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No. 08-1039

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IN THE  
**Supreme Court of the United States**

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THOMAS STEINBECK AND BLAKE SMYLE,  
*Petitioners,*

v.

PENGUIN GROUP (USA) INC., ET AL.,  
*Respondents.*

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

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**REPLY BRIEF FOR PETITIONERS**

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## REPLY BRIEF FOR PETITIONERS

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In 72 pages of opposition briefing, respondents never once dispute that the question presented by the petition is recurring and exceptionally important both to publishers and to creative artists and their families—points that are amply illustrated by the *amicus* brief of the Songwriters Guild of America and several other associations of creative artists. Nor do respondents dispute that, if the decision below is left undisturbed, publishers—with “their superior bargaining power,” Estate BIO 25—will have at their disposal a powerful mechanism to prevent authors and their families from exercising their statutory termination rights to recapture the value of extended copyright terms. Respondents assert, however, that the issue remains unworthy of this Court’s review because the decisions of the courts of appeals supposedly are “in harmony.” Penguin BIO 1. This is true only in the sense that the Second and Ninth Circuits, when confronted with the question presented by the petition, have sounded very different notes.

Respondents never acknowledge the Ninth Circuit’s straightforward framing of the issue decided in *Classic Media, Inc. v. Mewborn*: “whether the [Copyright] Act’s termination of transfer right . . . can be extinguished by a post-1978 re-grant of the very rights previously assigned before 1978.” 532 F.3d 978, 979 (9th Cir. 2008). That issue is the same question this case presents, which is undoubtedly why *Mewborn* relied so heavily on the district court’s now-vacated decision below to hold that termination rights under the Copyright Act cannot be extinguished by a copyright holder’s agreement to re-

grant previously transferred rights. *Id.* at 986 (quoting Pet. App. 33a & n.23).

Respondents attempt to paper over the conflict with *Mewborn* by pointing to a different Ninth Circuit decision—*Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036 (9th Cir. 2005)—that they believe is consistent with the decision below. But *Mewborn* itself explained that *Milne* involved a “sui generis . . . agreement” that operated as a *de facto* termination “tantamount to following the statutory formalities.” 532 F.3d at 983 n.2, 987.

Elaine Steinbeck’s 1994 agreement with Penguin was not a “sui generis” substitute for statutory termination. As the Estate Respondents acknowledge (at 8), by the time Elaine entered into the 1994 agreement, the termination window had already closed with respect to John Steinbeck’s three oldest works, and she was powerless to exercise termination rights with respect to any other work without the cooperation of Thom Steinbeck or Blake Smyle. And, of course, if Thom or Blake had joined with Elaine to exercise termination rights over those works for which the termination window had not already closed, 50 percent of the previously transferred rights in those works would have reverted to Thom and Blake as John Steinbeck’s statutory heirs. See 17 U.S.C. § 304(c)(6). That is a result Elaine obviously was reluctant to invite. So, rather than terminate John’s 1938 assignment agreement, she joined with Penguin in an effort to cut off the termination rights Congress conferred on Thom and Blake through the artifice of a post-1978 re-grant of the rights to publish the same ten works that John Steinbeck transferred to Penguin’s predecessor.

The question presented in this case is whether such a re-grant of previously transferred rights that is *not* “tantamount to following the statutory formalities” suffices to cut off the termination rights of an author or his statutory heirs. *Mewborn*—not *Milne*—confronted that question, and the Ninth Circuit resolved that vitally important issue differently from the Second Circuit. This Court’s review is warranted.

**I. THE CIRCUITS ARE DIVIDED ON WHETHER THE COPYRIGHT ACT’S TERMINATION RIGHT CAN BE EXTINGUISHED BY RE-GRANTING PREVIOUS TRANSFERS.**

Respondents attempt to obscure the conflict between the Second and Ninth Circuits by cabining the Ninth Circuit’s holding in *Mewborn* and transforming *Milne*’s narrow decision into a sweeping rule. See Estate BIO 16–24; Penguin BIO 24–32. According to respondents, *Milne* holds that a publisher can *always* extinguish termination rights by convincing the author or his heirs to sign a replacement agreement that re-grants the relevant rights. On their view, “*Mewborn* is simply an instance where the same rule of decision [used in *Milne*] was applied to different facts, resulting in a different outcome” because the replacement agreement did not purport to revoke the earlier one. Estate BIO 19; *see also* Penguin BIO 30 (“*Mewborn* does not address the issue *Milne* and *Steinbeck* resolve.”). This tortured reading of the Ninth Circuit’s cases does not withstand scrutiny.

1. In *Milne*, the Ninth Circuit held that the revocation and re-granting of an existing transfer can in some circumstances be “tantamount to following the statutory formalities” for termination. *Mewborn*, 532 F.3d at 987. Because an artist and his

family may exercise their termination right under Section 304 only once, the *de facto* termination in *Milne* prevented Clare Milne from seeking any further termination. Thus, the “sui generis . . . agreement” in *Milne* (*Mewborn*, 532 F.3d at 983 n.2) stands within the Ninth Circuit as a narrow exception to the rule that “agreement[s] to the contrary” cannot extinguish termination rights.

Whatever the merits of this judicially crafted exception to Section 304(c)(5)’s clear statutory language, there could have been no *de facto* termination here because, as the Estate Respondents concede, Elaine Steinbeck did not by herself have the power to terminate John Steinbeck’s 1938 grant when she entered into the 1994 agreement. *See* Estate BIO 8 (explaining that Elaine’s “leverage” was “the possibility that she would *join Steinbeck’s sons or their offspring* in exercising their § 304(c) termination rights” (emphasis added)); *see also id.* at 26 (noting that the termination right was “deadlocked” and could not be exercised “until Elaine passed away”). Indeed, by the time of the 1994 re-grant, the termination window had closed for several of John’s Early Works—making it impossible for Elaine to have obtained by termination what she received through renegotiation. *See ibid.*

Moreover, if Elaine had joined with Thom and Blake in terminating the 1938 agreement, “all rights . . . that were covered by the terminated grant” would have “revert[ed]” to them collectively—not to Elaine alone. 17 U.S.C. § 304(c)(6). Elaine would have retained a 50% interest, but the other 50% would have reverted to Thom and Blake. Thus, far from achieving the same result as the “statutory formalities,” the 1994 agreement subverted them.

2. Perhaps sensing the difficulty in allowing *any* exceptions to the “plain statutory language” of the Copyright Act, *Mewborn*, 532 F.3d at 987, the Ninth Circuit declined in *Mewborn* to expand the *Milne* exception beyond *de facto* terminations. Instead, *Mewborn* confined *Milne* to its “sui generis” facts and held, otherwise, that “a post-1978 re-grant of the very rights previously assigned before 1978” cannot extinguish termination rights. *Id.* at 979–80. That holding squarely conflicts with the Second Circuit’s conclusion below that Elaine’s post-1978 re-grant extinguished petitioners’ termination rights. *See* Pet. App. 15a.

Respondents claim that the decision below does not conflict with *Mewborn* because, unlike Elaine’s 1994 agreement, the post-1978 agreement in *Mewborn* did not purport to revoke the earlier transfer otherwise subject to termination. *See* Estate BIO 20; Penguin BIO 30. On respondents’ view, *Mewborn*’s post-1978 re-grant of the previously transferred rights would have vitiated her termination rights—the judgment of the district court would have been affirmed rather than reversed—if Classic Media’s predecessor-in-interest had inserted language into the post-1978 agreement stating that it cancelled and superseded the pre-1978 transfers. Respondents claim that it is only because *Mewborn*’s post-1978 agreement amended, rather than replaced, the previous transfer that her termination rights survived.

Respondents never explain, however, why it makes any sense—as a matter of federal copyright law—to accord such talismanic significance to parties’ contractual intent to rescind and replace a prior agreement. Penguin itself concedes that the “clear Congressional purpose” behind Section 304(c)(5) is “to prevent authors from waiving their termination



right by contract.” Penguin BIO 37 (quoting *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 290 (2d Cir. 2002)). Respondents leave unanswered the question why Congress—legislating against the background of the *Fred Fisher* fiasco—would allow authors and their statutory heirs to achieve precisely the result it legislated to forestall simply by labeling a post-1978 re-grant of rights as a replacement agreement as opposed to an amendment. This Court does not so lightly ascribe such absurd intentions to Congress. See *W. Air Lines, Inc. v. Bd. of Equalization*, 480 U.S. 123, 133 (1987) (“The illogical results of applying [a proffered] interpretation . . . argue strongly against the conclusion that Congress intended th[o]se results . . .”).

The crucial issue under Section 304(c)(5) is whether the post-1978 agreement would destroy termination rights—and it hardly matters to that inquiry which label the parties attach to their agreement. Yet under the conflicting approaches adopted by the Second and Ninth Circuits, fundamentally different legal consequences follow from an affirmative answer—the termination right would survive in the latter Circuit but perish in the former. This disagreement warrants this Court’s review.

## **II. THE DECISION BELOW IS INCORRECT.**

The clear division of authority between the two circuits that are most important on matters of copyright law alone merits this Court’s intervention. Respondents nonetheless urge this Court to deny review because they believe the Second Circuit’s decision is correct. This Court can most appropriately evaluate these arguments by granting certiorari, but respondents are mistaken in any event.

In both Sections 203 and 304, Congress expressly guaranteed that termination rights cannot be extinguished by contract but instead can be exercised “notwithstanding any agreement to the contrary.” 17 U.S.C. §§ 203(a)(5), 304(c)(5). This robust protection against *any* contractual end-run around statutory termination rights was deliberate: Congress knew that authors and their families had long been slighted in unfair contracts with powerful publishing companies, and it provided that the new termination rights could be exercised “notwithstanding any agreement to the contrary” to “prevent authors from waiving their termination right by contract.” *Marvel Characters*, 310 F.3d at 290, *quoted in Penguin BIO* 35. Yet, that is precisely the result that the Second Circuit permitted in this case by treating Elaine Steinbeck’s 1994 agreement with Penguin as extinguishing her and petitioners’ termination rights. As in *Marvel Characters*, by “effectively contract[ing] away” termination rights, Elaine “ma[de] a true ‘agreement to the contrary’ under Section 304(c)(5).” *Penguin BIO* 36.

Respondents do not attempt to harmonize the decision below with the statute’s plain language or conceded purpose. They instead suggest that the statutory language cannot mean what it says because the legislative history reflects that “the termination provision ‘would not prevent the parties to a transfer or license from voluntarily agreeing at any time to terminate an existing grant and negotiating a new one.’” *Penguin BIO* 10 (quoting House and Senate Reports); *see also Estate BIO* 29 n.11 (same). According the statutory language its plain meaning, respondents complain, would “lock copyright holders into pre-1978 agreements until the termination rights could be formally exercised.” *Estate BIO* 26.

This is a non sequitur. Nothing in the termination provisions prohibits parties from renegotiating existing grants.

Parties to a transfer or license of copyright may renegotiate those existing grants as often as they wish. For instance, an author may negotiate improved royalties for existing grants in exchange for granting rights in a new work. What the statute prohibits is publishers using such a renegotiation to get an author or his heirs to forfeit their statutory termination rights to capture the benefits of Congress's extensions of copyright terms. See Penguin BIO 37 (“[T]he right to take this action [*i.e.*, termination] cannot be waived in advance or contracted away.” (quoting House and Senate Reports)). Indeed, Penguin concedes that “an advance alienation of a party’s own termination right would be a paradigmatic ‘agreement to the contrary.’” Penguin BIO 31. Yet this is precisely what Elaine did: “Penguin was agreeing to more generous payment terms in exchange for Elaine’s decision to refrain from serving termination notices,” Estate BIO 28.<sup>1</sup>

Penguin also attempts to reconcile the decision below with the statutory text by defining an “agreement to the contrary” as “an agreement *by a terminating party* to waive or transfer—alienate—his or her otherwise valid termination rights.” Penguin BIO 37–38 (emphasis added). This narrow interpre-

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<sup>1</sup> The 1994 agreement was executed before the copyright term extension from 75 to 95 years, and thus Penguin (and Elaine) could reasonably have anticipated benefits only for the remainder of the 75-year term. By seeking to preclude petitioners from securing the benefits of the 20-year extended term, Penguin is attempting to obtain far more than the benefit of its bargain.

tation does not save the Second Circuit's decision, which would treat the 1994 agreement as eliminating Elaine's *own* termination rights along with petitioners'. Nor can Penguin's definition be squared with the statute's text: The statute prohibits *any* contractual end-run around termination, including—as here—Elaine's effort to deprive petitioners of their statutory rights by re-granting the relevant copyright interests.

The decision below conflicts with the plain text, history, and context of the Copyright Act. This Court should grant certiorari to correct the Second Circuit's erroneous ruling.

**III. THIS CASE PRESENTS A STRAIGHTFORWARD QUESTION OF STATUTORY INTERPRETATION AND IS AN IDEAL VEHICLE TO RESOLVE THAT QUESTION.**

Penguin does not contest that this case presents a pure question of federal law regarding the proper interpretation of the Copyright Act and that it is an ideal vehicle to resolve the question presented. The Estate Respondents contend, however, that this Court's review is unwarranted because (1) "at most, the petition raises fact-bound questions concerning a particular contract," and (2) this case "is a poor vehicle for interpreting § 304's termination provisions." Estate BIO 27, 30. Both arguments lack merit.

1. The Estate Respondents claim that the decision below answered only a "fundamentally . . . fact-bound question concerning a particular contract, not a broad question of statutory interpretation warranting this Court's review." Estate BIO 27. This would come as news to the Second Circuit, which devoted much of its opinion to interpreting (incorrectly) the

phrase “agreement to the contrary” in Section 304(c)(5). *See* Pet. App. 15a–20a.

The Estate Respondents apparently misunderstand petitioners’ argument. They claim that petitioners argue, “*as a matter of contract interpretation*,” that “the Second Circuit erred in concluding that the 1994 Agreement revoked the 1938 Agreement and the termination rights that went with it.” Estate BIO 27 (emphasis added). Having characterized the relevant dispute as mere “contract interpretation,” *id.* at 27–28, the Estate Respondents urge the Court to deny review of this supposed “state law” issue, *id.* at 29 n.11.

This is a straw man. Petitioners do not argue in this Court that the Second Circuit “misinterpreted the 1994 Agreement,” Estate BIO 28, or quarrel with its conclusion that, under New York contract law, the language of the 1994 agreement reflected an intent to rescind the 1938 Agreement, Pet. App. 4a. None of petitioners’ arguments depends on the resolution of any factual or state-law issues.

Rather, the issue is whether the Copyright Act permits a publisher to destroy statutory heirs’ termination rights by entering into an agreement to rescind a pre-1978 transfer and replace it with a post-1978 transfer of the same rights. Petitioners’ argument that Section 304(c)(5) bars any attempt to extinguish statutory termination rights by re-granting previous transfers raises a pure question of federal statutory interpretation that has divided the Second and Ninth Circuits. This case is an excellent vehicle to resolve that disagreement.

2. The Estate Respondents—now misleadingly labeling themselves a “factio[n] of the Steinbeck family”—also suggest that this case is a poor vehicle be-

cause it implicates “rights inherited by will, which cannot be terminated.” Estate BIO 31. They accuse petitioners of attempting to use “termination notices to nullify an author’s will [and] re-allocate copyright ownership within an author’s family.” *Ibid.*; *see also* Penguin BIO 31, 38 (asserting that petitioners would cause “Steinbeck’s will [to be] rewritten” or “nullified”).

This is pure misdirection; John Steinbeck’s will is completely irrelevant to the case before the Court. As the district court below explained, by the time John Steinbeck died in 1968, he had already transferred to Penguin “the ‘sole and exclusive right’ to publish” his early works that are the subject of this case. *See* Pet. App. 3a. Because one cannot bequeath that which he has already given away, Elaine inherited only the rights in copyright John had not previously assigned to publishers, and John’s rights to royalties under those assignment agreements. “Elaine did not inherit any interest in the book publishing rights Steinbeck granted to Penguin in 1938, because Steinbeck did not own those rights when he died.” *Id.* at 33a n.22. Thus, respondents’ contention that termination rights apply only to transfers made “otherwise than by will” is irrelevant to this case. *See Larry Spier, Inc. v. Bourne Co.*, 953 F.2d 774, 778 (2d Cir. 1992) (explaining that the “otherwise than by will” limitation on termination is inapplicable where “all rights to which Section 304(c) refers had been transferred . . . by ordinary contract” before the author’s death).

Also irrelevant is respondents’ full-throated—and entirely self-serving—defense of John Steinbeck’s supposed testamentary intent. As the Estate Respondents begrudgingly acknowledge (at 3), Congress accorded certain rights to authors’ statutory

heirs, including the right to terminate pre-1978 assignments and recapture the value of extended copyright terms. Thom Steinbeck and Blake Smyle are statutory heirs; the Estate Respondents are not. If the Estate Respondents believe that, by according John Steinbeck's only living child and grandchild opportunity to capture the benefit of the last 20 years of copyright protection for his Early Works, Congress has handed petitioners an unjustifiable "windfall," then they should urge Congress to amend the Copyright Act. But that dissatisfaction with the Copyright Act—the same statutory regime that has rewarded them so richly in the 40 years since John Steinbeck's death—provides no basis for denial of review.

### CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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