), 304(c)(5), (d)(1).

A. 1909 – The Right of Renewal and its Judge-Made Alienability in *Fisher v. Witmark*

Under the 1909 Act (which governed until January 1, 1978, the effective date of the current Act), authors enjoyed a twenty-eight year term of copyright protection and held the right to renew for an additional twenty-eight years. Pub. L. No. 349, §§ 23-24, 35 Stat. 1075, 1080-81 (1909). Congress intended this right to be "exclusive" to authors and their families so that they "could not be deprived of this right." H.R.

Rep. No. 60-2222, at 15 (1909). Nevertheless, in 1943, this Court upheld an author's assignment of the right to renew copyright in his musical composition "When Irish Eyes are Smiling." *Fred Fisher Music Co. v. M. Witmark & Sons,* 318 U.S. 643 (1943). *Fisher* refused to read the 1909 Act as imposing a restriction on the alienability of renewal interests because the statute did not explicitly provide one. *Id.* at 655-56 (reasoning 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."). As Justice White later observed, Congress' attempt to grant authors and their families a future copyright interest "was substantially thwarted by this Court's decision in *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643 (1943)." *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 185 (1985) (White, J., dissenting); *see also Siegel v. Warner Bros. Entm't, Inc.*, 542 F. Supp. 2d 1098, 1140 (C.D. Cal. 2008) (noting that the "re-valuation mechanism provided by the renewal term under the 1909 Act was largely frustrated by the Supreme Court's decision in *Fred Fisher Music*, 318 U.S. at 656-59, allowing authors to assign away at the outset all of their rights to both the initial and the renewal term.").

B. 1976 – Congress Overrides *Fisher* by Introducing Termination of Transfer as an Author's Inalienable Right of Recapture

What the *Fisher* Court permitted under the 1909 Act, Congress explicitly forbade in the amended legislation. In 1961, the Copyright Office submitted a comprehensive study of copyright law to Congress so that it might revise the 1909 Act. The report noted that the "reversionary feature of the present renewal system has largely failed to accomplish its primary purpose. It has also been the source of more confusion and litigation than any other provision in copyright law." *Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law*, 87th Cong., 53 (H. Comm. Print 1961). The study then commented that "the primary purpose of the reversionary interest would seem to require that the renewal interest be made unassignable in advance." *Id.* at 53-54. Congress included this suggestion in its very first draft of the revised copyright bill.

The Draft Committee entertained several suggestions to update the author's reversionary right so as to remedy what was referred to as "the deficiency of the Supreme Court in *Witmark v. Fisher*." *Discussion and Comments on the Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law*, 88th Cong., 93 (H. Comm. Print 1963). These included: limiting all copyright assignments to twenty years with automatic reversion thereafter; permitting termination of assignments deemed to be

unfair to authors; and granting termination of assignments rights to authors who were only paid a lump sum upfront. The committee debates over reversion were quite spirited, and ultimately Congress chose to include sections granting authors the right to terminate an assignment of copyright. 1964 Revision Bill, H.R. 1947, 88th Cong. §§ 16(a), 22(c) (1964) (codified as 17 U.S.C. §§ 203(a), 304(c) (1976)). Crucially, the proposed statute guaranteed authors a second opportunity to control copyright by ensuring that "[t]ermination of the grant may be effected notwithstanding any agreement to the contrary." *Id.* §§ 16(a)(1), 22(c)(1) (codified as 17 U.S.C. §§ 203(a)(5), 304(c)(5) (1976)). It would take almost twelve years and many more drafts before Congress enacted the Copyright Act of 1976, but this language survived verbatim in order to "protect authors against unremunerative transfers." H.R. Rep. No. 94-1476, at 124 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5740; *see also Mills Music,* 469 U.S. at 172-73 (noting that Congress' intent to "relieve authors of the consequences of ill-advised and unremunerative grants that had been made before the author had a fair opportunity to appreciate the true value of his work product . . . is plainly defined in the legislative history and, indeed, is fairly inferable from the text of § 304 itself.").

1. Termination of Copyright Grants Made Prior to the 1976 Act

Notably, the 1976 Act provided that grants of copyright in newly created works were to be terminable after thirty-five years from the date of the grant, 17 U.S.C. § 203(a), while grants of copyright made under the 1909 Act would be terminable fifty-six years after copyright was first obtained. *Id.* § 304(c). For Congress,

> The arguments for granting a right of termination under section 304 are even more persuasive than they are under section 203; [extending the duration of existing copyrights by nineteen years] represents a completely new property right, and there are strong reasons for giving the author, who is the fundamental beneficiary of copyright under the Constitution, an opportunity to share in it.

H.R. Rep. No. 94-1476, at 140, *reprinted in* 1976 U.S.C.C.A.N. at 5756. Thus, Congress determined that the new property right of an extended copyright term should pass to the author and his or her statutory successors (widow/widower, children, and grandchildren) rather than copyright assignees.

2. Statutory Inheritance Scheme

Moreover, the 1976 Act provided that if the author did not survive to exercise his termination right, the interest would be distributed to his family members

as a statutory class. *See* 17 U.S.C. §§ 203(a)(2), 304(c)(2). Congress specifically made this scheme inalienable: "Termination of the grant may be effected notwithstanding ***any*** agreement to the contrary. . . ." *Id.* §§ 203(a)(5), 304(c)(5) (emphasis added). The author's family takes the interest despite any assignment or will of the author divesting them of copyright ownership. This provision shows Congress' intent to give the author's statutory successors, rather than the author's assignees or devisees, the benefits of copyright recapture – including the new property right of an extended term of protection.

C. 1998 – Congress Extends Copyright Duration Again, Grants Authors a Second Inalienable Right of Recapture

In 1998, the Sonny Bono Copyright Term Extension Act ("CTEA") extended copyright terms for another twenty years. Pub. L. No. 105-298, 111 Stat. 2827. Again wishing to bestow this additional term on authors and their families, Congress once again adopted the same termination device. *See* 17 U.S.C. § 304(d). Section 304(d) allows the author's statutory successors to recapture copyrights that had been granted decades earlier, so long as they had not already exercised their termination rights. Again, the law granted authors and their successors a statutory termination right, allowing them to abrogate agreements by which the author had sold the extended term, "notwithstanding any agreement to

the contrary." *Id.* § 304(c)(5), *incorporated by reference in id.* § 304(d)(1).

II. Analysis

The plain meaning of the phrase "[t]ermination of the grant may be effected notwithstanding agreement to the contrary" is that authors and their successors may terminate copyright assignments in spite of any contractual device that purports to divest them of the right; its plain legislative intent is to override *Fisher* by guaranteeing that authors and their successors have the opportunity to regain copyright. This Court has remarked that termination of transfer rights are "inalienable." *Stewart v. Abend*, 495 U.S. 207, 230 (1990); *see also New York Times Co. v. Tasini*, 533 U.S. 483, 496 n.3 (2001) (characterizing the statutory termination regime as creating an "inalienable authorial right to revoke a copyright transfer" under 17 U.S.C. § 203(a)(5), the post-1978 provision coordinate to § 304(c)(5) for pre-1978 works). Yet the Second Circuit held in the case below that statutory successors' termination rights are alienated when the copyright owner renegotiates an existing grant. *Penguin Group (USA) Inc. v. Steinbeck,* 537 F.3d 193, 202-03 (2d Cir. 2008). The decision harms the statutory successors of innumerable copyrights. It also undermines Congress' intention of shielding authors from the pressures of unequal bargaining power that had produced unremunerative transfers in the creative arts. The Court's review is appropriate and necessary for three reasons.

First, the Second Circuit's construction directly negates the plain language and intent of the statute. Congress made the termination rights inalienable because to do otherwise, as the assignable renewal interests of the 1909 Act demonstrated, would not sufficiently protect authors and their successors.

Second, the case below superimposes state contract law over the federal copyright statute to evaluate the legitimacy of federal copyright interests. Not only does this unpredictable standard invite litigation, it heralds further inconsistent law among the circuits.

Third, the decision will strip many authors' surviving children and grandchildren of their statutorily mandated copyright interests. Those children and grandchildren may now find their ability to terminate previous grants of copyright vanished through no fault of their own.

Critically, the case below implicates numerous valuable copyrights, as all copyrights that are not works-made-for-hire are subject to termination. 17 U.S.C. §§ 203(a), 304(c), (d). Without this Court's immediate guidance, authors and their successors can expect protracted courtroom battles when they attempt to enforce their statutorily mandated recapture rights. Accordingly, the Court must grant review to prevent the uncertainty the Second Circuit's decision will engender regarding sections 203, 304(c) and 304(d).

A. By Making Termination Rights Alienable, the Second Circuit Resurrects *Fisher v. Witmark* and its Unfortunate Effects on Authors

The Second Circuit in the case below turned back the clock to the *Fisher* regime, under which publishers could contractually block authors and their families from exercising copyright reversion. Ironically, the court did so by interpreting the statutory provision that was intended to overrule the *Fisher* decision: "Termination . . . may be effected notwithstanding any agreement to the contrary. . . ." 17 U.S.C. § 304(c)(5). Indeed, the Second Circuit stated that it did not "read the phrase 'agreement to the contrary' so broadly that it would include any agreement that has the effect of eliminating a termination right." *Steinbeck*, 537 F.3d at 202.

Forgetting for a moment that the court somehow read the phrase "any agreement to the contrary" to mean "only some agreements to the contrary," the history of copyright law teaches that alienable reversionary interests stand to benefit publishers – and copyright lawyers[2] – at authors' expense. By granting inalienable termination rights to authors and their statutory successors, Congress sought to prevent the "confusion and litigation" spawned by the alienable

[2] One copyright practitioner recently referred to termination of transfers as "the gift that keeps on giving . . . although potentially fraught with peril." Bill Gable, *Taking it Back*, L.A. Lawyer, June 2008, at 34.

renewal rights of the 1909 Act. The Second Circuit's decision reintroduces the uncertainty surrounding countless future copyright interests by holding that a renegotiation of a copyright grant is a substitute for its termination.

Just as *Fisher* sanctioned publishers' practice of securing renewal rights from authors and their families in order to preclude future copyright reversion, so now does *Steinbeck* encourage publishers to renegotiate copyright grants to prevent statutory successors from later exercising termination. The decision below once again gives publishers an easy tool to block termination without having to confer adequate benefits on authors and their families. With a slight adjustment to the royalty rates or other contractual terms, an assignee will claim that a renegotiation superseded the original grant and thereby escape the prospect of termination. Copyright law has been here before; the scenario that the Second Circuit generates is identical to that which Congress tried to remedy in 1976. This Court's review is warranted to interpret the termination-of-transfer language faithfully.

B. The *Steinbeck* Rule Is Unpredictable Because It Looks to State Law Rather Than the Federal Statute to Determine the Validity of Federal Copyright Interests

The Copyright Act permits authors and their successors to terminate a grant if they comply with

statutory notice and timing requirements. The Second Circuit's decision imports the different legal regime of state law, such that federal termination becomes inoperative when publishers have engaged in machinations of regranting, rescission, or novation. The availability of termination rights, which are federally granted property interests, now turns on whether there has been a superseding agreement under applicable state contract law. Indeed, the *Steinbeck* court looked to New York state law to determine whether Steinbeck's original grant to Penguin in 1938 had been superseded by Penguin's renegotiated contract with Steinbeck's widow in 1994. 537 F.3d at 200-01. Such an inquiry guarantees further inconsistent law, encourages strategic forum shopping, and conflicts with clear federal policy preempting state laws that interfere with federal copyright law mandates and protections. *See* 17 U.S.C. § 301(a).

As noted in the petitioner's brief, a circuit split has emerged over whether and in what circumstances a renegotiated grant extinguishes the right to terminate the original transfer. In contrast to *Steinbeck,* the Ninth Circuit recently held that a re-grant did not block an author's statutory successors from exercising termination because they did not use their termination rights as leverage during the renegotiations. *Mewborn*, 532 F.3d at 989. The Ninth Circuit distinguished its prior decision in *Milne v. Stephen Slesinger, Inc.* – allowing a grantee to "rescind and regrant" a copyright license for the express purpose of

blocking the author's family members from exercising their statutory termination rights, 430 F.3d 1036, 1046 (9th Cir. 2005), *cert. denied*, 548 U.S. 904 (2006) – on the ground that the rights-holder there "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." *Mewborn,* 532 F.3d at 989. None of these decisions follow the clear dictate of the federal statute that "[t]ermination of the grant may be effected notwithstanding ***any*** agreement to the contrary." 17 U.S.C. § 304(c)(5) (emphasis added).

How many more judicial roadblocks can the circuits place in front of authors and statutorily designated successors? After *Milne, Steinbeck,* and *Mewborn*, not only will courts have to apply state law to determine whether a copyright assignment has been superseded, they will have to investigate whether the relevant parties knew that they possessed termination interests at the time and whether they received just benefits from the renegotiated terms. Having courts measure the adequacy of such bargains is neither an appropriate nor predictable method of determining a property right that "may be exercised notwithstanding any agreement to the contrary."

C. The *Steinbeck* Decision Overrides Congress' Intent to Vest Copyright Interests in Statutory Successors

The decision below invites crafty assignees to undermine the statute most readily in those situations where the statutory successors take the termination interest, but the author's will devises his copyright ownership interest elsewhere. Rather than bequeath their copyright royalties by will to their surviving family members, authors at times name in their will a favored charity,[3] a mistress,[4] or a testamentary trust to act for the benefit of numerous interests.[5] Notwithstanding those testamentary dispositions, Congress vested the right to terminate transfers automatically in the author's statutory successors (the surviving widow and children, and in the case of pre-deceased children, then the author's grandchildren). 17 U.S.C. §§ 203(a)(2), 304(c)(2), (d)(1). Aware that the copyright bar would exercise its ingenuity to devise strategems to sidestep the

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[3] Author William Saroyan preferred to leave his writings to his sister and a foundation as opposed to his own children. *See Saroyan v. William Saroyan Found.*, 675 F. Supp. 843, 843-44 (S.D.N.Y. 1987), *aff'd mem.*, 862 F.2d 304 (2d Cir. 1988).

[4] Composer Dave Dreyer left a portion of his earnings to his mistress. *See Larry Spier, Inc. v. Bourne Co.*, 953 F.2d 774, 776 (2d Cir. 1992).

[5] A.A. Milne left his interests in *Winnie-the-Pooh* not directly to his widow and surviving son, Christopher Robin Milne, but instead to a testamentary trust created for the benefit of various charities along with his family members. *See Milne*, 430 F.3d at 1039.

termination interest, Congress further specified that the rights would not be subject to defeasement: "Termination of the grant may be effected notwithstanding any agreement to the contrary. . . ." 17 U.S.C. § 304(c)(5). Yet the Second Circuit's rule permits those rights to be eliminated when the inheritor of an author's copyright interest (the charity, mistress, trust, *etc.*) revisits the terms of a transfer – even if the statutory successors are not party to the negotiations.

In fact, this scenario applies to the situation below. John Steinbeck devised the entirety of his copyrights to his widow, Elaine. *Steinbeck*, 573 F.3d at 196. Though Elaine only held a one-half share of the right to terminate transfer of the copyrights, she received all of the benefits when she renegotiated the agreement with the publisher. *Id.*[6] The author's son and grandson, who together held the other half share of the termination interest, received none. *Id.* Allowing the author's devisee to unilaterally disinherit some (and, under other circumstances, all) members of the statutory class violates the statute.

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[6] The statute requires a majority share to exercise termination. 17 U.S.C. § 304(c)(1). Therefore, Elaine would have been unable to exercise termination on her own, even though the Second Circuit concluded that she "exercised the single opportunity [for termination] provided by statute." *Steinbeck*, 537 F.3d at 204.

Moreover, the rule of law adopted below encourages publishers to escape the possibility of termination by heading straight to the bargaining table with the author's testamentary devisee, regardless of whether he or she happens to be one of the statutory successors. The result is nothing other than a windfall to the testamentary devisee and publisher alike. Sometimes the lucky heir named in the will may turn out to be a surviving spouse locking out hostile children from the author's former marriage; in other instances, publishers may tender compensation to some of the author's progeny in order to induce them to give up their advance termination right, to the prejudice of other children or grandchildren; sometimes the device may be labeled "rescission and regrant" (as it was in *Milne*); at other times, it will purport to "cancel and supersede the previous agreements" (as in the case below); sometimes the new grant will occur when termination itself could already proceed under the statute, at other times prior to the termination window opening.

The decision below allows all these variations and more. Not one of them produces the result that Congress intended. The bedrock rule that should apply across the board is the one that Judge Owen articulated in the district court, before being reversed by the Second Circuit in the ruling below: "To protect this right and prevent creators or statutory heirs from contracting away, for whatever reason, this absolute right to 'recapture' for the years of extended protection any pre-1978 copyright grant, the statute

declares void any contract the effect of which is in contravention of or which negates either of these termination rights." *Steinbeck v. McIntosh & Otis, Inc.*, 433 F. Supp. 2d 395, 399 (S.D.N.Y. 2006).[7]

CONCLUSION

The Second Circuit's decision in *Steinbeck* undermines the provision of the Copyright Act that guarantees the right of reversion to authors and their statutorily mandated successors. In so doing, it disrupts the overall statutory scheme, blocks authors' successors from realizing their statutory interests, and casts a pall of confusion over the ownership of many valuable copyrights. Congress could not have more clearly manifested its intent that authors and

[7] This statutory prohibition is intended to be broadly applied to invalidate such unlawful contracts and liberally protect termination rights. Indeed, copyright termination abrogates freedom of contract in two ways: It allows for the invalidation of the original contractual transfer, and it abrogates subsequent attempts to contract around the termination right it creates.

Steinbeck, 433 F. Supp. 2d at 399 n.10 (citations omitted).

> Any interpretation of the 1994 Agreement having the effect of disinheriting the statutory heirs to the termination interest . . . in favor of Elaine's heirs [the children of the surviving widow, not themselves related to the deceased author] must be set aside as contrary to the very purpose of the termination statute, which protects children and grandchildren, and not just widows.

Id. at 402 n.23.

their families should enjoy an inalienable right to terminate transfer, and the Second Circuit could not have more patently violated it. This Court's review of the case below is essential to restore not merely the integrity and clarity of Congress' language, but the dual promises that copyright law will fairly protect authors from overreaching and secure the interests of statutorily designated successors.

Respectfully submitted,

DAVID NIMMER
UNIVERSITY OF CALIFORNIA,
LOS ANGELES
SCHOOL OF LAW
405 Hilgard Avenue
Los Angeles, California 90095-1476
(310) 203-7079

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