The Errant Evolution of Termination of Transfer Rights and the Derivative Works Exception*

I. INTRODUCTION

The 1976 Copyright Act gives a copyright owner the exclusive right "to prepare derivative works based upon the copyrighted work." A derivative work is "a work based upon one or more preexisting works," for example, a motion picture based upon a novel. Derivative works are themselves copyrightable, and the derivative author's transformation of the underlying work need not be extensive in order to receive copyright protection. However, copyright in a 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." Authors may transfer their exclusive rights to prepare derivative works based upon their original work. Recognizing the divisibility of copyright, the Act provides that any of the exclusive rights under a copyright may be transferred and owned separately. However, in order to protect authors from long-term unfavorable bargains, the Act allows a copyright owner to terminate his or her prior transfer of the right to use his or her preexisting work in a derivative work.

Specifically, the termination of transfer provisions of the 1976 Copyright Act, sections 203 and 304, allow an author to terminate previously granted transfers or licenses of his or her copyright. However, these provisions are subject

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3. Id. § 101. The Act cites as examples of derivative works "a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted."
4. Id. § 103(a).
5. The derivative work, as a whole, must represent an "original work of authorship." Id. § 101. However, there is no novelty requirement, nor any creative or aesthetic requirement. See Sheldon v. Metro-Goldwyn Pictures Corp., 81 F.2d 49 (2d Cir.), cert. denied, 298 U.S. 857 (1936). Instead, there must be "at least some substantial variation, not merely a trivial variation . . . ", L. Batlin & Sons, Inc. v. Snyder, 536 F.2d 486 (2d Cir.), cert. denied, 429 U.S. 857 (1976), for the derivative work to be protected.
7. See id. § 106 for a description of exclusive rights in copyrighted works.

(1) The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.
(2) Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.
9. Id. §§ 203, 304.
to an exception which allows the continued utilization of a derivative work by its owner after the termination of the transfer or grant of rights in the underlying work.  

Determining the scope of this exception involves balancing the competing rights of authors of underlying works against those of proprietors of derivative works. Examining the historical evolution of the derivative works exception to termination of transfer rights will illuminate this uneasy balance and will provide guidance in delineating the scope of the current derivative works exceptions.

This evolution has been erratic at best, particularly in light of the United States Supreme Court’s decision in *Mills Music, Inc. v. Snyder.* Before considering this aberrant recent development, this Note discusses the historical background and policies underlying the termination of transfer concept and the allowance of continued use of derivative works after termination. Next, this Note explains the codification of these concepts and policies in the 1976 Copyright Act. This Note then analyzes recent interpretations of the derivative works exception to termination of transfer rights, focusing on the *Mills Music* case and its frustration of both historical and congressional policies aimed at protecting authors who strike early unremunerative bargains with derivative work proprietors. Finally, this Note discusses recent congressional efforts to effect legislation aimed at specifically overcoming the inequitable results the Supreme Court sanctioned in *Mills Music.*

II. Historical Evolution

The United States Constitution empowers Congress “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” This grant is intended to motivate the creative endeavors of authors and inventors by securing for them a limited monopoly in the fruits of their labors. This reward to the author or artist then “serves to induce release to the public of the products of his [the author's] creative genius.”

Congress has the task of defining the scope of the limited monopoly that should be granted to authors in order to give the public appropriate access to the products of the author’s work. In so doing, Congress must balance competing considerations: ensuring that authors receive a fair return for their efforts while promoting broad public availability of authors’ creative works.

Under this constitutional grant, Congress enacted the first federal copyright act in 1790, which tracked the original and renewal terms of the Statute of Anne.

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10. *Id.* §§ 203(b)(1), 304(c)(6)(A).
16. Copyright Act of May 31, 1790, ch. 15, § 69, 1 Stat. 124 (repealed 1802).
17. *An Act for the Encouragement of Learning, 8 Anne Ch. 19* (1709)(repealed 1842). The English Statute of Anne laid the foundation for subsequent copyright statutes in first recognizing, legislatively, the rights of authors in their works.
providing copyright protection for an author's work for a period of fourteen years and a renewal period of fourteen additional years. After several comprehensive revisions, Congress enacted the 1909 Copyright Act, which increased both the original and renewal terms of copyright to twenty-eight years.

A. Duration and Renewal Under the 1909 Act

The 1909 Copyright Act laid the groundwork for contemporary conflicts between the owners of underlying work copyrights and the proprietors of derivative works which are based upon the underlying works. Specifically, section 24 of the 1909 Act was intended to give authors a second chance, after transferring the exclusive right to prepare derivative works based upon their copyrighted work, to reap the benefits of their creative efforts. Thus, section 24 provided that an author's copyright protection would endure for twenty-eight years from the date of first publication, and thereafter the copyright would generally revert to the author if living, or to other specified beneficiaries if the author was dead, if a renewal claim was registered in the twenty-eighth year of the original term. In other words, during the last year of the initial twenty-eight year term, the author was entitled to renew, reclaim, and extend his or her copyright for another term of twenty-eight years. If the author died before the renewal rights vested, section 24 entitled certain statutory successors to possession of the renewal term rights.

This renewal system protected authors from forever suffering the results of early improvident sales of their copyrights. As the House Committee report accompanying the bill enacted as the 1909 Act stated:

It not infrequently happens that the author sells his copyright outright to a publisher for a comparatively small sum. If the work proves to be a great success and lives beyond the term of twenty-eight years, your committee felt that it should be the exclusive right of the author to take the renewal term.

18. Id.
21. Section 24 of the 1909 Act, supra note 1, reads in pertinent part as follows:

Duration, renewal and extension.

The copyright secured by this title shall endure for twenty-eight years from the date of first publication

. . . . Provided, . . . the proprietor of such copyright shall be entitled to a renewal and extension of the copyright in such work for the 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: And provided further, . . . the author of such 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 . . . . Id.

23. See the 1909 Act, supra note 1, at § 24.
By providing for reclamation of the renewal term, section 24 thus allowed authors who had sold their works in their infancy to reclaim the success of their efforts. However, the renewal system also served another interest, that of the public. By placing works of only limited commercial value into the public domain after the expiration of the copyright term, works with scholarly, historical, or other value were made available to the public after the work ceased to have commercial value to the author.2

By serving different interests, the 1909 Act’s renewal provisions illustrate the inherent tension in copyright law between the limited monopoly granted authors and the public’s interest in maintaining access to an author’s work. As the Supreme Court so aptly stated in Twentieth Century Music Corp. v. Aiken:26

The limited scope of the copyright holder’s statutory monopoly, like the limited copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. The immediate effect of our copyright law is to secure a fair return for an “author’s” creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.27

In practice the renewal provisions did not protect authors or arguably the public. An author’s “second chance” to reap the commercial benefit of his or her work often did not materialize, because the author had assigned the contingent rights in the renewal term well before his or her rights vested.28 Therefore, the author’s assignee, often a derivative work proprietor, reaped the benefits of the renewal term if the author survived until the renewal vested, thereby rewarding the shrewd businessman rather than the author and his or her creative efforts.

The evolution of termination of transfer provisions, designed to protect authors and the public good, took a misguided turn then, under the Supreme Court’s direction, in Fred Fisher Music Co. v. M. Witmark & Sons.29 In Fisher, the Court held that an author’s renewal term was assignable during the original copyright term, provided that the author survived beyond the end of the original term.30 Consequently, an author could assign his or her renewal copyright before it vested and forever lose the commercial benefits of his or her work. Moreover, the Court stated that it would make no intimations whether “a particular assignment should be denied enforcement by the Court because it was made under oppressive circumstances.”31

The Fisher decision was contrary to the congressional policy underlying the 1909 renewal provision. The decision harmed those authors who lacked bargaining

25. Ringer, Renewal of Copyright 187–88 (study no. 31), supra note 24, at 583–84.
27. Id. at 156.
28. See generally Curtis, Protecting Authors in Copyright Transfers: Revision Bill § 203 and the Alternative, 72 Colum. L. Rev. 799, 804 (1972).
29. 318 U.S. 643 (1943). Fisher involved a dispute over renewal rights in the song “When Irish Eyes Are Smiling.” The authors of the song had assigned both their original copyright term and the renewal copyright term in the song to a music publisher. Id. at 645.
30. Id. at 657–59.
31. Id. at 656.
power because the economic value of their work had yet to be proven, the class of authors the renewal provisions were enacted to protect. Yet Fisher allowed such authors to assign their renewal rights along with the original term when their unequal bargaining position forced them to agree to such terms merely to effect the sale of their work.

As a result, authors, or their statutory successors, could not recapture at a later date the increased value of the author's labor unless the author died before the renewal term vested. Therefore, authors living when their renewal vested could not realize the benefit of the increased value of their work, while those who died before renewal left their renewal term as a legacy of value. This dubious distinction, promulgated by the Supreme Court, led to protracted reform efforts by Congress, which ultimately resulted in the enactment of the Copyright Act of 1976.

The 1976 Copyright Act provides that for works created on or after January 1, 1978, the copyright term consists of the life of the author plus fifty years following the author's death. For works still in their original twenty-eight year term before January 1, 1978, the renewal term increased to forty-seven years. However, by renewing existing first-term copyrights, the 1976 Act perpetuates the problems encountered under the renewal provisions of the 1909 Act. Finally, for works subsisting in their renewal term before January 1, 1978, the term was extended to seventy-five years from the date of their original copyright.

B. Continued Use of Derivative Works Under the 1909 Act

The scope of protection provided for derivative works under the 1909 Act is not clear. Section 7 states:

Compilations or abridgements, adaptations, arrangements, dramatizations, translations, or other versions 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.

This nomenclature does not use the phrase "derivative work," but the above passage is similar to sections of the 1976 Act providing protection for such works. In

32. 2 M. Nimmer, NIMMER ON COPYRIGHT 491, § 117.21, § 113 (ed. 1976).
33. Id. § 17.
34. In Miller Music Corp. v. Charles N. Daniels, Inc., 362 U.S. 373 (1960), the Court held that when an author dies before the renewal rights vest, the section 24 successors acquire the author's renewal rights, regardless of the assignment.
36. In 1955, Congress enacted appropriations for a general revision. Thirty-five published monographs concerning revisions culminated in a report by the Register of Copyrights in 1961. Meetings and discussions were held by the Copyright Office between 1961-64. In 1964, the first draft bill was introduced, which was revised until enacted in 1976. House Report 1476, supra note 19, at 47-50.
38. Id. § 302.
39. Id. § 304(a).
40. The rationale for requiring renewal was that "[a] great many of the present expectancies in these cases are the subject of existing contracts, and it would be unfair and immensely confusing to cut off or alter these interests." House Report 1476, supra note 19, at 142.
42. The 1909 Act, supra note 1, at § 7.
particular, the 1976 Act defines a derivative work as "a work based upon one or more preexisting works, such as a . . . musical arrangement, [or] dramatization . . . ."43 In addition, section 103(b) of the 1976 Act provides that "the copyright in a compilation or derivative work extends only to the material contributed by the author of such work, . . . and does not imply any exclusive right in the preexisting material . . . ."44

Despite this similarity in language, the 1976 derivative work provisions were necessarily enacted to correct the errant evolution of the scope of derivative work protection under the 1909 Act. Specifically, two lines of judicial interpretation evolved under the 1909 Act concerning the use of derivative works after the transfer of rights to the underlying work was terminated.

The first line of cases established that a derivative work owner could not continue to exploit the derivative work after rights to the underlying work were terminated. The court in Fitch v. Schubert45 was the first to hold that no right to continued use of the derivative work existed after termination.46 In Fitch, the plaintiff was a statutory successor whose cousin, Clyde Fitch, had died intestate after writing the copyrighted play Barbara Frietchie, The Frederick Girl.47 The balance of the initial copyright term existing after Fitch's death had passed to Fitch's mother, who willed it to the Actor's Fund of America. The Schuberts acquired a license from the Actor's Fund in 1925 in order to produce a musical version of the play, later entitled My Maryland.48 In 1934, Fitch's statutory successor brought suit to enjoin the Schuberts' new production of the operetta.49 Although the court permitted continued use of the Schuberts' derivative work by finding that the plaintiff copyright holder had licensed the rights to the renewal term to the Schuberts,50 the court stated:

It is evident therefore that all rights which the defendant acquired in 1925 to use the Fitch play as the basis of a musical operetta expired when the copyright for the original term expired in 1928 and when a new grantee appeared as owner of the Fitch play for the renewal term.51

In other words, the court found that the Schuberts had no right to continue to use their derivative work but for the statutory successor's license of the renewal term.52 The case thus stands for the proposition that a derivative work proprietor cannot continue

44. Id. § 103(b).
46. Id. at 315.
47. Id. at 314.
50. Id. at 315–16.
51. Id. at 315.
to use that work without license from the statutory successor to the renewal term in the underlying work.\(^{53}\)

A case frequently cited to support the view that derivative works may not continue to utilize the copyrighted underlying work after termination is *G. Ricordi & Co. v. Paramount Pictures, Inc.*\(^{54}\) John Luther Long wrote the copyrighted novel *Madame Butterfly* in 1897. Under a grant of rights from Long, David Belasco produced a play based on the novel in 1900. In 1901, Long and Belasco granted exclusive rights to Ricordi to create a liberetto for an opera of the play based on Long's novel.\(^{55}\) The copyright in Long's novel was renewed in 1925, but the copyright was not renewed in Belasco's play, and copyrightable new matter in the play entered the public domain in 1928.\(^{56}\) In 1932, Paramount Pictures received a grant of motion rights in the renewal copyright of the novel. Ricordi, owner of the opera, sued for a declaratory judgment that it had movie rights in the opera.\(^{57}\)

The court held that Ricordi was not entitled to movie rights in the opera, because it was "restricted to what was copyrightable as new matter in its operatic version"\(^{58}\) and could not make general use of Long's underlying novel.\(^{59}\) In other words, Ricordi had a copyright in what Puccini's opera added to the story, but he had no movie rights in Long's underlying story. So, Paramount could make a movie, but not with Puccini's music, while Ricordi could use the opera's music, but he could not make a movie with Long's story embedded in it.\(^{60}\) Finally, although commentators disagree about the scope of the court's holding,\(^{61}\) the case generally supported the view that a derivative work proprietor may not continue to exploit the underlying work originally granted after the transfer of rights to use that underlying work was terminated.

Moreover, under this view, even a derivative work which had entered the public domain was subject to the termination of rights in the underlying work. In *Grove Press, Inc. v. Greenleaf Publishing Co.*,\(^{62}\) the court held that a derivative work "is separate and apart from the underlying work and a dedication to the public of the

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54. 189 F.2d 469 (2d Cir.), cert. denied, 342 U.S. 849 (1951).
55. Id. at 470.
57. Id. at 470.
58. Id. at 471.
59. The court stated:
It is true that the expiration of Long's copyright of the novel did not affect the plaintiff's copyright of so much of the opera as was a "new work" and entitled to be independently copyrighted as such. But the plaintiff has acquired no rights under Long's renewal of the copyright on his novel and the plaintiff's renewal copyright of the opera gives it rights only in the new matter which it added to the novel and the play. It follows that the plaintiff is not entitled to make general use of the novel for a motion picture version of Long's copyrighted story; it must be restricted to what was copyrightable as new matter in its operatic version.

61. For example, compare Engel, Importation and Protection of Works of American Authors Manufactured Abroad Via the U.C.C. Exemption From Formalities: How Now Sacred Cow?, 12 BULL. COPYRIGHT SOC'Y 83, 119-20 & n.126 (1964) with 2 M. Nimmer, supra note 32, § 3.07(a), at 3-24.
derivative work did not, without more, emancipate the pattern of the underlying work from its copyright."\textsuperscript{63} Grove Press involved a revised English translation of a copyrighted original French work. Since the translation necessarily incorporated the original work, the court held that the defendant's unauthorized English edition infringed the original French copyright.\textsuperscript{64}

\textit{Gilliam v. American Broadcasting Co.}\textsuperscript{65} is a more recent case supporting the view that no use of the underlying work will be permitted after termination. There, British writers and performers, known as "Monty Python," prepared scripts for the BBC to use in a television series, \textit{Monty Python's Flying Circus}.\textsuperscript{66} The BBC licensed the shows for telecast in the United States. The American broadcaster, contrary to an agreement between the original writers and the BBC, edited the programs.\textsuperscript{67} The court agreed with the writers' arguments and stated:

Since the copyright in the underlying script survives intact despite the incorporation of that work into a derivative work, one who uses the script, even with the permission of the proprietor of the derivative work, may infringe the underlying copyright.\textsuperscript{68}

Professor Nimmer supported this principle that derivative work proprietors may not continue using an underlying work after the underlying work's grant is terminated.\textsuperscript{69} Moreover, Nimmer derived a subordination theory from this first line of cases. This theory proposes that all interests in a derivative work are secondary when they conflict with copyright interests in an underlying work.\textsuperscript{70} In other words, a derivative work is less than the sum of its parts (the underlying work plus original work added by the derivative work proprietor), and a derivative work owners' interests are subordinate to those of the underlying work owner's interests.\textsuperscript{71}

The court in \textit{Russell v. Price},\textsuperscript{72} implicitly adopted Nimmer's theory of uniform subordination of derivative works. In 1913 George Bernard Shaw copyrighted his play \textit{Pygmalion}. The copyright was renewed in 1941 and will now extend to 1988. However, the copyright in a licensed film based on the play expired in 1966.\textsuperscript{73} Suit was brought to enjoin the unlicensed rental of the film following expiration of its copyright.\textsuperscript{74} The court dismissed the defendant's arguments that the film was in the public domain and thereby could be freely used, and that he had a new property right in the derivative work film, stating:

We reaffirm . . . that well-established doctrine that a derivative copyright protects only the new material contained in the derivative work, not the matter derived from the

\begin{itemize}
  \item \textsuperscript{63} Id. at 525.
  \item \textsuperscript{64} Id. at 526-27.
  \item \textsuperscript{65} 538 F.2d 14 (2d Cir. 1976).
  \item \textsuperscript{66} Id. at 17.
  \item \textsuperscript{67} Id. at 17-18.
  \item \textsuperscript{68} Id. at 20.
  \item \textsuperscript{69} See 2 M. Nimmer, supra note 32.
  \item \textsuperscript{70} Id. §§ 3.04, 3.07.
  \item \textsuperscript{71} Several other commentators advocate versions of this view. See, e.g., Bricker, \textit{Renewal and Extension of Copyright}, 29 S. Cal. L. Rev. 23, 43 (1955); Mimms, supra note 53, at 615-17; Ringer, supra note 24, at 167-68.
  \item \textsuperscript{72} 612 F.2d 1123 (9th Cir. 1979), cert. denied, 446 U.S. 952 (1980).
  \item \textsuperscript{73} Id. at 1124-25.
  \item \textsuperscript{74} Id.
\end{itemize}
underlying work. Thus, although the derivative work may enter the public domain, the matter contained therein which derives from a work still covered by statutory copyright is not dedicated to the public. . . . The established doctrine prevents unauthorized copying or other infringing uses of the underlying work or any part of that work contained in the derivative product so long as the underlying work itself remains copyrighted. Therefore, since exhibition of the film "Pygmalion" necessarily involves exhibition of parts of Shaw's play, which is still copyrighted, plaintiffs here may prevent defendants from renting the film for exhibition without their authorization.\textsuperscript{75}

The court in Filmvideo Releasing Corp. v. Hastings\textsuperscript{76} also held that a licensed copyrighted derivative work could not fall into the public domain at the time its copyright expired if the copyright in the underlying matter it incorporated was renewed and still valid.\textsuperscript{77} In Filmvideo, Paramount Pictures had made twenty-three movies based on a 1935 agreement with the author of the Hopalong Cassidy books. Paramount let the movie copyrights expire, but the copyrights on the novels were renewed.\textsuperscript{78} The court held that Paramount could not license its prints of the film for television, particularly since the author in the 1935 agreement had reserved television rights, because "...the proprietor of a derivative copyright cannot convey away that which he does not own... it follows that he cannot release that which he does not own into the public domain."\textsuperscript{79}

In contrast to this first line of cases, the second line of cases concerning the scope of derivative work protection after rights to the underlying work are terminated under the 1909 Act supported a new property right theory. This theory suggests that once a derivative work is validly prepared, a new property right exists with respect to that derivative work, and its proprietor may continue to use, after termination, such material from the underlying work as is contained in the derivative work.\textsuperscript{80}

The first case to propose this theory was Edmonds v. Stern.\textsuperscript{81} In Edmonds, the author claimed that the sale of an orchestral arrangement, originally arranged with his consent, infringed his copyright in the underlying song.\textsuperscript{82} However, the court held that when the author consented to the use of his melody in the orchestration "a right of property sprang into existence, not at all affected by the conveyance of any other right."\textsuperscript{83} Thus, although the derivative work incorporated parts of the underlying work, the court allowed the derivative work proprietor to continue selling his work, since the derivative work was prepared before the derivative work owner lost the right to utilize the underlying work.\textsuperscript{84}

\textsuperscript{75} Id. at 1128. For further analysis, see Moyles, Russell v. Price: A Limitation on the Use of Derivative Works, 11 Golden Gate U.L. Rev. 323 (1981).
\textsuperscript{76} 668 F.2d 91 (2d Cir. 1981).
\textsuperscript{77} Id. at 92.
\textsuperscript{78} Id.
\textsuperscript{79} Id. at 93.
\textsuperscript{80} For a thorough analysis of the new property rights theory, see Jaszi, supra note 48, at 780-94.
\textsuperscript{81} 248 F. 897 (2d Cir. 1918).
\textsuperscript{82} Id.
\textsuperscript{83} Id. at 898.
\textsuperscript{84} See Ellingson, supra note 52, at 104-05 (explaining that even on an alternative ground for decision, the court advocated "continued, permissible, and non-infringing use by the derivative holder." Id. at 105.).
Rohauer v. Killiam Shows, Inc.\textsuperscript{85} is a case often cited for permitting continued use of a derivative work after rights to the underlying work are terminated. In Rohauer, the author of the novel on which the film The Son of the Shiek was based transferred all movie rights in the novel to Killiam and his predecessors.\textsuperscript{86} Although the film was copyrighted and renewed, the author died before the renewal term of the novel's copyright vested. The author's daughter thereafter renewed the novel's copyright and assigned all movie and television rights in it to Rohauer.\textsuperscript{87} However, the film was shown on television in 1971 from a print made available by Killiam. Neither Rohauer nor the author's daughter had authorized the broadcast.\textsuperscript{88} Rohauer brought suit claiming that Killiam could not authorize the film's broadcast because the original copyright term in the novel had expired and Killiam had no grant of rights under the renewal term.\textsuperscript{89}

The court distinguished Ricordi on the ground that the contracts there made no reference to renewal rights and that the holding of the case concerned Ricordi's right to make a new film, a right not claimed in this case.\textsuperscript{90} Thus, while recognizing that the author's daughter was entitled to claim the renewal term, the court protected Killiam's derivative work in holding that while no new movie version could be made, the original grant to Killiam, an unqualified license to prepare a derivative motion picture, entitled Killiam and his statutory successors to renew the film's copyright and utilize it.\textsuperscript{91} In other words, "the equities lie preponderantly in favor of the proprietor of a derivative work."\textsuperscript{92}

Moreover, the court recognized that "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."\textsuperscript{93} This decision thus extended broad rights to the grantee of a derivative license to exploit a derivative work created before termination of rights to the underlying work.

The court in Classic Film Museum, Inc. v. Warner Brothers, Inc.\textsuperscript{94} followed the Rohauer rationale. Classic Film involved rights to the film A Star Is Born. The original film was copyrighted in 1937.\textsuperscript{95} Warner Brothers subsequently acquired all rights in the film, story, and screenplay. It produced remakes of the film in 1955 and


\textsuperscript{87}. Id.

\textsuperscript{88}. Id.

\textsuperscript{89}. Id. at 487.

\textsuperscript{90}. Id. at 491.

\textsuperscript{91}. See id. at 492-94.

\textsuperscript{92}. Id. at 493.

\textsuperscript{93}. Id.

\textsuperscript{94}. 597 F.2d 13 (1st Cir. 1979).

The copyright on the 1937 film was not renewed and expired in 1965. Thereafter, Classic Film began renting prints of the 1937 film, which Warner Brothers considered to be an infringement of its copyright on the film.

In holding for the plaintiff, the court stated that Warner Brothers' reliance on *Ricordi* and *Grove Press* was misplaced. In the court's words:

Those cases solely concerned underlying works which were statutorily copyrighted; thus, any protection afforded by the *Ricordi* doctrine was limited to the fixed life of the underlying doctrine. The *Ricordi* doctrine is not equally applicable where there is an underlying common-law copyright which might extend indefinitely. Such unending protection of the derivative work would allow the *Ricordi* exception to swallow the rule of limited monopoly found in the Constitution and copyright statutes.

Since the original copyrighted film entered the public domain in 1965, the court held Classic Film could continue renting it for profit, because Warner Brothers' original copyright was a limited monopoly. Classic Film's use of the 1937 picture Warner Brothers owned was """"the price to be paid by the copyright holder in exchange for the exclusive statutory monopoly he enjoyed.""

In light of this dual evolution of cases, the drafters of the 1976 Copyright Act sought to protect both original authors and derivative work proprietors. Sections 203 and 304 of the 1976 Act clarified the duration of preexisting and existing grants of rights in an effort to preserve the rationale underlying the renewal provisions of the 1909 Act, while at the same time recognizing the new property right possessed by derivative work proprietors.

### III. Termination of Transfers Under the 1976 Act

Sections 203 and 304 of the 1976 Act grant authors a nonwaivable right to terminate transfers granting rights under their copyrights after a certain time. These recaptured rights may not then be retransferred until the previously granted rights are terminated. The 1976 Act thus overcomes the *Fisher* holding by allowing an author to recapture rights bargained away when the economic value of his or her work was not known. As the House Report stated:

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96. *Id.*
97. *Id.* at 854.
98. 597 F.2d 13, 14 (1st Cir. 1979).
99. *Id.*
100. *Id.* at 14-15.
101. *Id.* at 15.
104. 17 U.S.C. §§ 203(a), 304(c).
Based on the premise that the reversionary provisions of the present section on copyright renewal (17 U.S.C. § 24) should be eliminated, the proposed law should substitute for them a provision safeguarding authors against unremunerative transfers. A provision of this sort is needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work’s value until it has been exploited.\footnote{106}

A. Section 203

Section 203\footnote{107} applies to terminations of grants made after the effective date of the 1976 Copyright Act,\footnote{108} and the provision has no retroactive effect.\footnote{109} In statutory terms, this termination applies to any “exclusive or nonexclusive grant of a transfer or license of” a copyright or any right under that copyright, which grant “was executed by the author on or after January 1, 1978.”\footnote{110}

Since the 1976 Act dispenses with the renewal system of the 1909 Act and provides for a much longer term of initial protection,\footnote{111} Congress specifically retained termination rights in order to allow authors to realize benefits accrued in their earlier works. Barbara Ringer\footnote{112} explained the effort to retain termination rights while protecting the interests of derivative work proprietors as follows:

Congress had decided to phase out the old renewal provision, which included the possibility of reversion to the author or the author’s heirs after 28 years. The renewal provision was far from satisfactory in practice, but in some cases it did allow authors or their heirs to recapture their copyrights. In abandoning renewals and creating a much longer copyright term (the life of the author plus 50 years, or even longer in some cases), Congress had to face this question: should an unremunerative or unfair contract made by the author at the beginning of a copyright be allowed to run on for upwards of 100 years without the author and his family having any further opportunity to benefit from it?

There were extremely long and difficult negotiations over this question, and they eventually produced a compromise agreement consisting of two main principles:

1. Authors and their families should have the opportunity to terminate grants made after the new law comes into effect, but only at the end of a stated period of years.

2. Starting when the grant is made, that period of years should be long enough to allow the entrepreneur to recover what could reasonably be expected as a return on its investment, but not so long as to constitute a windfall at the expense of the author. After more extended discussions a compromise was reached, and the period was set at 35 years, with some variations. It was in this way that the interests of the entrepreneurial copyright owner—the first grantee—were taken into account: by according it a substantial period of time in which to realize its investment.\footnote{113}

\footnote{106. House Report 1476, supra note 19, at 142.}
\footnote{107. 17 U.S.C. § 203 (1977).}
\footnote{108. Id. § 301(a) provides that the effective date of the new act was January 1, 1978.}
\footnote{109. House Report 1476, supra note 19, at 125.}
\footnote{110. 17 U.S.C. § 203(a).}
\footnote{111. For works created on or after January 1, 1978, the copyright term extends for the life of the author plus fifty years after the author’s death. 17 U.S.C. § 302. Works still in their original twenty-eight year term under the 1909 Act on or before January 1, 1978 were given an increased renewal term of forty-seven years. Id. § 304(a). For works subsisting in their renewal term on or before January 1, 1978, the term was extended to seventy-five years from the date of the initial copyright. Id. § 304(b).}
\footnote{112. Barbara Ringer, a former Register of the Copyright Office, authored the termination and derivative work provisions of the 1976 Copyright Act.}
Thus, Congress explicitly sought to protect authors from early unremunerative bargains in providing that termination of an earlier grant of rights may be effected during the five years beginning at the end of thirty-five years from the date of the grant, or, if the grant covers the right of publication, thirty-five years from the date of publication or forty years from the date of the grant, whichever is shorter.\textsuperscript{114} At the same time, however, Congress sought to encourage investment by derivative work proprietors by according them a fixed period in which to realize a return on their investment.

The termination right of section 203 is not waivable, since the right of termination is confined to \textit{inter vivos} transfers or licenses executed by the author, and does not apply to the author’s successors in interest or to the author’s own legatees.\textsuperscript{115} Moreover, section 203(b)(4) provides that “[a] further grant, or agreement to make a further grant, of any right covered by the termination grant is valid only if it is made after the effective date of the termination,”\textsuperscript{116} and section 203(b)(5) provides that “[t]ermination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant.”\textsuperscript{117} Thus, an author could not be forced into an indefinite grant of rights, as was the case in \textit{Fisher}.\textsuperscript{118}

Termination is effected by serving a written notice in advance of the effective date of termination.\textsuperscript{119} However, absent an affirmative act effecting termination, the grant, unless it provides otherwise, continues for the full term of the copyright.\textsuperscript{120}

B. Section 304

Section 304\textsuperscript{121} applies to copyrights subsisting on January 1, 1978. For all works presently in their first twenty-eight year term, section 304(a) preserves the renewal provision of section 24 of the 1909 Act. However, the renewal term is increased from twenty-eight to forty-seven years, for a total of seventy-five years of protection from the date the work was originally copyrighted.\textsuperscript{122}

For renewed copyrights subsisting in their second twenty-eight year term at any time between December 31, 1976 and December 31, 1977, inclusive, the copyright term is extended under section 304(b) to run for a total of seventy-five years, thereby

\textsuperscript{114} 17 U.S.C. § 203(a)(3). The alternate method of computation was intended to cover cases where there is a time lapse, sometimes years, between the signing of a publication contract and the eventual publication of the work. \textit{House Report} 1476, \textit{supra} note 19, at 126.

\textsuperscript{115} \textit{House Report} 1476, \textit{supra} note 19, at 125.

\textsuperscript{116} However, 17 U.S.C. § 203(b)(4) does provide that a regrant of rights back to the original grantee may be made after notice of termination. The provision states in pertinent part:

\ldots As an exception, however, an agreement for such a further grant may be made between the persons provided by clause (3) of this subsection and the original grantee or such grantee’s successor in title, after the notice of termination has been served as provided by clause (4) of subsection (a).

\textsuperscript{117} \textit{Id.} § 203(b)(5).

\textsuperscript{118} \textit{See supra} text accompanying notes 29–31.

\textsuperscript{119} \textit{See} 17 U.S.C. § 203(a)(4). This section details the procedures necessary to validly effect termination.

\textsuperscript{120} \textit{Id.} § 203(b)(6). For a more detailed discussion of the operation of the section 203 termination provisions, see \textit{Current Developments in Copyright} 267, 267–70 (1985); and \textit{Curtis, supra} note 22.


\textsuperscript{122} \textit{Id.} § 304(a). \textit{See House Report} 1476, \textit{supra} note 19, at 139.
extending subsisting renewed copyrights for nineteen years. Since this extended term represents a completely new property right, Congress deemed that the author, the fundamental beneficiary of copyright under the Constitution, should have an opportunity to share in the extended term. Therefore, section 304(c)(3) provides that termination of grants executed before January 1, 1978 may be terminated fifty-six years after the date of the original copyright.

While section 304(c) is similar to section 203(b), some differences exist. Significantly, the person entitled to terminate a grant differs under the two provisions. Under section 203(b), the right of termination is limited to transfers and licenses executed by the author, while section 304(b) extends the right of termination to grants executed by those of the author's beneficiaries who can claim a renewal right under the 1909 Act, namely, his or her widow or widower, children, executors, or next of kin. The House Report explained the reason for this difference as follows:

There is good reason for this difference. Under section 203, an author's widow or widower and children are given rights of termination if the author is dead, but these rights apply only to grants by the author, and any effort by a widow, widower, or child to transfer contingent future interests under a termination would be ineffective. In contrast, under the present [1909] renewal provisions, any statutory beneficiary of the author can make a valid transfer or license of future renewal rights, which is completely binding if the author is dead and the person who executed the grant turns out to be the proper renewal claimant. Because of this, a great many contingent transfers of future renewal rights have been obtained from widows, widowers, children, and next of kin, and a substantial number of these will be binding. After the present twenty-eight year renewal period has ended, a statutory beneficiary who has signed a disadvantageous grant of this sort should have the opportunity to reclaim the extended term.

Congress determined that the grantee of rights from the original author, the derivative work proprietor, had already received everything it ever had any right to expect, since it had the same fifty-six years as it originally expected under the 1909 Act to recover its investment. Congress thus intended that the new right created by the additional nineteen year term of section 304 go to the author or the author's heirs.

C. The Derivative Works Exceptions

Congress intended that the right of termination should be absolute and inalienable. Authors and their heirs could no longer sign away their reversionary expectancy, as they did under the 1909 Act, and which the Supreme Court countenanced in Fisher. However, Congress had to deal with the problem posed

126. For a complete discussion of the differences between sections 203(b) and 304(c), see House Report 1476, supra note 19, at 140–42.
127. Id. at 140; 17 U.S.C. §§ 203(b), 304(b).
129. Hearings, supra note 113, at 85.
130. Id. at 86.
131. Id.
by derivative works. That is, "when a derivative work has been created and exploited during the first twenty-eight year term under license from the copyright owner, what happens when the renewal copyright in the preexisting work reverts to someone else?" For example, must a motion picture based upon a copyrighted novel or play be taken out of distribution unless a new license is obtained when an author of an underlying work recaptures the renewal copyright?

To resolve this question, Congress wrote a derivative works exception into sections 203 and 304. As Barbara Ringer explained:

It was finally agreed that, in fairness to the owner of the derivative work, and to avoid depriving the public of access to derivative works in this situation, a "derivative works exception" should be written into both sections 304 and 203. The purpose of the exception was to keep the derivative work in circulation and not to deprive the owner of the derivative work of the use of its own property. The sole beneficiary of the exception was intended to be the owner of the derivative work who wanted to continue utilizing it.

The derivative works exception was thus intended to allow a derivative works proprietor to continue utilizing a derivative work prepared under the terms of the grant to the underlying work after termination of that grant by the original author. For example, a record company that was granted rights to a song to make sound recordings could continue to exploit the sound recordings made before termination under the derivative works exception, provided the prescribed license fees were paid to the author.

The derivative works exception, sections 203(b)(1) and 304(c)(6)(A), states:

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.

133. Hearings, supra note 113, at 86. For further discussion of the derivative works exception, see Jaszi, supra note 48; Mimms, supra note 53; Ellingson, supra note 52; Cohen, "Derivative Works" Under the Termination Provisions in the 1976 Copyright Act, 28 BULL. Copyright Soc'y 390 (1981); Stein, Termination of Transfers and Licenses Under the New Copyright Act: Thorny Problems for the Copyright Bar, 26 Copyright L. Soc'y (ASCAP) 1 (1981), also published at 24 UCLA L. Rev. 1141 (1977).

134. Id. at 86-87.


137. Sound recordings "are works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied." 17 U.S.C. § 101. There is no § 106(4) performance right in sound recordings. Id. § 114(a). In addition, the exclusive right of the owner of copyright in a sound recording is limited to the right to duplicate the sound recording in the form of phonorecords, or of copies of motion pictures and other audiovisual works, that directly or indirectly recapture the actual sounds fixed in the recording. See id. § 114(b). Sound recordings should be distinguished from phonorecords, which the Act defines as follows:

material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "phonorecords" includes the material object in which the sounds are first fixed.

Id. § 101.

138. For a brief summary of copyright licensing, see Dannay, Copyright Licensing An Introduction:Statutory Requirements, in Recent Developments in Licensing 113 (ABA/PTC 1981).

139. The grant referred to is an "exclusive or nonexclusive grant of a transfer or license of copyright or any right under copyright." See 17 U.S.C. § 203(a).
Thus, according to the House Report,

[a] film made from a play could continue to be licensed for performance after the motion picture contract had been terminated but any remake rights covered by the contract would be cut off. For this purpose, a motion picture would be considered as a "derivative work" with respect to every "preexisting work" incorporated in it, whether the preexisting work was created independently or was prepared expressly for the motion picture.\textsuperscript{140}

The section 203(b)(1) exception applies only to \textit{inter vivos} transfers or licenses executed by the author. Section 304(c)(6)(A) applies to transfers and licenses executed by the author or his renewal beneficiaries under the 1909 Act.\textsuperscript{141} Under either section, no further use of a derivative work is permitted after the contractual loss of rights in the underlying work. The House Report states that "[i]f, for example, an agreement provides an earlier termination date or lesser duration, or if it allows the author the right of cancelling or terminating the agreement under certain circumstances, the duration is governed by the agreement."\textsuperscript{142} However, the Act does permit continued utilization of a derivative work if rights to the underlying work are lost through termination of transfer, thereby striking a balance similar to the one reached in \textit{Rohauer}.\textsuperscript{143}

Unfortunately, Congress did not delineate the exact scope of this exception. It appears that the exception was a concession to the motion picture industry to obtain their support for the termination right, a right the industry vehemently opposed.\textsuperscript{144} However, a derivative work proprietor may make a substantial investment in and contribution to the original underlying work, for example, producing a motion picture based upon a novel. In such a case, Congress deemed it fair to allow the derivative work proprietor to continue to utilize the derivative work after termination, both to encourage investment by derivative work proprietors and to assure that the public retained access to the derivative work. In Professor Curtis' words:

[a] "derivative work" frequently involves significant authorship by the derivative user and it may be unfair to prohibit all further use of such work after termination or to subject its creator to the possibly exorbitant demands of the owner of an underlying work. Indeed, the derivative work thus lost to the public might be far more important than the underlying work (for example, an opera using the storyline of a long-forgotten novel).\textsuperscript{145}

In balancing the author's interests against those of a derivative work proprietor and the public, Congress distinguished between uses to which a derivative work may be put in stating that "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."\textsuperscript{146} Thus, a derivative work proprietor could continue to "utilize" the derivative work prepared under the previous grant, now terminated, but

\textsuperscript{140} House Report 1476, \textit{ supra} note 19, at 127.
\textsuperscript{141} Id. at 140.
\textsuperscript{142} Id. at 128, 142.
\textsuperscript{143} See \textit{ supra} text accompanying notes 85–93.
\textsuperscript{145} Curtis, \textit{ supra} note 22, at 55.
\textsuperscript{146} 17 U.S.C. §§ 203(b)(1), 304(c)(6)(A).
could not prepare a new or second-generation derivative work based upon the underlying work. The House Report, however, does not define the scope of this distinction beyond stating that: "A film made from a play could continue to be licensed for performance after the motion picture contract had been terminated but any remake rights covered by the contract would be cut off."147

While one may view the scope of the derivative works exception as embodying the same distinctions courts delineated under the 1909 Act, the new rights granted under sections 203 and 304 were intended to benefit authors and their beneficiaries. Hence, Congress chose narrow means to protect the investments of derivative work proprietors in order to correct the confusing evolution of the derivative works exception under the 1909 Act. Unfortunately, the Supreme Court's recent interpretation of the scope of the derivative works exception frustrates the explicit congressional policy of protecting authors and their beneficiaries from early unremunerative bargains made while the author's works are in their infancy.

IV. RECENT INTERPRETATIONS

The derivative works exception148 was intended to protect the actual owners of derivative works from having to renegotiate rights in underlying works when an author terminated rights to the underlying works. Otherwise, the author or his or her heirs might veto a continued performance of a lawfully created derivative work prior to the termination. Therefore, the derivative works exception allows a derivative work owner to continue to utilize a derivative work prepared under the terms of the prior grant, notwithstanding a termination of the grant by the author or the author's heirs.

However, the special status given derivative works is indeed an exception to the termination of transfer provisions.149 As discussed previously,150 the termination of transfer provisions allow an author or an author's beneficiaries to reclaim a copyright previously bargained away, along with any rights under that copyright. This allows an author who had underestimated the value of his or her creation at the outset to reap some of the benefits of its eventual success. The termination right thus corrects the imbalance of the unequal bargaining position of authors as against derivative work proprietors resulting from an inability to determine a work's value before it has been exploited.

In the latest evolutionary phase of the interpretation of the scope of the derivative works exception to an author's termination right, the Supreme Court seriously undercut Congress' intentions and deprived authors of their deserved benefits. One can only hope that Congress will see fit to redress this imbalance.

150. See supra text accompanying notes 102-29.
A. Mills Music, Inc. v. Snyder: Everyone’s Sorry Now

In 1985, the Supreme Court held in Mills Music, Inc. v. Snyder, a 5-4 decision, that even after termination of his contract with an author, a publisher may continue to share in royalties resulting from the distribution of sound recordings made by other derivative work owners. This aberrant decision allows noncreative middlemen to benefit at the expense of authors, without regard for the purposes or policies underlying the termination of transfer provisions in the 1976 Copyright Act.

At issue in Mills Music was to whom royalties from the song “Who’s Sorry Now” should be paid. Ted Snyder composed the music for the song. Although Snyder had only a one-third interest in “Who’s Sorry Now,” the Court treated the case as if Snyder were the sole author. The original copyright in the song was registered in the name of a publishing company that was partly owned by Snyder. The company went bankrupt and the trustee in bankruptcy assigned the copyright to Mills Music.

Although Mills Music owned the original copyright, it needed Snyder’s cooperation to secure the twenty-eight year renewal term then available under the 1909 Copyright Act. Consequently, in 1940, Mills Music and Snyder entered into a written agreement in which Snyder agreed to assign his renewal right to Mills Music in exchange for an advance royalty and for Mills Music’s promise to pay a cash royalty on sheet music and fifty percent of all net royalties Mills Music received for mechanical reproductions of the song. This agreement preceded the Court’s decision in Fisher that under the 1909 Act an author could assign his or her renewal

152. Id. at 154.
154. Burt Kalmar and Harry Ruby wrote the words to the song. 469 U.S. 153, 156 n.6 (1985).
155. Id. at 156.
156. Id. at 156-57.
157. Id. at 153. The agreement, which covered all of Snyder’s songs, provided as follows:
In part consideration hereof, I further covenant and agree promptly to apply for renewal copyrights on all of my compositions which from time to time may hereafter fall due and are now part of your [Mills’] catalogue, whether I was the sole author thereof or collaborated with others and which vest in me the right to make copyright applications on all such compositions as provided by the United States Copyright Act and in which I have any right, title and interest or control whatsoever, in whole or in part, and I further covenant and agree with you to stand seized and possessed of all such renewal copyrights and of all applications therefor, and of all rights in or to any such compositions for you and for your sole and exclusive benefit . . . I further agree that when such renewal copyrights are duly issued and obtained they shall automatically become vested in you as the sole owner thereof, and your successors and assigns.
After first deducting all advance royalties heretofore paid as above provided for, and any other sums that may have been advanced to me under the terms of this agreement, the following royalties shall be payable to me during your customary semi-annual royalty period each year, as follows: three (3) cents per copy upon each and every regular pianoforte copy, and two (2) cents per copy for each orchestration sold, paid for and not returned by virtue of the rights herein acquired, and a sum equal to fifty (50%) per cent of all new royalties actually received by you for the mechanical reproduction of said musical compositions on player-piano rolls, phonograph records, disks or any other form of mechanical reproduction, for licenses issued under said renewal copyright . . .
Id. at 157 n.10.
159. See supra text accompanying notes 29–31.
right before it vested, a ruling Congress specifically sought to overcome in the 1976 termination provisions.\textsuperscript{160}

Mills Music registered the copyright renewal in 1951. In 1958, Mills Music directly and through its agent, Harry Fox Agency, Inc., issued over 400 licenses to record companies authorizing the use of Snyder's song in specific reproductions on phonorecords.\textsuperscript{161} These record companies then prepared separate derivative works, which were independently copyrightable.\textsuperscript{162} The record companies paid royalties to Mills Music, royalties based upon their license from Mills, and Mills Music in turn paid fifty percent of those royalties to Snyder.\textsuperscript{163}

After Snyder's death, his widow and son statutorily succeeded to his renewal right.\textsuperscript{164} The second term of copyright would have expired at the end of 1979 but for the nineteen year extension provided by section 304(b). On January 3, 1978, the Snyders terminated the nineteen year extension and thereby terminated Mills Music's right to the extended term. On the effective date of termination, the Snyders advised Fox that Mills Music's interest in the copyright had been terminated, and demanded that the royalties from the mechanical licenses granted by Mills Music to the recording companies be paid to them.\textsuperscript{165}

The legal effect of the Snyders' termination was that Mills Music ceased to be the copyright owner and the Snyders, the author's heirs, became the copyright owners. The record company could continue to manufacture and distribute records produced from sound recordings already made under their license with Mills Music. However, the record companies had to continue to pay the same amount of royalties provided for in their licenses.

The issue that faced the Supreme Court was to whom must these royalties be paid? In other words, the question before the Court was whether Mills Music, the publisher of Snyder's song, who now had no connection with the derivative work phonorecords that incorporated the song other than collecting royalties from the record companies, was still entitled to fifty percent of the royalties, or whether the Snyders' termination of the grant meant that all royalties should go to them as the author's heirs. The issue proved to be a difficult one. The district court and a five justice majority of the Supreme Court held for Mills Music, while the three judges of the Second Circuit and four justices of the Supreme Court believed the Snyders should prevail.\textsuperscript{166}

\begin{footnotes}
\textsuperscript{160} See supra text accompanying notes 32–41.
\textsuperscript{161} 469 U.S. 153, 158 (1985). Mills filed the required notice, a Notice of Use on Mechanical Instruments, under the 1909 Act § 1(c), 35 Stat. 1075. Id.
\textsuperscript{162} Id. at 158 n.12. See 17 U.S.C. § 103(b).
\textsuperscript{163} Id. at 158.
\textsuperscript{164} Id. at 158–59.
\textsuperscript{165} Id. at 162.
\end{footnotes}
In statutory terms, the question was whether the record companies' sound recordings of "Who's Sorry Now" were "derivative works prepared under authority of the grant,"\(^{167}\) and whether Mills Music, the intermediate licensor, was entitled to continue receiving contractual royalty payments from the record companies when the derivative works "continue to be utilized under the terms of the grant after termination."\(^{168}\)

A majority of the Supreme Court held that an intermediate licensor such as Mills could continue to receive royalties from the licensing of derivative works after termination of rights in the underlying work.\(^{169}\) The majority based its holding on the premise that the word "grant" in section 304(c)(6)(A) included Snyder's grant to Mills Music in 1940.\(^{170}\) The Court stated that "whether the phrase 'under authority of the grant' is read to encompass both the original grant to Mills and the subsequent licenses that Mills issues, or only the original grant, it is inescapable that the word 'grant' must refer to the 1940 grant from Snyder to Mills."\(^{171}\)

The majority then argued that "because Mills . . . authorized the preparation of each of the 400 odd sound recordings while Mills was the owner of the copyright, each of these works was unquestionably prepared 'under the authority of the grant.'"\(^{172}\) By reading the term "grant" to include the entire chain of authority for the preparation of a derivative work, the majority then concluded that Mills could continue to "utilize" the sound recordings under the terms of the grant after the Snyders' termination, that is, continue to receive royalties from the record companies under the terms of their licenses with Mills.\(^{173}\)

While accepting the majority's assertion that the "terminated grant" in section 304(c)(6)(A) refers to the original grant from Snyder to Mills, and that the sound recordings were prepared "under authority of the grant," the dissent stated that "these observations provide no basis for construing the statute so as to extend the benefits of the exception to Mills, as well as to users of derivative works, after the Snyders have terminated the original grant and reclaimed ownership of the copyright."\(^{174}\) The dissent argued that under section 304(c), an author or his heirs could reclaim both the copyright and any rights granted under the copyright formerly bargained away.\(^{175}\) Thus, the Snyders' termination effectively recaptured the right previously given to Mills to share in the royalties paid by the record companies.\(^{176}\)

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170. Id. at 164.

171. Id.

172. Id.

173. Id. at 165.

174. Id. at 178 (White, J., dissenting).

175. Id. at 178–79 (White, J., dissenting).

176. Id.
In addition, the dissent persuasively argued that section 304(c)(6)(A) merely provides the "utilizer" of a derivative work the privilege of continuing to utilize the work under the terms of the original grant. Here only the record companies, not Mills, "utilized" the sound recordings. To protect the utilizer of a derivative work, the dissent argued that the derivative works exception merely insulates utilizers from an author's attempt to renegotiate a higher royalty rate upon termination of the license to the underlying work. Section 304(c)(6)(A) thereby protects the utilizer's interest in maintaining the royalty rate agreed upon in the original grant, and it makes no difference to the utilizer who receives that royalty.

As Justice White explained:

It is strange, to say the least, that the terms of utilization by the license include the agreement between Mills and Snyder to divide royalties, an agreement that is entirely irrelevant to protecting utilization of the derivative work. . . . [T]he only terms of the grant preserved by the exception are those terms under which the derivative grant is utilized. The relevant terms, therefore, are those governing the licensees' obligation to pay a certain royalty rate, not those governing the division of royalties between Mills and the Snyders.

Under this view, the derivative works exception deprives the Snyders only of the right to change the rate of royalties, not of the right to receive them.

The majority's holding allows the exception to swallow the rule. The termination provisions of sections 203 and 304 were designed to correct the Fisher result, which allowed publishers like Mills Music to exploit their superior bargaining position and demand the assignment of the renewal term when the value of the author's copyrighted work was uncertain. Allowing Mills, by virtue of the derivative works exception, to receive royalties under a forty-five year old agreement executed before the commercial value of Snyder's song was known frustrates the congressional purpose of compensating authors like Snyder who struck unfair bargains when their works were young.

Moreover, the majority's view will have a devastating impact that goes far beyond the Mills Music case. For example, the decision applies to every copyrightable work and every type of derivative work, not just to music and sound recordings. Middlemen like Mills, similarly situated in other industries such as book publishing, may now pressure young authors for a grant of one hundred percent of the royalties resulting from licensing derivative works utilizing their underlying work. Since the Supreme Court has effectively extinguished the author's termination right under such circumstances, authors may not then realize or benefit from the commercial value later accrued in their work.

177. Id. at 179. The dissent stated: "[I]f Mills did attempt to utilize any of the derivative works, for example by selling copies of the phonorecords of the copyrighted work to the public, it would be infringing on the derivative copyrights." Id. at 179 n.1 (footnotes omitted).
178. Id.
179. Id.
180. Id.
181. Id. at 180 n.2.
182. See supra text accompanying notes 29–31.
183. Hearings, supra note 113, at 83.
184. Id.
Moreover, although Mills dealt with section 304(c)(6)(A) and the nineteen year extension of subsisting renewal copyrights, section 203, concerning the termination of grants made after January 1, 1978, contains a similar derivative works exception.\footnote{185} Thus, the Mills rule will affect future, as well as past, terminations of grants.\footnote{186}

In light of these inequitable results, two bills were introduced in Congress to expressly overturn Mills Music.\footnote{187} As was the case with Fisher, Congress must take direct and express action in order to overcome the Supreme Court’s latest misguided interpretation of the scope of the derivative works exception.

B. Senate Bill 1384 and House Bill 3136

On June 27, 1985, Senator Specter introduced Senate Bill 1384, a bill to clarify the operation of the derivative works exception. Senator Specter stated that “the Supreme Court decision was not sound,” and since the sharply divided 5 to 4 decision was based almost exclusively on the Court’s perception of Congress’ intent, “it is appropriate to have Senate Bill 1384 clarify the intent of Congress, which would have the effect of reversing the Supreme Court decision.”\footnote{188} Senate Bill 1384 would add a new section 304(c)(7) to the 1976 Act in an effort to reverse Mills Music. The new subsection provides as follows:

(7). Notwithstanding any other provision of law, where an author or his successor, as defined in subsection (c)(2), has exercised a right of termination pursuant to this section and a derivative work continues to be utilized pursuant to subsection (c)(6)(A) of this section, any right to royalties from the utilization of the derivative work shall revert to the person exercising the termination right.\footnote{189}

Rather than changing the current language of the derivative works exception of section 304(c)(6)(A), the new subsection (7) states that any rights to royalties for derivative works utilized pursuant to section 304(c)(6)(A) following termination by an author or his or her successor “shall revert to the person exercising the terminated right.” Moreover, this right to royalties exists “notwithstanding any other provision of law.” It appears this opening phrase of the subsection was drafted to ensure that royalties from derivative works would revert to the person exercising the terminated right, regardless of any contractual arrangement between the author and assignee.\footnote{190} However, the bill does not amend the derivative works exception to section 203,\footnote{191} which governs works copyrighted after January 1, 1978.\footnote{192} Therefore, Senate Bill

\footnotetext{185}{17 U.S.C. § 203(b)(1). See supra text accompanying notes 107–20.}
\footnotetext{186}{See Hearings, supra note 113, at 83.}
\footnotetext{188}{Copyright Holder Protection Act: Hearing Before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary, 99th Cong., 1st Sess. 1 (1985) [hereinafter Hearings II].}
\footnotetext{189}{S. 1384, 99th Cong., 1st Sess., 131 Cong. Rec. at S8,972 (emphasis added).}
\footnotetext{190}{See Hearings II, supra note 188, at 30.}
\footnotetext{191}{17 U.S.C. § 203(b)(1).}
\footnotetext{192}{See supra text accompanying notes 107–20.}
1384 does not ensure that the Mills Music decision will not be applied to future terminations of grants.

House Bill 3163, on the other hand, would amend the derivative works exception as it appears in both sections 203(b)(1) and 304(c)(6)(A). The bill would add the following phrase within each of the existing derivative works exceptions:

After the effective date of termination, all rights to enforce the terms of any such license or other contract and to receive royalties or other monies from any such continued utilization shall become the property of, and such royalties or other monies shall be payable to, the person or persons in whom the reversion of rights are vested under this section.

House Bill 3163 ensures that all rights to receive royalties or other monies from the continued utilization of a derivative work after termination shall revert to the person in whom an author's reversion rights vest. Since the person in whom the reversionary termination rights vest may be different than the person who exercises the termination rights, House Bill 3163 protects an author's statutory successors, while Senate Bill 1384 merely protects anyone that exercises the termination right in fact.

In addition, by directly amending the derivative works exceptions to both section 203 terminations and section 304 terminations, House Bill 3163 ensures that the inequities resulting under Mills Music will not be applied to either past or future terminations of grants. Finally, the direct amendment approach of House Bill 3163 to the derivative works exceptions is preferable to the indirect amendment approach of Senate Bill 1384, since indirect amendment of the derivative works exception may invite further litigation to clarify congressional intent.

Both bills would reverse Mills Music and eliminate the windfall the Court extended to publishers like Mills at the expense of authors and their families. Both expressly state that termination means termination, and both support the view that "[t]he intended beneficiary of the [derivative works] exception was not the entrepreneur who had originally licensed the work, but the owner of the derivative work who was utilizing it." However, House Bill 3163 is the preferable vehicle for overruling Mills Music, since it directly amends the derivative works exceptions under the termination provisions of both sections 304 and 203, thereby ensuring that Mills Music will not become an inequitable legacy for future authors.

At this writing both bills are still in committee. It is not known when or if they will be voted on. However, Congress must enact these or similar bills in order to reverse the inequitable state of affairs currently existing under Mills Music. Congress must explicitly provide that the class of intended beneficiaries of all royalties and other monies resulting from the continued utilization of derivative works after termination consists exclusively of authors and their heirs or statutory successors.

195. Id.
197. See Hearings II, supra note 188, at 33.
Otherwise, middlemen publishers will exact royalty rights from authors in a manner similar to that in which renewal rights were usurped from authors under *Fisher*.

V. CONCLUSION

Congress has consistently attempted to protect authors from their own improvidence in striking early unremunerative bargains with publishers, first through the renewal provisions of the 1909 Copyright Act and then by specifying that an author could terminate prior transfers of grants under sections 203 and 304 of the 1976 Act. The inconsistent evolution of the derivative works exception to authors' termination rights, however, has now led to an exception that swallows both the significance of an author's termination right and congressional copyright policy. Congress must once again, as it did in enacting sections 203 and 304 after *Fisher*, correct an errant Supreme Court and effectuate its policy of protecting the true beneficiary of the Constitution's copyright clause, the author.

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