

Stewart v. Abend
495 U.S. 207
Supreme Court of the United States
April 24, 1990

James STEWART, et al., Petitioners v. Sheldon ABEND, d/b/a Authors Research Company. 495 U.S. 207, 110 S.Ct. 1750, 109 L.Ed.2d 184, 58 USLW 4511, 1990 Copr.L.Dec. P 26,557, 14 U.S.P.Q.2d 1614. No. 88-2102. Argued Jan. 9, 1990. Decided April 24, 1990. Louis P. Petrich argued for petitioners., with Gary L. Swingle on the briefs. Peter J. Anderson argued for respondent, with James P. Tierney on the briefs. As amici curiae, urging affirmance, were the Register of Copyrights represented by Dorothy Schrader, Ralph Oman, and William J. Roberts, Jr.; the Committee for Literary Property Studies represented by Irwin Karp and Barbara Ringer; and the Songwriters Guild of America represented by David Blasband. As amici curiae, urging reversal, was Columbia Pictures Industries, Inc., et al. represented by Stephen A. Kroft. O'CONNOR, J., delivered the opinion of the Court, in which BRENNAN, MARSHALL, BLACKMUN, and KENNEDY, JJ., joined. WHITE, J., filed an opinion concurring in the judgment. STEVENS, J., filed a dissenting opinion, in which REHNQUIST, C.J., and SCALIA, J., joined.

O'CONNOR, Associate Justice.

The author of a preexisting work may assign to another the right to use it in a derivative work. In this case, the author of a preexisting work agreed to assign the rights in his renewal copyright term to the owner of a derivative work, but died before the commencement of the renewal period. The question presented is whether the owner of the derivative work infringed the rights of the successor owner of the preexisting work by continued distribution and publication of the derivative work during the renewal term of the preexisting work.

I

Cornell Woolrich authored the story "It Had to Be Murder," which was first published in February, 1942, in *Dime Detective Magazine*. The magazine's publisher, Popular Publications, Inc., obtained the rights to magazine publication of the story, and Woolrich retained all other rights. Popular Publications obtained a blanket copyright for the issue of *Dime Detective Magazine* in which "It Had to Be Murder" was published.

The Copyright Act of 1909, 35 Stat. 1075, 17 U.S.C. § 1 et seq. (1976 ed.) (1909 Act), provided authors a 28-year initial term of copyright protection plus a 28-year renewal term. See 17 U.S.C. § 24 (1976 ed.). In 1945, Woolrich agreed to assign the rights to make motion picture versions of six of his stories, including "It Had to Be Murder," to B.G. De Sylva Productions for \$9,250. He also agreed to renew the copyrights in the stories at the appropriate time, and to assign the same motion picture rights to De Sylva Productions for the 28-year renewal term. In 1953, actor Jimmy Stewart and director Alfred Hitchcock formed a production company, Patron, Inc., which obtained the motion picture rights in "It Had to Be Murder" from De Sylva's successors in interest for \$10,000.

In 1954, Patron, Inc., along with Paramount Pictures, produced and distributed, "Rear Window," the motion picture version of Woolrich's story "It

Had to Be Murder.” Woolrich died in 1968, before he could obtain the rights in the renewal term for petitioners as promised and without a surviving spouse or child. He left his property to a trust administered by his executor, Chase Manhattan Bank, for the benefit of Columbia University. On December 29, 1969, Chase Manhattan Bank renewed the copyright in the “It Had to Be Murder” story pursuant to 17 U.S.C. § 24 (1976 ed.). Chase Manhattan assigned the renewal rights to respondent Abend for \$650 plus 10% of all proceeds from exploitation of the story.

“Rear Window” was broadcast on the ABC television network in 1971. Respondent then notified petitioners Hitchcock (now represented by cotrustees of his will), Stewart, and MCA Inc., the owners of the “Rear Window” motion picture and renewal rights in the motion picture, that he owned the renewal rights in the copyright and that their distribution of the motion picture without his permission infringed his copyright in the story. Hitchcock, Stewart, and MCA nonetheless entered into a second license with ABC to rebroadcast the motion picture. In 1974, respondent filed suit against these same petitioners, and others, in the United States District Court for the Southern District of New York, alleging copyright infringement. Respondent dismissed his complaint in return for \$25,000.

Three years later, the United States Court of Appeals for the Second Circuit decided *Rohauer v. Killiam Shows, Inc.*, 551 F.2d 484, cert. denied, 431 U.S. 949 (1977), in which it held that the owner of the copyright in a derivative work [Footnote 1] may continue to use the existing derivative work according to the original grant from the author of the preexisting work even if the grant of rights in the preexisting work lapsed. 551 F.2d 494. Several years later, apparently in reliance on *Rohauer*, petitioners rereleased the motion picture in a variety of media, including new 35 and 16 millimeter prints for theatrical exhibition in the United States, videocassettes, and videodiscs. They also publicly exhibited the motion picture in theaters, over cable television, and through videodisc and videocassette rentals and sales.

Respondent then brought the instant suit in the United States District Court for the Central District of California against Hitchcock, Stewart, MCA, and Universal Film Exchanges, a subsidiary of MCA and the distributor of the motion picture. Respondent’s complaint alleges that the rerelease of the motion picture infringes his copyright in the story because petitioners’ right to use the story during the renewal term lapsed when Woolrich died before he could register for the renewal term and transfer his renewal rights to them. Respondent also contends that petitioners have interfered with his rights in the renewal term of the story in other ways. He alleges that he sought to contract with Home Box Office (HBO) to produce a play and television version of the story, but that petitioners wrote to him and HBO stating that neither he nor HBO could use either the title, “Rear Window” or “It Had to Be Murder.” Respondent also alleges that petitioners further interfered with the renewal copyright in the story by attempting to sell the right to make a television sequel, and that the rerelease of the original motion picture itself interfered with his ability to produce other derivative works.

Petitioners filed motions for summary judgment, one based on the decision in *Rohauer*, supra, and the other based on alleged defects in the story's copyright. Respondent moved for summary judgment on the ground that petitioners' use of the motion picture constituted copyright infringement. Petitioners responded with a third motion for summary judgment based on a "fair use" defense. The District Court granted petitioners' motions for summary judgment based on *Rohauer* and the fair use defense, and denied respondent's motion for summary judgment, as well as petitioners' motion for summary judgment alleging defects in the story's copyright.~ The Court of Appeals reversed, holding that respondent's copyright in the renewal term of the story was not defective. 863 F.2d 1465, 1472 (1988). The issue before the court, therefore, was whether petitioners were entitled to distribute and exhibit the motion picture without respondent's permission despite respondent's valid copyright in the preexisting story. Relying on the renewal provision of the 1909 Act, 17 U.S.C. § 24 (1976 ed.), respondent argued before the Court of Appeals that, because he obtained from Chase Manhattan Bank, the statutory successor, the renewal right free and clear of any purported assignments of any interest in the renewal copyright, petitioners' distribution and publication of "Rear Window" without authorization infringed his renewal copyright. Petitioners responded that they had the right to continue to exploit "Rear Window" during the 28-year renewal period, because Woolrich had agreed to assign to petitioners' predecessors in interest the motion picture rights in the story for the renewal.

Petitioners also relied, as did the District Court, on the decision in *Rohauer v. Killiam Shows, Inc.*, supra. In *Rohauer*, the Court of Appeals for the Second Circuit held that statutory successors to the renewal copyright in a preexisting work under § 24 could not

"depriv[e] the proprietor of the derivative copyright of a right . . . to use so much of the underlying copyrighted work as already has been embodied in the copyrighted derivative work, as a matter of copyright law."

Id. at 492. The Court of Appeals in the instant case rejected this reasoning, concluding that, even if the preexisting work had been incorporated into a derivative work, use of the preexisting work was infringing unless the owner of the derivative work held a valid grant of rights in the renewal term.~

II

A

Petitioners would have us read into the Copyright Act a limitation on the statutorily created rights of the owner of an underlying work. They argue in essence that the rights of the owner of the copyright in the derivative use of the preexisting work are extinguished once it is incorporated into the derivative work, assuming the author of the preexisting work has agreed to assign his renewal rights. Because we find no support for such a curtailment of rights in

either the 1909 Act, the 1976 Act, or the legislative history of either, we affirm the judgment of the Court of Appeals.

Petitioners and Amicus Register of Copyrights assert, as the Court of Appeals assumed, that § 24 of the 1909 Act, and the case law interpreting that provision, directly control the disposition of this case. Respondent counters that the provisions of the 1976 Act control, but that the 1976 Act reenacted § 24 in § 304 and, therefore, the language and judicial interpretation of § 24 are relevant to our consideration of this case. Under either theory, we must look to the language of and case law interpreting § 24.

The right of renewal found in § 24 provides authors a second opportunity to obtain remuneration for their works. Section 24 provides:

“[T]he author of [a copyrighted] work, if still living, or the widow, widower, or children of the author, if the author be not living, or if such author, widow, widower, or children be not living, then the author’s executors, or in the absence of a will, his next of kin shall be entitled to a renewal and extension of the copyright in such work for a further term of twenty-eight years when application for such renewal and extension shall have been made to the copyright office and duly registered therein within one year prior to the expiration of the original term of copyright.”

17 U.S.C. § 24 (1976 ed.)

Since the earliest copyright statute in this country, the copyright term of ownership has been split between an original term and a renewal term. Originally, the renewal was intended merely to serve as an extension of the original term; at the end of the original term, the renewal could be effected and claimed by the author, if living, or by the author’s executors, administrators or assigns. See Copyright Act of May 31, 1790, ch. XV, § 1, 1 Stat. 124. In 1831, Congress altered the provision so that the author could assign his contingent interest in the renewal term, but could not, through his assignment, divest the rights of his widow or children in the renewal term. See Copyright Act of February 3, 1831, ch. XVI, 4 Stat. 436; see also G. Curtis, *Law of Copyright* 235 (1847). The 1831 renewal provisions created

“an entirely new policy, completely dis severing the title, breaking up the continuance . . . and vesting an absolutely new title eo nomine in the persons designated.”

White-Smith Music Publishing Co. v. Goff, 187 F.2d 7, 250 (CA1 1911). In this way, Congress attempted to give the author a second chance to control and benefit from his work. Congress also intended to secure to the author’s family the opportunity to exploit the work if the author died before he could register for the renewal term. See Bricker, *Renewal and Extension of Copyright*, 29 S.Cal.L.Rev. 23, 27 (1955) (“The renewal term of copyright is the law’s second chance to the author and his family to profit from his mental labors”).

“The evident purpose of [the renewal provision] is to provide for the family of the author after his death. Since the author cannot assign his

family's renewal rights, [it] takes the form of a compulsory bequest of the copyright to the designated persons."

De Sylva v. Ballentine, 351 U. S. 570, 351 U. S. 582 (1956). See *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U. S. 643, 318 U. S. 651 (1943) (if, at the end of the original copyright period, the author is not living, "his family stand[s] in more need of the only means of subsistence ordinarily left to them" (citation omitted)).

In its debates leading up to the Copyright Act of 1909, Congress elaborated upon the policy underlying a system comprised of an original term and a completely separate renewal term. See *G. Ricordi & Co. v. Paramount Pictures, Inc.*, 189 F.2d 469, 471 (CA2) (the renewal right "creates a new estate, and the ... cases which have dealt with the subject assert that the new estate is clear of all rights, interests or licenses granted under the original copyright"), cert. denied, 342 U.S. 849 (1951). "It not infrequently happens that the author sells his copyright outright to a publisher for a comparatively small sum." H.R.Rep. No. 2222, 60th Cong., 2d Sess., 14 (1909). The renewal term permits the author, originally in a poor bargaining position, to renegotiate the terms of the grant once the value of the work has been tested.

"[U]nlike real property and other forms of personal property, [a copyright] is by its very nature incapable of accurate monetary evaluation prior to its exploitation."

2 M. Nimmer & D. Nimmer, *Nimmer on Copyright*, § 9.02, p. 9-23 (1989) (hereinafter *Nimmer*).

"If the work proves to be a great success and lives beyond the term of twenty-eight years, . . . it should be the exclusive right of the author to take the renewal term, and the law should be framed . . . so that [the author] could not be deprived of that right."

H.R. Rep. No. 2222, *supra*, at 14. With these purposes in mind, Congress enacted the renewal provision of the Copyright Act of 1909, 17 U.S.C. § 24 (1976 ed.). With respect to works in their original or renewal term as of January 1, 1978, Congress retained the two-term system of copyright protection in the 1976 Act. See 17 U.S.C. §§ 304(a) and (b) (1988 ed.) (incorporating language of 17 U.S.C. § 24 (1976 ed.)).

Applying these principles in *Miller Music Corp. v. Charles N. Daniels, Inc.*, 362 U. S. 373 (1960), this Court held that, when an author dies before the renewal period arrives, his executor is entitled to the renewal rights, even though the author previously assigned his renewal rights to another party.

"An assignment by an author of his renewal rights made before the original copyright expires is valid against the world, if the author is alive at the commencement of the renewal period. *Fisher Co. v. Witmark & Sons*, 318 U. S. 643, so holds."

Id., 362 U.S. at 362 U. S. 375. If the author dies before that time, the

“next of kin obtain the renewal copyright free of any claim founded upon an assignment made by the author in his lifetime. These results follow not because the author’s assignment is invalid, but because he had only an expectancy to assign, and his death prior to the renewal period terminates his interest in the renewal, which, by § 24, vests in the named classes.”

Ibid. The legislative history of the 1909 Act echoes this view:

“The right of renewal is contingent. It does not vest until the end [of the original term].

If [the author] is alive at the time of renewal, then the original contract may pass it, but his widow or children or other persons entitled would not be bound by that contract.”

5 *Legislative History of the 1909 Copyright Act*, part K, p. 77 (E. Brylawski & A. Goldman eds. 1976) (statement of Mr. Hale). [Footnote 2] Thus, the renewal provisions were intended to give the author a second chance to obtain fair remuneration for his creative efforts and to provide the author’s family a “new estate” if the author died before the renewal period arrived.

An author holds a bundle of exclusive rights in the copyrighted work, among them the right to copy and the right to incorporate the work into derivative works. [Footnote 3] By assigning the renewal copyright in the work without limitation, as in *Miller Music*, the author assigns all of these rights. After *Miller Music*, if the author dies before the commencement of the renewal period, the assignee holds nothing. If the assignee of all of the renewal rights holds nothing upon the death of the assignor before arrival of the renewal period, then, a fortiori, the assignee of a portion of the renewal rights, e.g., the right to produce a derivative work, must also hold nothing. See also Brief for Register of Copyrights as Amicus Curiae 22 (“[A]ny assignment of renewal rights made during the original term is void if the author dies before the renewal period”). Therefore, if the author dies before the renewal period, then the assignee may continue to use the original work only if the author’s successor transfers the renewal rights to the assignee. This is the rule adopted by the Court of Appeals below and advocated by the Register of Copyrights. See 863 F.2d 1478; Brief for Register of Copyrights as Amicus Curiae 22. Application of this rule to this case should end the inquiry. Woolrich died before the commencement of the renewal period in the story, and, therefore, petitioners hold only an unfulfilled expectancy. Petitioners have been

“deprived of nothing. Like all purchasers of contingent interests, [they took] subject to the possibility that the contingency may not occur.”

Miller Music, supra, 362 U.S. at 362 U. S. 378.

B

The reason that our inquiry does not end here, and that we granted certiorari, is that the Court of Appeals for the Second Circuit reached a contrary result in

Rohauer v. Killiam Shows, Inc., 551 F.2d 484 (1977). Petitioners' theory is drawn largely from *Rohauer*. The Court of Appeals in *Rohauer* attempted to craft a "proper reconciliation" between the owner of the preexisting work, who held the right to the work pursuant to *Miller Music*, and the owner of the derivative work, who had a great deal to lose if the work could not be published or distributed. 551 F.2d 490. Addressing a case factually similar to this case, the court concluded that, even if the death of the author caused the renewal rights in the preexisting work to revert to the statutory successor, the owner of the derivative work could continue to exploit that work. The court reasoned that the 1976 Act and the relevant precedents did not preclude such a result, and that it was necessitated by a balancing of the equities:

"[T]he equities lie preponderantly in favor of the proprietor of the derivative copyright. In contrast to the situation where an assignee or licensee has done nothing more than print, publicize and distribute a copyrighted story or novel, a person who, with the consent of the author, has created an opera or a motion picture film will often have made contributions literary, musical and economic, as great as or greater than the original author. . . . [T]he purchaser of derivative rights has no truly effective way to protect himself against the eventuality of the author's death before the renewal period, since there is no way of telling who will be the surviving widow, children or next of kin or the executor until that date arrives."

551 F.2d 493. The Court of Appeals for the Second Circuit thereby shifted the focus from the right to use the preexisting work in a derivative work to a right inhering in the created derivative work itself. By rendering the renewal right to use the original work irrelevant, the court created an exception to our ruling in *Miller Music* and, as petitioners concede, created an "intrusion" on the statutorily created rights of the owner of the preexisting work in the renewal term. Brief for Petitioners 33.

Though petitioners do not, indeed could not, argue that its language expressly supports the theory they draw from *Rohauer*, they implicitly rely on § 6 of the Act, 17 U.S.C. § 7 (1976 ed.), which states that

"dramatizations . . . of copyrighted works when produced with the consent of the proprietor of the copyright in such works . . . shall be regarded as new works subject to copyright under the provisions of this title."

Petitioners maintain that the creation of the "new," i.e., derivative, work extinguishes any right the owner of rights in the preexisting work might have had to sue for infringement that occurs during the renewal term.

We think, as stated in *Nimmer on Copyright*, that

"[t]his conclusion is neither warranted by any express provision of the Copyright Act, nor by the rationale as to the scope of protection achieved in a derivative work. It is moreover contrary to the axiomatic copyright

principle that a person may exploit only such copyrighted literary material as he either owns or is licensed to use.”

1 Nimmer § 3.07[A], pp. 3-23 to 3-24 (footnotes omitted). The aspects of a derivative work added by the derivative author are that author’s property, but the element drawn from the preexisting work remains on grant from the owner of the preexisting work. See *Russell v. Price*, 612 F.2d 1123, 1128 (CA9 1979) (reaffirming “well-established doctrine that a derivative copyright protects only the new material contained in the derivative work, not the matter derived from the underlying work”), cert. denied, 446 U.S. 952 (1980); see also *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U. S. 539, 471 U. S. 547 (1985) (“The copyright is limited to those aspects of the work -- termed ‘expression’ -- that display the stamp of the author’s originality”). So long as the preexisting work remains out of the public domain, its use is infringing if one who employs the work does not have a valid license or assignment for use of the preexisting work. *Russell v. Price*, supra, at 1128 (“[E]stablished doctrine prevents unauthorized copying or other infringing use of the underlying work or any part of that work contained in the derivative product so long as the underlying work itself remains copyrighted”). It is irrelevant whether the preexisting work is inseparably intertwined with the derivative work. See *Gilliam v. American Broadcasting Cos.*, 538 F.2d 14, 20 (CA2 1976) (“[C]opyright in the underlying script survives intact despite the incorporation of that work into a derivative work”). Indeed, the plain language of § 7 supports the view that the full force of the copyright in the preexisting work is preserved despite incorporation into the derivative work. See 17 U.S.C. § 7 (1976 ed.) (publication of the derivative work “shall not affect the force or validity of any subsisting copyright upon the matter employed”); see also 17 U.S.C. § 3 (1976 ed.) (copyright protection of a work extends to “all matter therein in which copyright is already subsisting, but without extending the duration or scope of such copyright”). This well-settled rule also was made explicit in the 1976 Act:

“The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.”

17 U.S.C. § 103(b). See also B. Ringer, *Renewal of Copyright* (1960), reprinted as Copyright Law Revision Study No. 31, prepared for the Senate Committee on the Judiciary, 86th Cong., 2d. Sess., 169-170 (1961) (“[O]n the basis of judicial authority, legislative history, and the opinions of the commentators, . . . someone cannot avoid his obligations to the owner of a renewal copyright merely because he created and copyrighted a new version’ under a license or assignment which terminated at the end of the first term”) (footnotes omitted).

Properly conceding there is no explicit support for their theory in the 1909 Act, its legislative history, or the case law, petitioners contend, as did the court in *Rohauer*, that the termination provisions of the 1976 Act, while not controlling, support their theory of the case. For works existing in their original or renewal terms as of January 1, 1978, the 1976 Act added 19 years to the 1909 Act's provision of 28 years of initial copyright protection and 28 years of renewal protection. See 17 U.S.C. §§ 304(a) and (b) (1988 ed.). For those works, the author has the power to terminate the grant of rights at the end of the renewal term and, therefore, to gain the benefit of that additional 19 years of protection. See § 304(c). In effect, the 1976 Act provides a third opportunity for the author to benefit from a work in its original or renewal term as of January 1, 1978. Congress, however, created one exception to the author's right to terminate: the author may not, at the end of the renewal term, terminate the right to use a derivative work for which the owner of the derivative work has held valid rights in the original and renewal terms. See § 304(c)(6)(A). The author, however, may terminate the right to create new derivative works. *Ibid.* For example, if the petitioners held a valid copyright in the story throughout the original and renewal terms, and the renewal term in "Rear Window" were about to expire, petitioners could continue to distribute the motion picture even if respondent terminated the grant of rights, but could not create a new motion picture version of the story. Both the court in *Rohauer* and petitioners infer from this exception to the right to terminate an intent by Congress to prevent authors of preexisting works from blocking distribution of derivative works. In other words, because Congress decided not to permit authors to exercise a third opportunity to benefit from a work incorporated into a derivative work, the Act expresses a general policy of undermining the author's second opportunity. We disagree.

The process of compromise between competing special interests leading to the enactment of the 1976 Act undermines any such attempt to draw an overarching policy out of § 304(c)(6)(A), which only prevents termination with respect to works in their original or renewal copyright terms as of January 1, 1978, and only at the end of the renewal period. See Ringer, *First Thoughts on the Copyright Act of 1976*, 13 Copyright 187, 188-189 (1977) (each provision of 1976 Act was drafted through series of compromises between interested parties). More specifically, § 304(c)

"was part of a compromise package involving the controversial and intertwined issues of initial ownership, duration of copyright, and reversion of rights. The Register, convinced that the opposition . . . would scuttle the proposed legislation, drafted a number of alternative proposals"

"Finally, the Copyright Office succeeded in urging negotiations among representatives of authors, composers, book and music publishers, and motion picture studios that produced a compromise on the substance and language of several provisions."

"* * * *"

“Because the controversy surrounding the provisions disappeared once the parties reached a compromise, however, Congress gave the provisions little or no detailed consideration. . . . Thus, there is no evidence whatsoever of what members of Congress believed the language to mean.”

Litman, *Copyright, Compromise, and Legislative History*, 72 Cornell L. Rev. 857, 865-868 (1987) (footnotes omitted).

In fact, if the 1976 Act’s termination provisions provide any guidance at all in this case, they tilt against petitioners’ theory. The plain language of the termination provision itself indicates that Congress assumed that the owner of the preexisting work possessed the right to sue for infringement even after incorporation of the preexisting work in the derivative work.

“A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.”

17 U.S.C. § 304(c)(6)(A) (emphasis added). Congress would not have stated explicitly in § 304(c)(6)(A) that, at the end of the renewal term, the owner of the rights in the preexisting work may not terminate use rights in existing derivative works unless Congress had assumed that the owner continued to hold the right to sue for infringement even after incorporation of the preexisting work into the derivative work. Cf. *Mills Music, Inc. v. Snyder*, 469 U. S. 153, 469 U. S. 164 (1985) (§ 304(c)(6)(A) “carves out an exception from the reversion of rights that takes place when an author exercises his right to termination”).

Accordingly, we conclude that neither the 1909 Act nor the 1976 Act provides support for the theory set forth in Rohauer. And even if the theory found some support in the statute or the legislative history, the approach set forth in Rohauer is problematic. Petitioners characterize the result in Rohauer as a bright-line “rule.” The Court of Appeals in Rohauer, however, expressly implemented policy considerations as a means of reconciling what it viewed as the competing interests in that case. See 551 F.2d 493-494. While the result in Rohauer might make some sense in some contexts, it makes no sense in others. In the case of a condensed book, for example, the contribution by the derivative author may be little, while the contribution by the original author is great. Yet, under the Rohauer “rule,” publication of the condensed book would not infringe the preexisting work even though the derivative author has no license or valid grant of rights in the preexisting work. See Brief for Committee for Literary Property Studies as Amicus Curiae 29-31; see also Brief for Songwriters Guild of America as Amicus Curiae 11-12 (policy reasons set forth in Rohauer make little sense when applied to musical compositions). Thus, even if the Rohauer “rule” made sense in terms of policy in that case, it makes little sense when it is applied across the derivative works spectrum. Indeed, in the view of the commentators, Rohauer did not announce a “rule,” but rather an “interest-balancing approach.” See Jaszi, *When Works Collide: Derivative Motion Pictures, Underlying Rights, and the*

Public Interest, 28 UCLA L.Rev. 715, 758-761 (1981); Note, *Derivative Copyright and the 1909 Act -- New Clarity or Confusion?*, 44 Brooklyn L.Rev. 905, 926-927 (1978).

Finally, petitioners urge us to consider the policies underlying the Copyright Act. They argue that the rule announced by the Court of Appeals will undermine one of the policies of the Act -- the dissemination of creative works -- by leading to many fewer works reaching the public. Amicus Columbia Pictures asserts that

“[s]ome owners of underlying work renewal copyrights may refuse to negotiate, preferring instead to retire their copyrighted works, and all derivative works based thereon, from public use. Others may make demands -- like respondent’s demand for 50% of petitioners’ future gross proceeds in excess of advertising expenses . . . -- which are so exorbitant that a negotiated economic accommodation will be impossible.”

Brief for Columbia Pictures et al. as Amicus Curiae 21. These arguments are better addressed by Congress than the courts.

In any event, the complaint that the respondent’s monetary request in this case is so high as to preclude agreement fails to acknowledge that an initially high asking price does not preclude bargaining. Presumably, respondent is asking for a share in the proceeds because he wants to profit from the distribution of the work, not because he seeks suppression of it.

Moreover, although dissemination of creative works is a goal of the Copyright Act, the Copyright Act creates a balance between the artist’s right to control the work during the term of the copyright protection and the public’s need for access to creative works. The copyright term is limited so that the public will not be permanently deprived of the fruits of an artist’s labors. See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U. S. 417, 464 U. S. 429 (1984) (the limited monopoly conferred by the Copyright Act “is intended to motivate creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired”). But nothing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright. In fact, this Court has held that a copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work. See *Fox Film Corp. v. Doyal*, 286 U. S. 123, 286 U. S. 127 (1932).

The limited monopoly granted to the artist is intended to provide the necessary bargaining capital to garner a fair price for the value of the works passing into public use. See *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U. S. 539, 471 U. S. 546 (1985) (“The rights conferred by copyright are designed to assure contributors to the store of knowledge a fair return for their labors”); Register of Copyrights, Copyright Law Revision, 87th Cong., 1st Sess., 6 (Comm.Print 1961) (“While some limitations and conditions on copyright are essential in the public interest, they should not be so burdensome and strict as to deprive authors of their just reward. . . . [T]heir rights should be broad enough to give them a fair share of the revenue to be derived from the market for their works”). When an author produces a work which later commands a higher price in the market than the original bargain provided, the

copyright statute is designed to provide the author the power to negotiate for the realized value of the work. That is how the separate renewal term was intended to operate. See Ringer, *Renewal of Copyright* (1960), reprinted as Copyright Law Revision Study No. 31, prepared for the Senate Committee on the Judiciary, 86th Cong., 2d. Sess., 125 (1961) (“Congress wanted to give [the author] an opportunity to benefit from the success of his work and to renegotiate disadvantageous bargains . . . made at a time when the value of the work [wa]s unknown or conjectural and the author . . . necessarily in a poor bargaining position”). At heart, petitioners’ true complaint is that they will have to pay more for the use of works they have employed in creating their own works. But such a result was contemplated by Congress, and is consistent with the goals of the Copyright Act.~

Fred Ahlert Music v. Warner/Chappell Music

155 F.3d 17

United States Court of Appeals for the Second Circuit
July 14, 1998

FRED AHLERT MUSIC CORP., doing business as Olde Clover Leaf Music, Plaintiff-Counter-Defendant-Appellee, v. WARNER/CHAPPELL MUSIC, INC., Defendant-Counter-Claimant-Appellant. Docket No. 97-7705. Argued Jan. 8, 1998. Decided July 14, 1998. Robert C. Osterberg, Abelman, Frayne & Schwab, New York City, for Plaintiff-Counter-Defendant-Appellee. Alan L. Shulman, Silverman, Shulman and Baker, P.C. (Scott L. Baker, Jonathan J. Ross, on the brief), New York City, for Defendant-Counter-Claimant-Appellant. Frederick F. Greenman, Deutsch, Klagsbrun & Blasband (Alvin Deutsch, Kay Murray, on the brief), New York City, for Amici Curiae The Songwriters Guild of America and The Authors Guild, Inc. Before: VAN GRAAFEILAND, WALKER, Circuit Judges, and RAKOFF, District Judge, sitting by designation.

JOHN M. WALKER, Jr., Circuit Judge.

¶ 1

This appeal requires us to consider the scope of the “Derivative Works Exception” of the Copyright Act of 1976, 17 U.S.C. § 304(c)(6)(A). The Copyright Act of 1976 (“the 1976 Act”) expanded the rights of authors and their heirs by automatically extending the life of their copyrights by 19 years, for a total of 75 years, see 17 U.S.C. §§ 304(a)-(b), and by allowing authors (or, if the authors are deceased, their statutory heirs) to terminate, for the period of the extended copyrights, any domestic copyright interests in their work that they may have granted to others, see 17 U.S.C. §§ 304(c)(1)-(3). The purpose of the termination provision is to protect the interests of authors, who may have bargained away their rights without a full appreciation of the value of their work, as well as the interests of authors’ surviving spouses and children. Thus, the 1976 Act creates a completely new property right in the copyright for 19 years, and allows the author and his or her heirs to exploit it.

¶ 2

However, an author's termination rights are not unlimited. The 1976 Act's Derivative Works Exception permits a grantee or licensee who prepares a derivative work before termination to continue to utilize the derivative work during the extended renewal term "under the terms of the grant." 17 U.S.C. § 304(c)(6)(A). A derivative work is "a work based upon one or more preexisting works, such as a ... sound recording.... A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a 'derivative work.'" *Id.* at § 101. The Exception seeks to protect public access to the derivative work as well as the rights of persons who have invested in creating the derivative work. See *Woods*, 60 F.3d at 986; Donald A. Hughes, Jr., *Jurisprudential Vertigo: The Supreme Court's View of "Rear Window" is for the Birds*, 60 Miss. L.J. 239, 251-52 (1990).

¶ 3

In this action, both the appellee, Fred Ahlert Music Corp. ("Ahlert"), and the appellant, Warner/Chappell Music, Inc. ("Warner"), claim the right to license the use of a 1969 Joe Cocker recording, a derivative work based on the copyrighted musical composition "Bye Bye Blackbird" (the "Song"), in the soundtrack and soundtrack album of the motion picture "Sleepless in Seattle." Warner's predecessor in interest authorized preparation of the Cocker derivative pursuant to a grant from the Song's co-authors, Mort Dixon and Ray Henderson.

¶ 4

The statutory heirs of Mort Dixon terminated, pursuant to the 1976 Act, the rights held by Warner in the Song that were attributable to Dixon; the termination was to be effective in 1982. Warner claims a continued right to royalties, however, on the basis that the inclusion of the Cocker derivative on the movie soundtrack and soundtrack album is a post-termination utilization of a derivative work within the meaning of the Derivative Works Exception. Ahlert, successor-in-interest to Dixon's heirs, argues that Warner has no rights pertaining to the use of the Cocker derivative on the "Sleepless in Seattle" soundtrack or on the soundtrack album because those uses were not authorized "under the terms of the grant," and thus do not fall within the Exception. We agree with Ahlert, and affirm.

BACKGROUND

¶ 5

"Bye Bye Blackbird" was written by Mort Dixon and Ray Henderson, who registered their copyright in the Song on May 3, 1926. Under the Copyright Act of 1909, Pub.L. 60-349, 35 Stat. 1075 (1909) (previously codified at 17 U.S.C. §§ 1-216) (repealed 1976), the copyright in a musical composition was effective for 28 years and renewable for an additional 28 years by the author. See *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 157, 105 S.Ct. 638, 83 L.Ed.2d 556 (1985). On May 6, 1953, the copyright was effectively renewed in the names of both authors; it was to have expired on December 31, 1982. Prior to renewal, each author assigned his interest in the copyright to Remick Music Corporation ("Remick"), the predecessor in interest to Warner. On March 23, 1956, Dixon died.

¶ 6

On or about May 2, 1969, Warner granted a non-exclusive mechanical license to A & M Records (“A & M”).⁵³ This license authorized A & M to record and manufacture a phonorecording of the Song performed by recording artist Joe Cocker. The agreement “cover[ed] only the particular recording mentioned herein of said musical composition.” That recording was identified in the agreement as “RECORD NO. SP 4182” by “RECORDING ARTIST Joe Cocker.” Pursuant to this license, A & M produced a version of the Song performed by Joe Cocker (the “Cocker derivative”).

¶ 7

In 1976, Congress enacted a sweeping revision of the Copyright laws. See Pub.L. No. 94-553, 90 Stat. 2541 (1976) (codified at 17 U.S.C. §§ 101-810); see also *Mills Music*, 469 U.S. at 159-62, 105 S.Ct. 638. Among these changes, the new 17 U.S.C. § 304(b) automatically extended the renewal term of the copyright for an additional 19 years, through December 31, 2001 (the “extended renewal term”), for a total copyright term of 75 years.⁵⁴ The 1976 Act also allowed the authors of copyrighted material (or if deceased, their statutory heirs) to terminate any grant of a transfer or license in a copyrighted work for the duration of the extended renewal term where the grant was executed before 1978. 17 U.S.C. § 304(c).⁵⁵ On January 3, 1978, pursuant to the 1976 Act, Dixon’s statutory heirs Yvonne Dixon Cresci and Estelle Barbara Kalish served formal notice

⁵³ A mechanical license allows the licensee to use a song in the manufacture and sale of phonorecords. The Act defines phonorecords as “material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed ..., and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” 17 U.S.C. § 101. In contrast, a synchronization license authorizes the licensee to include a song in a motion picture in synchronism with the on-screen image.

⁵⁴ Section 304(b) provides:

The duration of any copyright, the renewal term of which is subsisting at any time between December 31, 1976, and December 31, 1977, inclusive, or for which renewal registration is made between December 31, 1976, and December 31, 1977, inclusive, is extended to endure for a term of seventy-five years from the date copyright was originally secured.

⁵⁵ Section 304(c) provides, in relevant part:

In the case of any copyright subsisting in either its first or renewal term on January 1, 1978 ... the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, executed before January 1, 1978, ... is subject to termination under the following conditions:

...

(2) Where an author is dead, his or her termination interest is owned, and may be exercised, by his widow or her widower and his or her children or grandchildren....

(3) Termination of the grant may be effected at any time during a period of five years beginning at the end of fifty-six years from the date copyright was originally secured, or beginning on January 1, 1978, whichever is later.

terminating Dixon's grant to Remick, effective May 3, 1982.⁵⁶ Thus, Warner's domestic rights in the Song reverted to Dixon's heirs. See 17 U.S.C. § 304(c)(6).⁵⁷ On February 24, 1986, Dixon's heirs signed an agreement transferring their interest in the Song to the plaintiff, music publisher Ahlert.

¶ 8

In 1992, Tri-Star Pictures, Inc. ("TriStar") sought permission from Ahlert to include the Song on the soundtrack of the motion picture "Sleepless in Seattle." Ahlert provided TriStar with a quote for use of the Song in the United States. Because Warner retained the foreign rights to the copyright after termination, Ahlert directed TriStar to seek a quote from Warner for foreign use of the Song. In May 1993, Warner issued a synchronization and performance license to TriStar specifying one background vocal usage of the Song (an edited version of the Cocker derivative) and five background instrumental uses (recorded specifically for the film) on the "Sleepless in Seattle" soundtrack. In June, 1993, Ahlert issued a synchronization and performance license to TriStar authorizing identical uses of the Song. Ahlert's license granted domestic rights to TriStar; Warner's license granted foreign rights. Ahlert claims that it awarded TriStar a synchronization license at a reduced rate in anticipation of the royalties Ahlert expected to receive as a result of the eventual release of a soundtrack album.

¶ 9

Subsequently, in July 1993, Ahlert, through its agent The Harry Fox Agency, Inc. ("Fox"), issued a mechanical license to TriStar's affiliate, Sony Music Entertainment, Inc. ("Sony"), for use of the Song, as embodied by the Cocker derivative, on the "Sleepless in Seattle" soundtrack album. On August 20, 1993, Warner wrote a letter to Fox (which also represented Warner) asserting that "Warner Bros. Inc. retains all rights derived from uses of [the Cocker derivative], including mechanical royalties earned from uses of [the Song] on the ['Sleepless in Seattle'] soundtrack album." As a result of this letter, and despite Ahlert's protests, Fox canceled Ahlert's license to Sony, and instead issued a mechanical license to Sony on Warner's behalf. Since that time, Sony has paid royalties to Fox from sales of the "Sleepless in Seattle" soundtrack album, and in turn Fox has remitted these royalties to Warner.

¶ 10

On February 8, 1996, Ahlert brought this action in the United States District Court for the Southern District of New York (Harold Baer, Jr., District Judge). The complaint requested that the district court "declare and adjudge the following:"

⁵⁶ The interests of Mr. Henderson are not the subject of this lawsuit; thus we analyze the rights of Ahlert and Warner as though Dixon were the sole author of the Song.

⁵⁷ Section 304(c)(6) provides:

In the case of a grant executed by a person or persons other than the author, all rights under this title that were covered by the terminated grant revert, upon the effective date of termination, to all of those entitled to terminate the grant....

¶ 11

A. The use of the Song in phonorecords made from the soundtrack of the motion picture SLEEPLESS IN SEATTLE is not a use of the Song within the Derivative Works Exception....

¶ 12

B. AHLERT, not WARNER, is entitled to license the use of the Song in the making and distributing of all phonorecords ... which reproduce the [Cocker derivative], and to receive all mechanical royalties attributable to the Dixon Share payable therefor, except phonorecords made and distributed by A & M Records, Inc. and identified as “Record No. SP 4182,” the subject of the 1969 WARNER mechanical license to A & M Records.

¶ 13

C. WARNER shall account for, and pay to AHLERT, a sum equal to the amount of all mechanical royalties paid to WARNER for use of the Dixon Share in the Soundtrack Album, together with prejudgment interest....

¶ 14

D. AHLERT shall be granted such other and further relief as the court may deem to be just and proper.

¶ 15

Warner counterclaimed, seeking, inter alia, an accounting of all royalties that Ahlert received from granting TriStar the June, 1993, synchronization and performance license for the domestic right to use the Cocker derivative on the “Sleepless in Seattle” soundtrack.

¶ 16

Both parties moved for summary judgment. On April 14, 1997, the district court issued an order granting Ahlert’s motion, denying Warner’s motion, and dismissing Warner’s counterclaims. See *Fred Ahlert Music Corp. v. Warner/Chappell Music, Inc.*, 958 F.Supp. 170 (S.D.N.Y.1997). The district court declared (1) that inclusion of the Song in the “Sleepless in Seattle” soundtrack and soundtrack album was not within the Exception, and (2) that Ahlert “is entitled to license ... the United States use of the” Song, as embodied by the Cocker derivative, during the extended renewal term, and “to receive 50% of all mechanical royalties ... payable for the use of the Song ... excluding phonorecords made and distributed by A & M Records and identified as ‘Record No. SP 4182.’” Pursuant to this declaration, the district court ordered Warner (1) to pay Ahlert \$118,781.06, constituting 50% of the mechanical royalties paid to Warner by Sony, and (2) to account for and pay to Ahlert 50% of all other mechanical royalties paid to Warner during the extended renewal term, except from the sale of “phonorecords made and distributed by A & M Records and identified as ‘Record No. SP 4182.’”⁵⁸ The district court further awarded prejudgment interest to Ahlert. Warner appeals, challenging the district court’s

⁵⁸ Recall that Ray Henderson's 50% interest in the Song is not at issue in this action.

conclusion that the mechanical license it issued to Sony is not covered by the Derivative Works Exception, and arguing that the scope of the district court's judgment was overbroad.

DISCUSSION

~

II. Derivative Works Exception

¶ 18

As noted above, the Copyright Act of 1976 had a major effect on the rights of the parties to this dispute. Section 304(b) automatically extended the copyright renewal term for 19 years. Section 304(c) gave Dixon's heirs (to whose interests Ahlert has succeeded) the right to exploit this extended renewal term by allowing them to terminate Dixon's grant to Remick (Warner's predecessor in interest). Upon termination, all rights possessed by Remick and Warner reverted to Dixon's heirs, including the right to license uses of the Song and receive any consequent royalties. But there is one notable caveat--the Derivative Works Exception:

¶ 19

A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.

¶ 20

17 U.S.C. § 304(c)(6)(A).

¶ 21

The Derivative Works Exception reflects Congress's judgment that the owner of a derivative work should be allowed to continue to use the derivative work after termination, "both to encourage investment by derivative work proprietors and to assure that the public retain[s] access to the derivative work." Note, *The Errant Evolution of Termination of Transfer Rights and the Derivative Works Exception*, 48 Ohio St. L.J. 897, 912 (1987). Without the Exception, the creator of a derivative work (and, indeed, the public at large) could be held hostage to the potentially exorbitant demands of the owner of the copyright in the underlying work.

¶ 22

The parties to the present case do not dispute that the Cocker derivative is a "derivative work prepared under authority of the grant before its termination." Rather, they dispute whether the inclusion of the Cocker derivative on the soundtrack and soundtrack album constitutes "utiliz[ation] under the terms of the

grant.”⁵⁹ The district court found that it was not, and therefore concluded that Ahlert was entitled to receive the contested royalties. Warner appeals from this determination. In order to resolve this question, we must determine what is meant by the phrase “the terms of the grant.”

¶ 23

The Supreme Court interpreted the meaning of “the terms of the grant” in *Mills Music, Inc. v. Snyder*, 469 U.S. 153 (1985). That case involved a controversy between a music publisher and the heirs of Ted Snyder, a co-author of the copyrighted musical composition “Who’s Sorry Now.” The original copyright was registered in 1923 by a publishing company partially owned by Snyder. When that company went bankrupt, the bankruptcy trustee assigned the copyright to music publisher Mills Music. In 1940, Mills Music and Snyder entered into an agreement whereby Snyder assigned his interest in all renewals of the copyright to Mills Music. In exchange, Mills Music agreed to pay certain royalties to Snyder, including 50 percent of all net royalties received for mechanical reproductions of “Who’s Sorry Now.”

¶ 24

In 1951, Mills Music registered the renewed copyright. It then issued over 400 licenses to record companies authorizing various recordings of “Who’s Sorry Now.” These record companies paid royalties to Mills Music, which in turn remitted 50 percent of those royalties to Snyder. On January 3, 1978, Snyder’s heirs served notice of termination on Mills Music effective January 3, 1980, pursuant to the 1976 Act’s termination provision. Mills Music claimed that after termination, Snyder’s heirs were entitled to only 50 percent of the royalties from pre-termination derivative recordings of “Who’s Sorry Now,” as was agreed to in the original 1940 grant from Snyder to Mills Music. The heirs claimed that they were entitled to the full 100 percent of these royalties.

¶ 25

Resolution of the dispute turned on whether the “terms of the grant” preserved by the Exception included only the approximately 400 licenses from Mills Music to the record companies, or whether it also included the terms of the original 1940 grant from Snyder to Mills Music entitling the latter to 50% of the mechanical royalties. The Supreme Court first examined the text of the Derivative Works Exception. For convenience, we set forth this text a second time.

¶ 26

A derivative work prepared under authority of the *grant* before its termination may continue to be utilized under the terms of the *grant* after

⁵⁹ The parties also dispute whether or not the soundtrack and the soundtrack album represent new derivative works prepared after termination. If they are, then the Derivative Works Exception does not apply. In light of our disposition of this case, we need not resolve this question.

its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated *grant*.

¶ 27

17 U.S.C. § 304(c)(6)(A) (emphasis added). Because the word “grant” appears three times in the Exception, the Court assumed that Congress intended to give the word the same meaning throughout. *Mills Music*, 469 U.S. at 164-65, 105 S.Ct. 638. Logically, the third reference to “the terminated grant” had to refer to Snyder’s 1940 grant to Mills Music. See *id.* at 164, 105 S.Ct. 638. The Court next considered the first reference to the word “grant,” in the phrase “derivative work[s] prepared under authority of the grant.” Because “[t]he 1940 grant ... expressly gave Mills the authority to license others to make derivative works,” and because “each of the 400-odd sound recordings” at issue was authorized by Mills Music while it was owner of the copyright, the Court concluded that “whether the phrase ... is read to encompass both the original grant to Mills and the subsequent licenses that Mills issued, or only the original grant, ... the word ‘grant’ must refer to the 1940 grant from Snyder to Mills.” *Id.* at 165, 105 S.Ct. 638.

¶ 28

Finally, the Court interpreted the phrase “under the terms of the grant.” In order to give the word “grant” a consistent meaning throughout § 304(c)(6)(A), the Court reasoned that this language necessarily encompassed the original 1940 grant from Snyder to Mills Music. However, “the terms of the grant” for a particular derivative work also had to include the subsequent license between Mills Music and the record company that prepared the derivative work. See *id.* at 165-66, 105 S.Ct. 638. Thus, the Court concluded that “the phrase ‘under the terms of the grant’ as applied to any particular licensee would necessarily encompass both the 1940 grant and the individual license executed pursuant thereto.” *Id.* at 166-67, 105 S.Ct. 638 (quoting § 304(c)(6)(A)). In other words, the “terms of the grant” include the “entire set of documents that created and defined each licensee’s right to prepare and distribute [the] derivative work[],” *id.* at 167, 105 S.Ct. 638, both the individual license requiring the licensee to pay royalties to Mills Music, and the 1940 grant from Snyder to Mills Music entitling the latter to keep 50 percent of those royalties and requiring it to remit the remaining 50 percent to Snyder’s heirs.⁶⁰ Indeed, unless the preserved “terms of the grant” included the original grant from Snyder to Mills Music, the Court noted that “there would be neither a contractual nor a statutory basis for paying

⁶⁰ In the present case, Warner argues that the terms of the license between Warner (the publisher) and A & M (the record company) would be relevant only if A & M’s rights were at issue. This is incorrect. In *Mills Music*, the rights of the record companies that prepared the derivative works were not at issue. Yet, in determining the relative rights of the author and the publisher, the Supreme Court looked at both the publisher-record company contract (which established the publisher’s right to receive royalties from the record company) and the author-publisher contract (which established the right of the author to receive half of those royalties).

any part of the derivative-works royalties to the Snyders.” *Id.* Therefore, the Court ruled that Mills Music was entitled to keep 50 percent of the disputed royalties. See also *Woods v. Bourne Co.*, 60 F.3d 978, 987 (2d Cir.1995) (interpreting *Mills Music* “to preserve during the post-termination period the panoply of contractual obligations that governed pre-termination uses of derivative works by derivative work owners or their licensees”).

¶ 29

The Supreme Court in *Mills Music* did not specifically address the question before us: whether the author or the publisher has the authority to license new uses of a pre-termination derivative work after termination. When the Mills Music case was in the district court, Judge Weinfeld determined that after termination, the publisher retained the authority to license “new [uses] of old derivative works that it first licensed prior to termination of the [1940 grant] with royalties to be shared as [they were] before termination” (assuming of course that those new uses were not themselves new derivative works). *Harry Fox Agency, Inc. v. Mills Music, Inc.*, 543 F.Supp. 844, 868 (S.D.N.Y.1982), rev’d, 720 F.2d 733 (2d Cir.1983), rev’d, *Mills Music v. Snyder*, 469 U.S. 153, 105 S.Ct. 638, 83 L.Ed.2d 556 (1985). The district court reasoned that it would be illogical to impose a limitation on Mills Music’s rights on the basis of licenses which Mills Music itself had issued and which were never a part of the original grant from Snyder to Mills Music. *Id.* Neither the Second Circuit Court of Appeals, which reversed the district court’s judgment, nor the Supreme Court, which in turn reversed the Second Circuit, touched on the question of post-termination licensing of pre-termination derivative works.

¶ 30

We are not persuaded by the district court’s reasoning in *Harry Fox Agency*. In effect, Judge Weinfeld’s holding would enforce the terms of the original grant from the author to the music publisher but ignore the terms of the subsequent grant from the music publisher to the record company, at least when it came to authorizing post-termination uses of pre-termination derivative works. But, as the Supreme Court in *Mills Music* makes clear, the “entire set of documents that created and defined each licensee’s right to prepare and distribute [the] derivative work[]” must be enforced. 469 U.S. at 167, 105 S.Ct. 638 (emphasis added). As one commentator has noted, “if the entire pre-termination transaction is what is being preserved, then the limitations on the record companies are preserved as well, and any attempt to change them after termination is ... outside of ‘the terms of the grant.’” Howard B. Abrams, *Who’s Sorry Now? Termination Rights and the Derivative Works Exception*, 62 U. Det. L.Rev. 182, 235 (1985) (quoting 17 U.S.C. § 304(c)(6)(A)); see also Howard B. Abrams, *The Law of Copyright* § 12.05[F][d][iv], at 12-50 (1998) (district court decision in *Harry Fox Agency* “seems to be in fundamental conflict with” the Supreme Court’s *Mills Music* decision); *id.* at 12-58 (“[I]f a particular post-termination exploitation of the derivative work cannot be undertaken within the terms of the pre-termination grant, then it is the post-termination copyright owner who must authorize and be entitled to compensation for the particular post-termination exploitation of the copyright.”). But see 3 Melville B. & David Nimmer, *Nimmer on Copyright* §

11.02[B], at 11-18.10 (1997) (concluding that new uses of a pre-termination derivative work “would not be the subject of termination because the post-termination licenses would simply constitute the further utilization of the previously prepared derivative work”).

¶ 31

To determine, then, whether inclusion of the Cocker derivative on the “Sleepless in Seattle” soundtrack and soundtrack album is “under the terms of the grant,” we must examine the scope of both the original grant from Dixon to Warner’s predecessor in interest, and the subsequent grant from Warner to A & M authorizing production of the Cocker derivative. Although the original grant would presumably authorize this new use, plainly Warner’s license to A & M does not. As the district court found, that license is a narrow one granting A & M the right to use “Bye Bye Blackbird” for the limited purpose of recording the Cocker derivative and releasing it as “Record No. SP 4182”. This grant does not authorize any additional releases of the Cocker derivative, much less its inclusion on a movie soundtrack. Just as Warner continues to benefit from the terms of the second grant, pursuant to which it receives royalties from sales of the Cocker derivative on A & M Record No. SP 4182, it is bound by those terms of the second grant which limit its exploitation of the Song to sales of that phonorecord. Cf. *Mills Music*, 469 U.S. at 167 n. 35, 105 S.Ct. 638 (criticizing dissent for “read[ing] the ‘terms of the grant’ to include only those terms defining the amount of the royalty payments.... The statute itself ... refers to ‘the terms of the grant’ --not to some of the terms of the grant.”).

¶ 32

This result is consistent with the purposes of the Derivative Works Exception, which seeks to protect the rights of persons who have invested in creating the derivative work as well as to protect public access to derivative works. See *Woods*, 60 F.3d at 986; *Hughes*, *Jurisprudential Vertigo*, 60 Miss. L.J. at 251-52; Note, *Errant Evolution*, 48 Ohio St. L.J. at 912. Neither interest would be furthered if Warner, rather than Ahlert, had the power to authorize new uses of the Cocker derivative. First, Warner’s investment in the Cocker derivative is already protected because it may continue to receive its share of royalties from the sale of the A & M phonorecord. Second, ruling for Warner would not increase public access to the Cocker derivative. Any new use of the Cocker derivative would have to be specifically licensed, and there is no reason to believe Warner would authorize new uses more frequently than would Ahlert. Cf. *Woods*, 60 F.3d at 986 (“The goal of keeping derivative works in public circulation does not require that publishers rather than authors receive royalties for their use.”). And of course, a ruling for Ahlert is more consistent with the general thrust of § 304, which is designed to protect the interests of authors and their heirs and to maximize their ability to exploit the value of their Songs during the extended renewal term. See Note, *Errant Evolution*, 48 Ohio St. L.J. at 912.

¶ 33, 39

In sum, when Dixon’s heirs terminated Warner’s domestic copyright interest in the Song pursuant to 17 U.S.C. § 304(c), the right to authorize new uses of the Song as embodied by the Cocker derivative reverted to the heirs, because that

right is not within the “terms of the grant” preserved by the Derivative Works Exception. The district court properly entered judgment in favor of Ahlert. ~ The judgment of the district court is affirmed.