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Copyright: Who's Sorry Now?

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COPYRIGHT: WHO'S SORRY NOW?

Writers and music composers must be sorry now that the Supreme Court has decided *Mills Music, Inc. v. Snyder* (“*Mills Music*”).¹ *Mills Music* involved mechanical royalty distributions from the song “Who’s Sorry Now” (“*Song*”) under the derivative works exception (“*Exception*”) to one of the 1976 Copyright Act’s (“*1976 Act*”) termination provisions.² The heirs of Ted Snyder (“*Snyder*”), the *Song*’s composer, terminated *Snyder*’s copyright assignment to *Mills*, a music publisher, pursuant to section 304(c) of the 1976 Act.³ Subsequently, a dispute developed concerning whether *Mills* could continue collecting mechanical royalties on derivative works licensed and prepared prior to termination.⁴ In a five to four decision,⁵ the Supreme Court concluded that under the terms of the grant at the time of termination, *Mills* could rightfully collect royalties that accrue after termination.⁶

Facts

Ted Snyder composed the *Song*’s lyrics in the early 1920’s in collab-

1. — U.S. —, 105 S.Ct. 638 (1985), *rev’g sub nom* Harry Fox Agency, Inc. v. Mills Music, Inc., 720 F.2d 733 (2d Cir. 1983), *rev’g* 543 F. Supp. 844 (S.D.N.Y. 1982).

2. *Mills Music*, 105 S.Ct. at 641. The 1976 Act provides that:

[T]he 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. . . .

. . . .
(6) . . . In the case of a grant executed by one or more of the authors of the work, all of a particular author’s rights under this title that were covered by the terminated grant revert, upon the effective date of termination, to that author . . . subject to the following limitation:

(A) 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) (1982) (emphasis added).

3. *Mills Music*, 105 S.Ct. at 644.

4. The dispute focused on whether the termination of an assignee’s copyright interest also terminated the assignee’s contractual rights to receive mechanical royalties from pre-termination, licensed derivative works. *Id.* at 641.

5. Justice Stevens delivered the opinion of the Court. Justice White dissented, joined by Justices Brennan, Marshall and Blackmun.

6. *Mills Music*, 105 S.Ct. at 652.

oration with two others;⁷ thus, he maintained a one-third share in the copyright. The original copyright was registered in 1923 by Waterson, Berlin & Snyder Co. ("Waterson"), a publishing company partially owned by Snyder.⁸ After Waterson declared bankruptcy in 1929,⁹ ownership of the copyright passed to Mills.¹⁰ In 1940, Mills and Snyder executed a written agreement¹¹ which delineated their respective rights in the copyright's renewal term.¹² In 1951, Mills obtained and registered the Song's copyright renewal.¹³

During the renewal term, 419 licenses to use the Song's copyright were issued to record companies either directly by Mills or by the Harry Fox Agency, Inc. ("Fox"), as Mills's agent.¹⁴ These licenses authorized the Song's use in "sound recordings"¹⁵ with specific mechanical repro-

7. *Id.* at 641. Burt Kalmar and Harry Ruby wrote the music. *Id.* at 641 n.6. For example, Connie Francis's version of the Song, popularized in 1958, contained the following lyrics:

*Who's sorry now? Who's sorry now?
Who's heart is achin' for breakin' each vow?
Who's sad and blue? Who's cryin' too?
Just like I cried over you.
(Ah . . . Ah . . . Ah . . . Ah . . .)
Right to the end, just like a friend,
I tried to warn you somehow.
You had your way; now you must pay.
I'm glad that you're sorry now.*

8. *Id.* at 641-42. The original copyright was registered in the Copyright Office on March 7, 1923. *Harry Fox*, 543 F. Supp. at 847.

9. *Mills Music*, 105 S.Ct. at 642.

10. The trustee in bankruptcy assigned the Song's copyright to Mills on February 9, 1932. *Harry Fox*, 543 F.Supp. at 847-48.

11. *Mills Music*, 105 S.Ct. at 642. Snyder assigned Mills his entire copyright interest in the renewal term. In return, Mills gave Snyder an advance royalty and agreed to pay a cash royalty on sheet music sales as follows: three cents for each copy of regular pianoforte; and, two cents for each copy of orchestration. Furthermore, Mills agreed to pay Snyder 50% of all net royalties received from licensed mechanical reproductions. *Id.* at 642 n.10. (These are referred to as mechanical royalties to differentiate between royalties paid on phonorecords and those paid on sheet music copies.)

12. The 1909 Copyright Act, under which the Song was initially copyrighted, provided for an original twenty-year copyright term from the date of first publication. Furthermore, the author of the copyright (or the author's statutory successors if the author were deceased) was entitled to a twenty-year renewal term if certain conditions were satisfied. 17 U.S.C. § 24 (1970) (originally enacted as Act of March 4, 1909, ch. 320, § 23, 35 Stat. 1075) ["1909 Act"].

13. *Mills Music*, 105 S.Ct. at 642. The copyright was registered on March 1, 1951, in the copyright office (*Harry Fox*, 543 F.Supp. at 848); thus, the twenty-year renewal term would have expired under the 1909 Act in 1979.

14. *Mills Music*, 105 S.Ct. at 642; *Harry Fox*, 543 F. Supp. at 848.

15. "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 (1982).

ductions on "phonorecords."¹⁶ As a result, these record companies prepared "derivative works"¹⁷ of the Song using various recording artists and musical arrangements.¹⁸ By the terms of the Mills-record company contracts, royalty payments were payable to either Mills or Fox. Additionally, by the terms of the Snyder-Mills contract, half of these royalty payments were payable to Snyder by Mills. Harry Fox collected royalties from the record companies, deducted a fee, and remitted the balance to Mills.¹⁹

Snyder's widow and son ("Snyders") succeeded to his interest in the Song's copyright and royalty payments after his death.²⁰ Under the 1909 Copyright Act ("1909 Act"), the original and renewal copyright terms lasted for twenty-eight years each.²¹ In addition, the 1976 Act provides for a nineteen-year extension in the renewal terms of certain copyrights,²² including that of the Song. The Song's renewal term would have expired in 1979,²³ thus, it was extended through 1998 by this provision.²⁴ On January 3, 1978, the Snyders delivered written notice²⁵ of their intent

16. The 1976 Act provides that:

"Phonorecords" are 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.

17 U.S.C. § 101 (1982).

17. The 1976 Act provides that:

A "derivative work" is a work based upon one or more preexisting works such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, *sound recording*, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed or adapted. 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."

17 U.S.C. § 101 (1982) (emphasis added).

18. *Mills Music*, 105 S.Ct. at 642. The sound recordings (*see supra* note 15) were derivative works (*see supra* note 17), which were mechanically reproduced on phonorecords (*see supra* note 16). *Id.* at 641-42.

19. *Id.* at 642-43.

20. *Id.* at 643.

21. *See supra* note 12.

22. The 1976 Act provides that:

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.

17 U.S.C. § 304(b) (1982).

23. *See supra* note 13.

24. The 1976 Act provides that copyright terms "run to the end of the calendar year in which they would otherwise expire." 17 U.S.C. § 305 (1982).

25. *Mills Music*, 105 S.Ct. at 644. The notice complied with § 304(c)(4) of the 1976 Act. It identified the Song, stated that the termination applied to the copyright assignment and the

to terminate Mills's assignment of the Song's copyright²⁶ soon after the nineteen-year extension was to begin.²⁷ On August 11, 1980, the Snyders notified Fox that they had terminated Mills's copyright assignment and demanded that Fox pay all royalties directly to them.²⁸

Lower Court Holdings

Fox placed the disputed fees into an escrow²⁹ and initiated an interpleader action in the United States District Court in New York.³⁰ The specific issue before the district court was whether Snyder's heirs or Mills was entitled to mechanical royalties generated by licensed derivative works prepared prior to the termination date.³¹

Mills contended that all sound recordings of the Song, prepared by licensed record companies prior to termination, were *prepared under the authority of the grant before termination* and were consequently protected by the Exception.³² Mills claimed to be a beneficiary of the Exception

copyright proprietor's publication and recording rights, and set the effective termination date for Jan. 3, 1980. *Id.*

26. 17 U.S.C. § 304(c) (1982) (*see supra* note 2).

27. Since the Song was originally copyrighted in 1923 (*see supra* note 8), the original renewal term would have expired under the 1909 Act in 1979. According to § 304(b) (*see supra* note 22) and § 305 (*see supra* note 24), however, the term is extended through 1998. Hence, the Song's extension period is the nineteen-year period between 1979 and 1998.

28. *Mills Music*, 105 S.Ct. at 644. Fox had accumulated \$5,301.03 from record producers and had delivered \$3,534.02 to Mills, representing the amount due to Mills on its assignments from the other two authors. *Harry Fox*, 543 F.Supp. at 848-49. The \$1,767.01 that was disputed was relatively small, but future royalties are substantial. For example, for a nine-year period between July 1971, and June 1980, royalties for the Song totaled \$142,633.53. *Harry Fox*, 720 F.2d at 735.

29. *Mills Music*, 105 S.Ct. at 644-45. The fees consisted of royalties from: (1) 15 licenses issued by Mills or Fox before the date of termination; and, (2) two sound recordings prepared before the date of termination for which licenses were issued after the date of termination. *Harry Fox*, 543 F.Supp. at 869.

30. *Mills Music*, 105 S.Ct. at 645. Fox sought declaratory relief pursuant to 28 U.S.C. § 1338, since the controversy arose under the federal copyright laws. Mills and Snyder subsequently filed counter and cross claims and each moved for summary judgment. The Snyders and Mills both agreed that after termination each previously licensed record producer could continue to make and distribute phonorecords. *Harry Fox*, 543 F.Supp. at 849-50.

31. *Mills Music*, 105 S.Ct. at 641. The 1976 Act provides for the copyright owner's exclusive right to reproduce the work in "copies" or "phonorecords." 17 U.S.C. § 106(1) (1982). "'Copies' are material objects, other than phonorecords, in which a work is fixed . . . and from which the work can be perceived, reproduced or otherwise communicated . . ." 17 U.S.C. § 101 (1982). Royalties are payments made to an author or composer for each copy or phonorecord (*see supra* note 16) of the author's work that is sold. In this case, Snyder received royalties on copies of sheet music sold and mechanical royalties on phonorecords sold (*see supra* note 11).

32. *Harry Fox*, 543 F.Supp. at 850. Under the Exception, when derivative works are created under authority of a terminated grant prior to its termination, their owners can continue

and to have the right to continue utilizing derivative works as it had in the past. In particular, Mills contended that utilization included the right to receive royalties derived from pre-termination derivative works which it had licensed.³³

The Snyders argued that, even if the Exception were applicable, Mills would still not be entitled to receive royalties earned after termination.³⁴ They asserted that Congress intended the termination provision to confer the benefit of the nineteen-year extension only on authors, composers and other creators of works. The Snyders reasoned further that Congress intended the Exception to protect record companies, as derivative work owners, and not music publishers as middlepersons. The Snyders argued that allowing Mills to collect post-termination royalties would be contrary to the legislative intent of the Exception.³⁵

The district court examined the Act and its legislative history and held that both the termination provision and the Exception permitted post-termination continuation of the royalty arrangement for derivative works prepared prior to termination.³⁶ The court perceived the legislative history regarding the Exception to be ambiguous and found no indication that Congress evaluated the Exception in relation to music publishers.³⁷ The court then examined the policies underlying the Exception and concluded that, although authors were the *fundamental* beneficiaries of the Exception, no evidence existed that Congress intended them to be the *exclusive* beneficiaries.³⁸

to utilize them after termination under the same terms. 17 U.S.C. § 304(c)(6)(A) (1982). (See *supra* note 2).

33. *Harry Fox*, 543 F.Supp. at 850.

34. *Id.* at 853. The Snyders initially contended that the sound recordings were prepared under authority of the compulsory license provision (see 17 U.S.C. § 115) and not the grant from Snyder to Mills, which would place them beyond the protection of the Exception. *Harry Fox*, 543 F.Supp. at 851-52. The lower court rejected this argument, and the Snyders did not raise the issue on appeal.

35. *Harry Fox*, 543 F. Supp. at 853. The Snyders perceived that the critical phrase "under the terms of the grant" referred only to the relationship between authors as creators and record companies as derivative work owners. *Id.* at 853-54. The Snyders initially had argued unsuccessfully that the term "grant" referred only to the relationship between Snyder and Mills, and that, consequently, the record companies were not protected by the Exception since the phonorecords were not prepared "under authority of the grant" from Snyder to Mills. *Id.* at 850.

36. *Id.* at 867-68. The court emphasized that the Exception does not distinguish between grantees who produce derivative works themselves and grantees who merely license others to produce them. Since no direct relationship exists between an original grantor and the last grantee in a succession of grants, the court reasoned that the phrase "under the terms of the grant" must include the terms of all successive grants. *Id.* at 854-55.

37. *Id.* at 855.

38. *Id.* at 857. The court recognized that the termination provision's primary purpose was

The Second Circuit Court of Appeals reversed the district court and held that all royalties reverted to the author after termination.³⁹ The decision was based upon three propositions: (1) Mills was really relying on two separate grants;⁴⁰ (2) Mills was not a utilizer of a derivative work;⁴¹ and, (3) the statute does not expressly address the situation where an author's original assignee subsequently grants to a third party the right to prepare and use a derivative work.⁴²

The Second Circuit emphasized that when a statute does not address a specific situation, the purposes behind the statute must be examined to determine what Congress would have intended in that situation.⁴³ But, the appellate court found that Congress had accommodated the interests

to allow authors a chance to share the profits derived during the nineteen-year extension with the pre-termination grantees. Nevertheless, the court felt that this purpose was served merely by allowing the authors to negotiate grants for new derivative works and not by allowing them to collect greater royalties on old ones. *Id.* at 861. The court also suggested that giving the music publisher the protection of the Exception served another purpose of the extension—to encourage production of creative works and their distribution to the public. *Id.* at 862. Music publishers play an important role in distributing creative works to the public. The court concluded that to allow them to share in the benefits of the nineteen-year extension would encourage them to further invest in copyrighted musical works and aid in dissemination of new works to the public. *Id.* at 862-63.

39. *Harry Fox*, 720 F.2d. at 744.

40. *Id.* at 738. As the Song's copyright owner, Mills licensed the record companies which obligated them only to Mills. Each license authorized the record company to prepare and utilize a derivative work. Without licenses, the record companies would be infringers even with the existence of the Snyder-Mills grant. Thus, the only grants which define terms under which derivative works were prepared and utilized were the Mills-record company licenses. Since the record companies received the right to prepare the derivative works from their licenses from Mills, those grants invoke the privilege under the Exception, i.e., continued utilization of those works which were prepared and created under those grants. Consequently, Mills relied on two separate grants: (1) its own separate record company grants for its right to receive specific royalty amounts; and, (2) the terms of the Snyder-Mills grant for its right to retain 50% of those net royalties. *Id.*

41. *Id.* at 738. The only derivative works in question were sound recordings owned by record companies whose rights were not in dispute. Mills only utilized the *underlying copyright* by licensing others to create and utilize derivative works. Only the Mills-record company grants authorized preparation and creation of the derivative works involved in this case. Therefore, Mills was not utilizing a derivative work. *Id.* at 739.

42. *Id.* at 738. The legislative history contained nothing to suggest that Congress addressed the situation presented by this case. Furthermore, if Congress had wanted to address the situation, it could have drafted a clearer proviso. The ambiguous language of the Exception indicated that Congress did *not* address this situation. "In a two-party transaction, the ambiguity dissolves: the author makes the grant to the derivative work user who makes derivative works under the terms of the same grant and who is allowed to continue to utilize these works after the author has terminated the grant." The word "grant" has no clear meaning in the three-party transaction of this case "for the proviso speaks in terms of one grant and we are dealing with two distinct grants." *Id.* at 740 n.12.

43. *Harry Fox*, 720 F.2d at 742.

of terminated assignees in several ways.⁴⁴ Consequently, the Second Circuit concluded that authors were the intended beneficiaries of the termination provision, and that creators of derivative works were the intended beneficiaries of the Exception.⁴⁵

Justice Stevens's Majority Opinion

The Supreme Court granted certiorari and reversed.⁴⁶ The Court's decision hinged on statutory construction of the term "grant" in section 304.⁴⁷ The single sentence that defines the Exception uses the word "grant" in three phrases: (1) "under authority of the 'grant' "; (2) "under the terms of the 'grant' "; and, (3) "by the terminated 'grant.'" ⁴⁸ The Court examined each of these phrases to determine its proper meaning. The Court found that the Snyder-Mills agreement expressly gave Mills the authority to license others to make derivative works.⁴⁹ In addition, Mills or Fox issued the licenses which authorized record companies to produce derivative work sound recordings while Mills was the copyright owner. Therefore, the Court concluded that the phrase "under authority of the *grant*" must have included the original grant to Mills whether or not it included the license to the record company.⁵⁰

The critical phrase "under the terms of the *grant*" allowed the record companies to continue utilizing the derivative works which they had created. To be consistent with the meaning in the previous phrase, the

44. First, termination is effective only upon affirmative action by an author and not automatically after a set time period. Second, the Act permits termination only after an extended time period from the date of assignment—either thirty-five or forty years depending upon when first publication occurred. Third, Congress had accommodated the public interest in access to information contained in copyrighted works in several ways: the privilege of fair use (17 U.S.C. § 107); the compulsory license provision (17 U.S.C. § 115); and, the Exception which prevents the owner of the underlying copyright from vetoing continued use of these works after termination (17 U.S.C. § 304(c)(6)(A), *see supra* note 2). *Harry Fox*, 720 F.2d at 743.

45. *Harry Fox*, 720 F.2d at 742.

46. *Mills Music, Inc. v. Snyder*, 104 S.Ct. 1676 (1984).

47. When construing a federal statute, the Court will assume that the ordinary meaning of language in a statute accurately reflects the legislative purpose. *Mills*, 105 S.Ct. at 645 (citing *Park 'n Fly v. Dollar Park and Fly, Inc.*, 105 S.Ct. 658, ___ (1984) (page number omitted in original)).

48. 17 U.S.C. § 304(c)(6)(A) (1982) (*see supra* note 2).

49. *Mills Music*, 105 S.Ct. at 646. The agreement provided that:

I further covenant and agree . . . to stand seized and possessed of all such renewal copyrights and of all applications therefor, [sic] and of all rights in or to any such compositions for you and for your sole and exclusive benefit . . . [and] when such renewal copyrights are duly issued and obtained they shall automatically become vested in you as the sole owner thereof. . . .

Id. at 642 n.10.

50. *Mills Music*, 105 S.Ct. at 646 (emphasis in original).

Court opined that the word "grant" in this phrase also included reference to the Snyder-Mills grant as well as the grant of each license.⁵¹ Finally, the Court stated that since the Snyder-Mills grant was the one being terminated, the phrase "by the terminated grant" could only refer to it. Consistency demands the same construction of the term "grant" in all three phrases.⁵²

The Court rejected all three premises upon which the court of appeals based its decision and substantially adopted the district court's analysis. First, the phrase "under the terms of the grant" included both the Snyder-Mills grant and the individual license of any particular record company. The licenses of the record companies defined their contractual duties to pay royalties, and the obligee of this duty was either Mills or Fox. But, these licenses conferred no rights upon the Snyders. The Snyder-Mills grant, however, defined the rights of the Snyders to receive a fifty percent share of the royalty income received by Mills from the licensees. Although the ownership of the copyright reverted to the Snyders upon termination of the grant, nothing in the statute assigned them any contractual rights.⁵³

Second, the Court held that Mills was a "utilizer"⁵⁴ of the derivative works. If the Exception were read narrowly and Mills were excluded from coverage as a non-utilizer, the contractual link⁵⁵ upon which royalty payments were based would be lost between the record companies and the Snyders. Conversely, if the Exception were read expansively to preserve the entire contractual relationship, the record companies would be bound by their licenses to continue paying royalties to Mills.⁵⁶

Finally, the Court rejected the theory that Congress overlooked the situation where a licensee's authority to prepare derivative works depended upon more than one grant.⁵⁷ The Court cited references in the

51. *Id.*

52. *Id.*

53. *Id.* at 646-47.

54. Section 304(c)(6)(A) deals with continued utilization of derivative works by their owners who are called "utilizers." See *supra* note 2.

55. The Court focused on the contract terms in both the Snyder-Mills grant and the Mills-record company grants. By the terms of the first grant, Mills had the right to license derivative works and to collect mechanical royalties on them. Mills also had a duty to pay half of all mechanical royalties to the Snyders. *Mills Music*, 105 S.Ct. at 642 n.10 (see *supra* note 11). By the terms of the latter grants, the record companies had the right to prepare and sell phonorecords and the duty to pay mechanical royalties to Mills or Fox. Mills had the right to collect these royalties. *Id.* at 642. Thus, the *contractual link* was from the record companies to Mills and from Mills to the Snyders. No direct link existed between the record companies and the Snyders.

56. *Id.* at 648.

57. *Id.*

legislative history regarding multiparty arrangements in the music industry and the important role of music publishers in marketing copyrighted songs.⁵⁸ The Court surmised that Congress had no apparent reason to distinguish between a direct grant by an author and an indirect grant in which a middleperson was employed.⁵⁹ Whether the authority for a derivative work derived from one grant or a series of grants does not affect the reason for giving protection to the derivative-work owner.⁶⁰

The Court rejected the Snyders' argument that, according to the legislative history, the Exception's purpose was to allow the public continued access to derivative works after termination rights were exercised.⁶¹ Justice Stevens pointed out that the public's interest in continued access would equally be served whether Mills or the Snyders collected the disputed royalties.⁶² The Court concluded that the terms of the grant at the time of termination allowed Mills to continue to share the royalties with

58. *Id.* at 649 & n.37 (citing REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, 87th Cong., 1st Sess., COPYRIGHT LAW REVISION, 58 (H. Judiciary Comm. Print 1961) ["COPYRIGHT LAW REVISION, PART 1"] at 33; H. HENN, THE COMPULSORY LICENSE PROVISIONS OF THE U.S. COPYRIGHT LAW, COPYRIGHT LAW REVISION, STUDIES PREPARED FOR THE SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS OF THE SENATE COMMITTEE ON THE JUDICIARY, Study No. 5, 86th Cong., 1st Sess., 47 (H. Judiciary Comm. Print 1960) ["STUDY NO. 5"]; A. KAMINSTEIN, DIVISIBILITY OF COPYRIGHTS, STUDIES PREPARED FOR THE SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS OF THE SENATE COMMITTEE ON THE JUDICIARY, Study No. 11, 86th Cong., 1st Sess., 23 (H. Judiciary Comm. Print 1960) ["STUDY NO. 11"]; *Hearings on H.R. 4347, 5680, 6831, 6835 before Subcommittee No. 3 of the House Committee on the Judiciary* ["*Hearings on H.R. 4347*"], 89th Cong., 2nd Sess., 680, 1743-44 (1965); *Hearings on H.R. 2223 before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice of the House Committee on the Judiciary*, 94th Cong., 1st Sess., 1369, 1651-53 (1975)).

59. *Mills Music*, 105 S.Ct. at 649-50.

60. *Id.* at 650. Two factors are relevant in determining whether the Exception applies to a situation: (1) the scope of the authorizing grant; and, (2) the time when the derivative work was created. *Id.* The legislative history indicates that the Exception limits the reversion right of an author who granted the copyright on an original story to a book publisher who subsequently granted a license to a motion picture producer. *Id.* at 651 (citing W. BLAISDELL, SIZE OF COPYRIGHT INDUSTRIES, STUDIES PREPARED FOR THE SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS OF THE SENATE COMMITTEE ON THE JUDICIARY, STUDY NO. 2, 86th Cong., 1st Sess., at 48, 54-55 (H. Judiciary Comm. Print 1960) ["STUDY NO. 2"]). The Court analogized that the Exception should also limit the right of a composer who makes a similar grant to a music publisher who then grants a license to a record company. *Mills Music*, 105 S.Ct. at 651.

61. *Mills Music*, 105 S.Ct. at 652. The Snyders argued that the Exception focused specifically on the potential problem of conflict between utilizers and authors, who have recaptured their rights, over continued usage of derivative works. As a result, the Snyders concluded that the solution to that problem must involve only these two competing interests. The Court accepted this as an explanation of why the Exception protects the utilizer from paying an increased royalty, but not for the proposition that Congress expected the author to collect increased royalties for a derivative work's continued use. *Id.*

62. *Id.*

the Snyders.⁶³

Justice White's Dissenting Opinion

In his dissenting opinion, Justice White reasoned that, since a utilizer's only interest after termination would be to continue the royalty rate that existed prior to termination, the payee of these royalties should be immaterial to them.⁶⁴ Only the record companies utilized derivative works and deserved the Exception's protection. Consequently, the terms of the Snyder-Mills grant were irrelevant to protecting the record companies' continued utilization of their derivative works.⁶⁵ Justice White rejected the majority opinion that the Exception preserved Mills's rights merely because the contract terms, under which the derivative works were utilized, identified Mills or Fox as the recipient of the royalty payments.⁶⁶

Justice White recognized that the legislative history of the Exception contained no reference to multiple-grant situations. Furthermore, the Exception should be construed only as broadly as needed to effectuate the undisputed legislative intent.⁶⁷ He argued that, although Congress was aware of multiparty transactions within the music industry, its silence failed to manifest an intent to benefit middlepersons, such as Mills, through the Exception.⁶⁸ Justice White emphasized that the Exception protects two competing interests: (1) providing compensation to authors;

63. *Id.*

64. The Exception prevents the author from terminating the license from the underlying work and forcing the utilizer to renegotiate higher royalty rates with the utilizer. *Mills Music*, 105 S.Ct. at 653.

65. *Id.*

66. *Id.* at 653-54. The licensees could continue to pay royalties to Fox as they did prior to termination; however, Fox would be obligated to forward these royalties to the rightful copyright owners. *Id.* at 654.

67. *Id.* at 654. Justice White suggested that if the Congress had considered the multiparty transaction, it would not have phrased the statute so ambiguously. Furthermore, since representatives of the music publishing industry objected to the Exception's inclusion when it was first proposed, they must have understood it to be against their interests. *Mills Music*, 105 S.Ct. at 655 & n.6 (citing PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW AND DISCUSSIONS AND COMMENTS ON THE DRAFT, 88th Cong., 2d Sess., COPYRIGHT LAW REVISION, PART 3 (H. Judiciary Comm. Print 1964) ["COPYRIGHT LAW REVISION, PART 3"] at 318-19).

68. *Mills Music*, 105 S.Ct. at 656 & n.12 (citing 2A C. SANDS, SUTHERLAND ON STATUTORY CONSTRUCTION § 54.04 (4th ed. 1973)). White reasoned that the statute need not protect middlepersons in order to protect derivative work users, and Congress did not indicate an intent to do so. The majority "ignores the accepted principle of statutory construction that an ambiguous statute should be construed in light of the statutory purpose." *Mills Music*, 105 S.Ct. at 656.

and, (2) promoting public access to derivative works.⁶⁹ First, many authors are in an unequal bargaining position when they initially contract with publishers, because they do not know the true worth of their creation. By allowing termination of unremunerative transfers these authors may obtain benefits from their creations during the latter years of the copyright term;⁷⁰ however, allowing middlepersons to continue receiving royalty payments frustrates this purpose. Second, to secure public access to derivative works, their owners must be allowed to continue their dissemination at pre-termination royalty rates. Allowing middlepersons to continue receiving royalty payments does nothing to further this goal; therefore, the majority decision exceeded limitations that were necessary to protect public access.

Legislative History

The development of the 1976 Act began in 1955 when Congress appropriated funds for a comprehensive research program by the Copyright Office to study the major issues in revising the copyright law.⁷¹ A total of thirty-five studies were prepared and published, thirty-four of which were printed by the House Judiciary Committee.⁷² This series of studies, commissioned by the Copyright Office between 1955 and 1960, culminated in 1961 with a report by the Register of Copyrights which analyzed the issues and proffered detailed tentative recommendations for revision of the copyright law.⁷³

The Register recommended that renewal rights for authors or their heirs be eliminated, and that renewal become merely an extension of the original copyright term that would not affect ownership of existing contract rights. Under this plan, anyone who claimed a copyright interest could register the renewal term.⁷⁴ The report also recommended that the renewal term be lengthened to forty-eight years for copyrights subsisting at the effective date of the new law.⁷⁵ Renewal right assignments, exe-

69. *Mills Music*, 105 S.Ct. at 657.

70. *Id.* White argued that the majority decision frustrated this purpose as evidenced by the example of the lump-sum transfer in which the author does not bargain for royalties. After termination of this type of assignment, the middleperson would continue to receive all the profits from exploitation of the work, and the author would continue to receive nothing!

71. *Mills Music*, 105 S.Ct. at 643 (citing H.R. REP. NO. 1476, 94th Cong., 2d Sess., 47, reprinted in 1976 U.S. CODE CONG. & AD. NEWS, 5659-60 ["H.R. REP. NO. 1476"]).

72. *Hearings Before The Subcommittee On Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States Senate on S. 1006* ["Hearings on S. 1006"], 89th Cong., 1st Sess. at 66 (S. Judiciary Comm. Print 1967).

73. COPYRIGHT LAW REVISION, PART 1, *supra* note 58.

74. *Id.* at 54.

75. *Id.* at 57.

cuted prior to the new law's effective date would remain in effect for the additional term, if the assignee were obligated to continue royalty payments to the author or the author's heirs throughout the copyright term. On the other hand, copyright for the extension would revert to the author or his heirs where assignments provided for no benefits for the author or the author's heirs during the extension.⁷⁶ These provisions were designed to encourage compensation to authors through continuing royalty payments rather than through lump-sum payments.

The Judiciary Committee issued the 1961 Register's Report so that interested persons could submit comments and suggestions to be considered in drafting the copyright revision bill. Subsequently, the Register convened four meetings during 1961 and 1962 in which a panel of consultants, consisting of prominent members of the bar representing a myriad of special interest groups, met and discussed the report.⁷⁷

Opinion was divided regarding the Register's proposed automatic reversion of rights for the author or the author's heirs.⁷⁸ Several commentators favored automatic reversion of rights for authors or their

76. *Id.* at 58. The report recommended the following provisions dealing with copyright duration for preexisting works:

(c) The renewal term should be lengthened to 48 years.

(2) Subsisting copyrights that are still in the original term on the effective date should be renewable by the persons entitled to renew under the present law.

(3) Assignments of renewal rights, executed by an author or his representatives or heirs before the effective date, should expire at the end of the 28th year of the renewal term, and the copyright for the additional 20 years should revert to the author or his heirs, except where the assignee is obligated to continue paying royalties or a part of his revenue to the author or his heirs during the entire life of the copyright.

COPYRIGHT LAW REVISION, PART 1, *supra* note 58, at 58.

77. The transcripts of these meetings and the written comments received by the Copyright Office were later issued in a Judiciary Committee report. DISCUSSIONS AND COMMENTS ON REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, 88th Cong., 1st Sess., COPYRIGHT LAW REVISION, PART 2, (H. Judiciary Comm. Print 1963) ["COPYRIGHT LAW REVISION, PART 2"]. Panel discussions were held on the following dates: Sept. 14, 1961, Nov. 10, 1961, Jan. 24, 1962, and Mar. 15, 1962. *Id.* at vii.

78. See the comment of H. Pilpel and M. Goldberg (*Id.* at 383), and statements of J. Schulman (*Id.* at 107), J. Dubin of Universal Pictures Co., Inc. (*Id.* at 105), and the Motion Picture Association of America ("MPAA") (*Id.* at 359). See also the statement of S. Bricker who feared that a reversion of rights after twenty years would prevent a motion picture producer from continuing to use the completed work. He stated that:

I would favor a provision which returned to the author, after 20 years in connection with lump-sum sales, the rights transferred to the motion picture producer, provided that the motion picture producer could continue exploiting any motion pictures made during the 20-year period. This would return to the author the remake and sequel rights to the basic material.

Id. at 264-65. (This suggestion formed the seed for development of the derivative-works exception.)

heirs⁷⁹ and rejected the Register's proposal not to terminate transfers that provided for continuing royalty payments to the author or the author's heirs during the copyright term's proposed extension for two reasons. First, transferees could easily circumvent the law by providing for nominal royalties which would result in absolutely no protection for the author or the author's heirs.⁸⁰ Second, drastically changed conditions often make full-term royalty assignments extremely unfair to an author in later years. In situations where a work becomes popular in new media long after the publisher has ceased to actively exploit it, publishers can receive a disproportionately large share of the windfall profits, which bear no relation to their original investment in the work.⁸¹

After reviewing the discussions and comments received regarding the 1961 Register's Report, the Copyright Office prepared a preliminary draft of provisions for the revised copyright law.⁸² Section 16 modified the controversial proposal in the 1961 Register's Report that would have terminated lump-sum transfers twenty years after their execution. Although little support for that termination provision existed as it had been written,⁸³ the Register believed that strong support still existed for the underlying basic principle—time limitations on copyright transfers. To assuage the opposition, the Register made two modifications to the proposed termination provision which was the predecessor of the 1976 Act's section 203:⁸⁴ (1) the twenty-year limit was increased to twenty-five years;⁸⁵ and (2) an exception was added whereby derivative-work owners could continue using them.⁸⁶

79. See the statement of W. Derenberg of the United States Copyright Society (*id.* at 101, 106) and the recommendation of J. McDonald of Smith, Hennessey & McDonald (*id.* at 335).

80. *Id.* at 238.

81. *Id.* at 259.

82. COPYRIGHT LAW REVISION, PART 3, *supra* note 67.

83. Three opposing arguments existed: (1) authors are no longer in a weak bargaining position that requires special protection; (2) users, such as motion picture producers and book publishers, contribute greatly to a work's success, and they assume considerable economic risks and losses not assumed by the authors; and, (3) the proposal would cloud the title to numerous copyrights thereby reducing their value. *Id.* at 277 (statement of B. Ringer of the Copyright Office).

84. *Id.* at 278.

85. Section 16(a) (Alternative A) provided that:

[A] transfer by the author after the effective date of this act . . . shall be effective for no more than twenty-five years from the date of its execution. . . . [A]t the end of said twenty-five year period the right or rights transferred shall revert to the author or, if he is dead, to his legal representatives, legatees, or heirs at law.

Id. at 15-16.

86. Section 16(b) (Alternative A) was the predecessor to current § 203(b)(1)—the derivative works exception applicable to terminations of copyright transfers or licenses executed *after* the effective date of the 1976 Act. This section provided that:

While section 16 dealt with termination of transfers after the effective date of the 1976 Act, section 22 dealt with termination of transfers of subsisting copyrights.⁸⁷ This new section added nineteen years to existing renewal terms and introduced the important issue of who owned the extension. The intention was to provide "a new copyright, a new grant by Congress [which] should revert to the author or his beneficiaries, since the constitutional prescription is to accord copyright to authors and their beneficiaries."⁸⁸

A panel of consultants gathered at a series of eight meetings convened by the Register to discuss the newly proposed preliminary draft. A variety of interested people also submitted written comments to the advisory group.⁸⁹ An overwhelming majority of commentators rejected the proposed termination provision as an infringement on the freedom to contract.⁹⁰ One viewed the termination provision as the "death knell of the [music publishing] industry."⁹¹ Support for the termination provi-

As an exception . . . a derivative work prepared under the authority of a terminated transfer may, despite the reversion of rights, continue to be utilized under the terms of said transfer; however, this privilege shall not extend to the making of other derivative works employing the work covered by the terminated transfer.

Id. at 16.

87. Section 22(c)(3) was the predecessor to the current § 304(c)(6)(A)—the derivative works exception applicable to terminations of copyright transfers or licenses executed *before* the effective date of the 1976 Act. This section provided that:

(c) . . . [A] transfer of the renewal copyright . . . shall . . . be subject to termination at any time after a period of 56 years from the date copyright was originally secured.

(3) A derivative work prepared under the authority of a terminated transfer may, despite such termination, continue to be utilized under the terms of said transfer. . . .

Id. at 21.

88. FURTHER DISCUSSIONS AND COMMENTS ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW, 88th Cong., 2d Sess., Copyright Law Revision, Part 4, vii (H. Judiciary Comm. Print 1964) ["COPYRIGHT LAW REVISION, PART 4"], 38-39 (introductory statement of B. Ringer).

89. Meetings one through four were held on: Jan. 16, Feb. 20, Apr. 11, and June 11, 1963. COPYRIGHT LAW REVISION, PART 3, *supra* note 67, at viii. Meetings five through eight were held on: Aug. 15-16, Oct. 8, and Nov. 13, 1963, and Jan. 15, 1964. The meetings' transcripts and written comments were later published by the Judiciary Committee. COPYRIGHT LAW REVISION, PART 4, *supra* note 88, at vii.

90. See statements of R. Colby of the MPAA (COPYRIGHT LAW REVISION, PART 3, *supra* note 67, at 280-81), J. Abeles of the Music Publishers' Protective Association (*id.* at 283), H. Olsson of the American Broadcasting Co. (*id.* at 285), T. Robinson of the MPAA (*id.* at 288), J. Schulman, chairman of the American Patent Law Association ("APLA") Committee on Copyright (*id.* at 289-90), and A. Wasserstrom (*id.* at 292) supporting strong property and freedom of contract rights. This "freedom of contract" argument was refuted by I. Karp, the Authors' League of America representative, who argued that the Supreme Court had affirmed many "laws that interfere with so-called 'freedom of contract.'" (Mr. Karp was specifically referring to the Robinson-Patman Act and the Minimum Wage Law.) *Id.* at 285-86.

91. COPYRIGHT LAW REVISION, PART 4, *supra* note 88, at 282 (statement of J. Abeles).

sion and a reversion of rights to authors was sparse, even though representatives of the various authors' interest groups emphasized that authors were unable to negotiate limited assignments due to their weak bargaining positions as compared to publishers.⁹²

Panelists were unified in the belief that the nineteen-year extension was intended to benefit authors.⁹³ No statements supporting benefits for non-creative middlepersons were presented. The only people, other than authors, that were thought to benefit from the extension were the actual creators of derivative works.⁹⁴

Subsequent to these panel discussions, a revision bill was introduced in both houses of Congress in 1964.⁹⁵ In the revised termination provisions of both section 16⁹⁶ and section 22,⁹⁷ several compromises were

He also stated that the Exception would benefit everyone who acquired rights under a copyright except the publisher. *Id.* at 318-19. This viewpoint was also advanced by P. Wattenberg who perceived that the publisher alone would be penalized. He believed that the Exception would transfer the fruits of the publishers efforts to their licensees and the authors who would thereafter be entitled to *all the royalties from these licenses.* *Id.* at 285.

92. I. Karp referred to negotiations with motion picture studios who typically tie in assignment of unnecessary rights and privileges with the movie license, even though they never adequately pay for the additional rights. He also referred to the book publishing field where contract terms are invariant with all publishers—they always demand assignment of the original and renewal terms. *Id.* at 286-87. See also the statements of J. Schulman, who preferred a fixed term with a non-assignable reversion and renewal term to secure protection for authors not available under then-current law (*id.* at 299), and L. Kellman, representing the American Guild of Authors and Composers who supported reversion on condition that the current copyright owner be given the first chance to negotiate further use of the work with the author (*id.* at 296).

93. S. Rittenberg, the representative of Metro-Goldwyn-Mayer stated that "we are talking about an extension which obviously—and I think everyone would agree—should benefit the author." COPYRIGHT LAW REVISION, PART 4, *supra* note 88, at 40. F. Waldheim, the representative of Walt Disney Productions, declared that section 22 would "give to the author the benefit of the extension." *Id.* at 42. I. Karp remarked that "the disposition of the nineteen years . . . is being added to the copyright term for the benefit of the author." *Id.* at 43. Similarly, J. Schulman stated that, "[i]f you are going to have an additional term, it's for the benefit of both the author and the user." He also proposed that the transferee could continue the contract by paying the author the same consideration as was paid for the renewal term. *Id.* at 51. No one expressed opposition to these statements; they were accepted as facts.

94. I. Karp stated that "permitting the *creator* of the derivative work to continue to show or publish it [provides] all the protection he needs." *Id.* at 43-44 (emphasis added).

95. H.R. 11947 was introduced in the House, and S. 3008 was introduced in the Senate. H.R. REP. NO. 1476, *supra* note 71, at 47.

96. Section 16 provided that:

(a)(1) At any time after 35 years from the date of its execution, the transfer may be terminated . . .

. . . .

(b)(1) After the termination of a transfer under this section, a derivative work prepared before the termination under the authority of the transfer may continue to be utilized under the terms of the transfer

made to secure support from those who had opposed a reversion for authors. Two major compromises included: (1) the length of time before termination could be effected was increased from twenty-five years to thirty-five years;⁹⁸ and, (2) a provision was added that made termination optional rather than automatic.⁹⁹ Yet in spite of these compromises, extensive opposition to termination remained.¹⁰⁰ Virtually no mention was made concerning the Exception during these discussions on the termination provision.

The 1964 revision bill was completely revised in response to the discussions held and written comments received, and another revision bill was introduced in 1965.¹⁰¹ Section 16 of the 1964 bill became section 203 in the 1965 bill and section 22 became section 304. These two sections, as revised, were in essentially the same format as those eventually passed in the 1976 Act.¹⁰² In addition to the 1965 revision bill, the Register of Copyrights submitted a supplemental report which explained the development, meaning and thinking behind the copyright law revision efforts from the time of the 1961 report.¹⁰³ Extensive congressional hear-

LAW REVISION, PART 5, at 156, 162 and 165 (H. Judiciary Comm. Print 1965) ["COPYRIGHT LAW REVISION, PART 5"].

97. Section 22 provided that:

(c)(1) At any time after 56 years from the date copyright was originally secured, the transfer may be terminated . . .

. . . .
(c)(3)(A) After the termination of a transfer under this subsection, a derivative work prepared before the termination under the authority of the transfer may continue to be utilized under the terms of the transfer

COPYRIGHT LAW REVISION, PART 5, *supra* note 96, at 15.

98. *Id.* at 162 (statement of I. Karp who also emphasized that, under the law at that time, termination of a transferee's rights would occur if the author had died before renewal time).

99. See statements of A. Goldman, of the Copyright Office (*id.* at 153-54, 164) and L. Kellman (*id.* at 163).

100. See statements of P. Wattenberg (*id.* at 154-55), H. Manges (*id.* at 156-57, 163), J. Dubin (*id.* at 158-59), R. Evans of Columbia Broadcasting Systems (*id.* at 160), E. Perle of Time, Inc. (*id.* at 165), and J. Abeles (*id.* at 222). See also comments of the American Book Publishers Council and the American Textbook Publishers Institute (*id.* at 225-27) and the MPAA (*id.* at 299-301). In discussing section 16 and in response to statements that reversion would work an undue hardship, I. Karp cited the proposed Exception as a protective benefit for derivative work users such as television networks and motion picture producers. *Id.* at 162. He later suggested the Exception be modified to apply only to motion pictures. *Id.* at 242.

101. H.R. 4347 was introduced in the House and S. 1006 was introduced in the Senate. H.R. REP. NO. 1476, *supra* note 71, at 48.

102. Compare current § 203(b) and § 304(c) with the corresponding provisions in the SUPPLEMENTAL REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE COPYRIGHT LAW: 1965 REVISION BILL, 89th Cong., 1st Sess., Copyright Law Revision, Part 6, 224-28, 238-46 (H. Judiciary Print 1965).

103. H.R. REP. NO. 1476, *supra* note 71, at 48.

ings were then held to discuss the new revision bills.¹⁰⁴ The termination provisions that had previously been so controversial were by that time fully compromised and acceptable to both the authors and the users.¹⁰⁵

Analysis

Of the thirteen judges and justices who heard the facts of this case, only six felt that Mills should retain its interest in the pre-termination royalties.¹⁰⁶ A majority of seven felt that the Snyders should recover the fifty-percent share of royalties which had been granted to Mills, but only four were Supreme Court Justices.¹⁰⁷ The closeness of the decision in this case showed that issues involving the termination clauses and the Exception are not clearcut and settled.

A review of the legislative history revealed that copyright law revision focused on protection for three fundamental interests: (1) the rights of the users; (2) the rights of the creators; and (3) the public interest.¹⁰⁸ The Supreme Court's decision in *Mills Music* must be evaluated with regard to its effect on these three protected interests.

The Court recognized that the termination provisions express purpose was "to relieve authors of the consequences of ill-advised and unremunerative grants."¹⁰⁹ The Court cited the House Report which stated that section 203 "reflects a practical compromise that will further the objectives of the copyright law while recognizing the problems and legitimate needs of *all interests involved*."¹¹⁰ The Court then stated that the Exception was designed to "preserve the right of the *owner* of a derivative work to exploit it, notwithstanding the reversion."¹¹¹ But, Mills was not the *owner* of the derivative work sound recordings prepared by the record companies; the record companies were the owners. Therefore, Mills could not be protected under the Exception as the owner of the

104. *Hearings on H.R. 4347, supra* note 58 and *Hearings on S. 1006, supra* note 72.

105. *Hearings on H.R. 4347, supra* note 58, at 129, 149 (statements of H. Manges). *See also id.* at 107 (statement of I. Karp), 998 (memorandum statement submitted by the MPAA), 1536-38 (statement of J. Dubin for the APLA), and 1866 (statement of A. Kaminstein, Register of Copyrights). *See also Hearings on S. 1006, supra* note 72, at 66 (statement of B. Ringer).

106. Supreme Court Justices Burger, Powell, Renquist, Stevens and O'Connor and United States District Court Judge Weinfeld.

107. Supreme Court Justices Brennan, Marshall, White and Blackmun and United States Court of Appeals Circuit Judges Oakes, Cardamone and Pierce.

108. *Hearings on H.R. 4347, supra* note 58, at 1536 (statement of J. Dubin).

109. *Mills Music*, 105 S.Ct. at 650.

110. *Id.* at 650 n.39 (emphasis added).

111. *Mills Music*, 105 S.Ct. at 650 (citing COPYRIGHT LAW REVISION, PART 4, *supra* note 88, at 39) (emphasis added).

derivative works which were the source of the disputed royalty payments.

The Court rejected the argument that Congress never specifically addressed multiparty arrangements in the music industry. In support of this position, Justice Stevens cited many references to such arrangements.¹¹² But these references were to statements made by commentators during discussions on the compulsory license provision.¹¹³ It is unreasonable to presume that Congress was aware of these statements, which were published as far back as 1960,¹¹⁴ when it was considering a completely separate provision years later. In addition, the Court's citations to statements made during Congressional hearings¹¹⁵ were also from discussions of the compulsory license provision. The legislative history revealed no Congressional attention directed to multiparty arrangements during discussions on the termination provisions and the Exception.

If the Court's premise that Congress was aware of these arrangements was erroneous, then the conclusion which was drawn from it—that middlepersons were also protected by the Exception—must fail.¹¹⁶ Since Congress did not consider the multiparty situation, the Court should have determined what Congress would have intended if it had considered this issue. The decision should have benefited one or more of the three intended protected interests: the creators, the users and the public. But the Court's decision in *Mills Music* benefited none of these interests and instead benefited the interest of middlepersons who neither created nor used derivative works. On the other hand, a decision favoring reversion of royalty payments to the Snyders would have benefited a distinct class deserving of protection—*creators* of copyrighted works.

If Congress were unaware of multiparty arrangements,¹¹⁷ a logical argument exists that the Exception did not even protect the derivative work sound recordings owned by the record companies. The Snyder-Mills grant was the grant being terminated; but it contained no authority

112. *Mills Music*, 105 S.Ct. at 648-49 & nn.37-38.

113. 17 U.S.C. § 115 (1982). The music publishers were attempting to secure an increase in the statutory fees to be specified in the new statute.

114. *Mills Music*, 105 S.Ct. at 649 n.37 (citing STUDY NO. 5, *supra* note 58, at 47; STUDY NO. 11, *supra* note 58, at 23; COPYRIGHT LAW REVISION, PART 1, *supra* note 58, at 33) and n.38 (citing STUDY NO. 2, *supra* note 60, at 49).

115. *Mills Music*, 105 S.Ct. at 649 nn.37-38 (citing *Hearings on H.R. 4347*, *supra* note 58, at 680, 781, 844).

116. *Mills Music*, 105 S.Ct. at 649-50.

117. See *supra* discussion regarding the Court's premise that Congress was aware of the multiparty arrangements in the text accompanying notes 112-15.

to prepare and distribute the licensed sound recordings.¹¹⁸ If Congress did not intend to protect multiple grants, then the *terms of the grant after termination* under which the derivative works could continue to be utilized¹¹⁹ would consist only of the terms of the Snyder-Mills grant. By the terms of this grant, however, Mills could only continue using derivative works which it had prepared prior to termination. The only pre-termination derivative works prepared by Mills were arrangements made and sold as sheet music. Consequently, Mills could only continue preparation and distribution of sheet music copies for derivative work arrangements prepared prior to termination.

Likewise, the derivative work sound recordings could not be utilized by the record companies under the terms of the terminated Snyder-Mills grant. Consequently, neither Mills nor the Snyders could receive royalties based on their continued use. The record companies could continue using their derivative works only with the Snyders' express permission or by invoking the compulsory license provision.¹²⁰

In deciding who deserved the disputed royalty payments, the Court focused on the contract terms in both the Snyder-Mills grant and the Mills-record company grants.¹²¹ By the terms of the Mills-record company grants, the record companies had the right to prepare derivative work sound recordings and to sell phonorecords, and they had the duty to pay mechanical royalties to Mills. The court concluded that no path existed through which royalties could pass from the record companies to the Snyders except through Mills, and that if the royalties passed through Mills it could retain half by terms of the Snyder-Mills contract.¹²²

The Court has exalted form over substance by demanding exact adherence to these contract terms. Instead, the Court could have used a constructive trust remedy to transfer title to the disputed royalties from Mills to the Snyders. Constructive trusts are created by equity courts when title to property rests in one who, in fairness, should not be permitted to retain it. A constructive trust may be declared even if title is obtained innocently as long as its retention would unjustly enrich the title

118. *Mills Music*, 105 S.Ct. at 642 n.10.

119. *See supra* note 2.

120. 17 U.S.C. § 115 (1982). The Snyders presented this argument to the lower court, but later agreed with Mills that the record companies could continue to use their derivative works under the Exception. *See supra* note 35.

121. *See supra* note 55.

122. *Mills Music*, 105 S.Ct. at 647.

holder.¹²³ The Court concluded that title to the disputed royalties belonged to Mills. However, Congress intended the nineteen-year extension to be a new copyright term which should revert to the author.¹²⁴ In addition, the purpose of the Exception was to protect derivative work users such as the record companies. The controversy in *Mills Music* arose because the relevant provisions were drafted ambiguously and did not adequately express their true intent. Since Congress never intended to protect middlepersons, Mills would be unjustly enriched by retaining title to the disputed royalties after termination. Consequently, the basis for a constructive trust remedy was present, and the Court could have used it to transfer title to the disputed royalties to the Snyders.

Conclusion

The Court's rationale underlying its decision was not supported by the legislative history nor by persuasive logic. *Mills Music* will have a drastically negative impact on certain composers' post-termination rights. For example, composers who assigned their copyrights for lump-sum payments during the years covered by section 304 of the 1976 Act¹²⁵ will receive no benefit from the nineteen-year extension unless new licenses can be negotiated. Often, little commercial demand exists to prepare new derivative works based on these copyrights. But in some cases, demand for re-releases of pre-termination versions might still exist—such as for oldies-but-goodies albums. The decision in *Mills Music* will prevent these composers from benefiting from the nineteen-year extension, since all royalties on these re-releases would belong to the publisher. The benefits of the extension would be a windfall for which these middlepersons paid no consideration.

Although *Mills Music* dealt with a termination of a copyright transfer for a musical composition, the decision will likely affect termination of transfers for other types of copyrights in the future, such as stories or novels. *Mills Music* involved section 304 which deals only with copyrights subsisting in their renewal term at the effective date of the 1976 Act. But it is impossible now to modify terms of existing transfers to protect these authors. However, copyright transfers negotiated in the future will be covered by section 203. The Court suggested in *Mills Music* that the purpose of both termination provisions was virtually identical.¹²⁶

123. G. BOGERT, *LAW OF TRUSTS* § 77 (5th ed. 1973). Constructive trusts are passive and temporary, and the trustee's sole duty is to transfer the property to the beneficiary. *Id.*

124. *COPYRIGHT LAW REVISION, PART 4*, *supra* note 88, at 38.

125. Copyrights which were initially secured between 1920 and 1949.

126. *Mills Music*, 105 S.Ct. at 643, n.17.

Consequently, the Court would probably decide a case based on section 203 in the same manner that it decided *Mills Music*. To avoid this result, attorneys who represent authors in contract negotiations should provide for the right to royalty payments to revert to the author after termination is effected.

Two bills have been introduced in Congress that would reverse the results in this case.¹²⁷ These bills, which consist of proposed amendments to both termination provisions, specify that all royalties earned from derivative works prepared under the authority of grants prior to their termination would be payable to the person in whom the reversion rights vest after termination. These amendments, if passed, would overturn the Court's decision in *Mills Music* and finally settle the issue of whom Congress intended to receive the royalties earned by derivative works prepared prior to termination.

Annette Gilliam

127. Representative Howard L. Berman of California introduced H.R. 3163 on Aug. 1, 1985, and Senator Arlen Specter of Pennsylvania introduced S. 1384, which has been referred to the Senate Committee on the Judiciary.

