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THE RIGHT OF TERMINATION IN COPYRIGHT LAW: THE SECOND CIRCUIT'S DECISION IN *PENGUIN GROUP (USA) INC. V. STEINBECK* BODES WELL FOR AUTHORS

Michael A. DeLisa*

Recently, the U.S. Court of Appeals for the Second Circuit decided in Penguin Group (USA) Inc. v. Steinbeck that a new agreement made by an author's surviving spouse may supersede the author's previous copyright grant, and consequently extinguish the right of the author's other heirs to reclaim the copyright through the invocation of a statutory termination right. Section 304(c) of the Copyright Act of 1976 permits publishers to hold the copyright granted to it by authors for the statutory period, after which time the author or the author's heirs may terminate the original grant and recapture the copyright. However, an author's termination right under section 304(c) applies only to grants made prior to January 1, 1978. Authors may not terminate grants that are made on or after this date. But what happens when an author grants a copyright before January 1, 1978, and subsequently, the author's surviving spouse enters into an agreement to re-grant the copyright after this date? Has this subsequent agreement extinguished the section 304(c) right of termination? In Penguin Group, the Second Circuit held that this subsequent agreement superseded the prior pre-1978 grant and extinguished the statutory termination right of the author's other heirs. However, this decision should not be perceived as a defeat for copyright holders. Indeed, the ability and prerogative to consent to the extinguishment of their statutory termination right should be perceived as an enormous bargaining chip that authors and their heirs can use in their subsequent negotiations with publishers.

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I. INTRODUCTION

One quality that makes copyright such a unique form of property is that “unlike real property and other forms of personal property, [it] is by its very nature incapable of accurate monetary evaluation prior to its exploitation.”¹ Thus, an author just beginning her career commonly contracts with a publisher for terms that are not advantageous (and for a comparatively small sum) because of the unknown potential of her work. If the work later proves to be hugely successful, the publishing company receives a windfall, and the author (and her heir) loses the opportunity to reap the benefits of her creativity. In part to address this problem, section 304(c) of the Copyright Act of 1976 permits the publisher to hold those rights granted to it until a statutory period expires, at which time the author (or her heirs) may exercise a termination right that allows her to terminate the original grant and recapture the copyright.²

The author’s termination right under section 304(c) applies only to grants “executed *before* January 1, 1978.”³ Thus, authors may not terminate grants made on or after January 1, 1978.⁴ A problem arises when the following scenario occurs: an author makes an original grant of rights to a publisher before 1978, and later, after the author’s death, the author’s surviving spouse or heirs re-grant those rights in a subsequent *post-1977* agreement with the publisher. The issue then becomes whether the post-1977 agreement supersedes the original grant, thereby extinguishing the section 304(c) right of termination.

The Southern District of New York’s decision in *Steinbeck v. McIntosh & Otis, Inc.*⁵ was notable because the court held that a subsequent agreement between John Steinbeck’s widow and the publisher could *not* supersede and extinguish the Steinbeck heirs’ right of termination.⁶ Recently, however, the district court’s decision was reversed and remanded by the U.S. Court of Appeals for the

1. 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 9.02 (2006).

2. See 17 U.S.C. § 304(c) (2006); *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 172–73 (1985) (“[T]he termination right was expressly intended to relieve authors of the consequences of ill-advised and unremunerative grants that had been made before the author had a fair opportunity to appreciate the true value of his work product.”).

3. 17 U.S.C. § 304(c) (emphasis added).

4. See *id.* Grants or agreements made on or after January 1, 1978 are sometimes referred to as “post-1977” grants or agreements.

5. 433 F. Supp. 2d 395 (S.D.N.Y. 2006).

6. *Id.* at 401.

Second Circuit in *Penguin Group (USA) Inc. v. Steinbeck*.⁷ In *Penguin Group*, the appellate court held that a new agreement (made by an author's surviving spouse) can in fact supersede a prior grant, thus extinguishing another heir's right to reclaim a copyright through the invocation of a statutory termination right.⁸

The Second Circuit's decision in *Penguin Group* resulted in a dramatically different resolution as compared to the holding in a recent Ninth Circuit case that was based on a similar set of facts. In *Classic Media, Inc. v. Mewborn*,⁹ the court concluded that a subsequent, post-1977 agreement made by an author's heir did *not* extinguish that heir's right of termination because such an agreement was an inconsequential "agreement to the contrary."¹⁰

At first glance, the Second Circuit's holding in *Penguin Group* seems like it will have a negative effect on the rights of authors' heirs.¹¹ The perception is that this holding could allow publishers to take advantage of an author's heirs by executing unfair post-1977 agreements which would extinguish the heirs' right of termination.¹² The assumption is that by giving publishers the ability to extinguish authors' termination rights by making agreements with unsuspecting heirs, the case allows publishers to unfairly circumvent the very purpose of section 304.

The actual implication of this ruling, however, does not have such an impact. Rather than giving publishers an opportunity to make unfair agreements with authors' heirs, this case shifts the bargaining power to authors and their heirs when they are making subsequent agreements with publishers. Indeed, the ability and prerogative to consent to the extinguishment of their right of termination is an enormous bargaining chip that authors and their heirs can use in their negotiations with publishers for subsequent agreements.

7. 537 F.3d 193 (2d Cir. 2008).

8. *See id.* at 204.

9. 532 F.3d 978 (9th Cir. 2008).

10. *Id.* at 986; *see* 17 U.S.C. § 304(c)(5) (2006) ("Termination of the grant may be effected notwithstanding any agreement to the contrary . . .").

11. *See* Posting of Eriq Gardner to THR, Esq. (Aug. 13, 2008 19:28 EST), <http://reporter.blogs.com/thresq/2008/08/federal-appeals.html> (referring to the *Penguin Group* holding as reversing a decision that many legal observers viewed as a victory for authors against publishers).

12. *See id.*

Part II of this Comment explains the statutory background of section 304(c) and discusses the factual background that led to the Second Circuit's decision in *Penguin Group*. Part III describes the Second Circuit's reasoning in deciding that a surviving spouse's subsequent agreement to re-grant rights may extinguish the termination rights of other heirs. Part IV discusses the case of *Classic Media, Inc. v. Mewborn*¹³ and the Ninth Circuit's interpretation of section 304(c). Finally, Part V distinguishes *Penguin Group* from *Classic Media* and discusses the decision's positive implications for authors.

II. STATEMENT OF THE CASE

A. Statutory Background of Section 304(c)

The subject of termination rights presents difficult issues for Congress in its attempt to "secur[e] for limited Times to Authors . . . the exclusive Right to their respective Writings."¹⁴ Congress created termination rights in the Copyright Act of 1976.¹⁵ A right of termination enables an author or the author's successors to terminate previous grants of copyrights and renegotiate prior contracts to more accurately reflect the current true value of the work.¹⁶ However, under the Copyright Act of 1976, previously transferred copyrights do not revert automatically; they revert to the author only upon her affirmative exercise of her right of termination.¹⁷

This right of termination was intended to avoid the injustice that had arisen under the Copyright Act of 1909. Because the Copyright Act of 1909 did not provide any termination rights, publishers were able to pressure new authors into assigning all future renewal rights when signing their first publishing contract.¹⁸ There are three

13. 532 F.3d 978.

14. U.S. CONST. art. I, § 8, cl. 8.

15. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended in scattered sections of 17 U.S.C.).

16. See *Music Sales Corp. v. Morris*, 73 F. Supp. 2d 364, 372 (S.D.N.Y. 1999).

17. See 17 U.S.C. § 304(c) (2006); see also Roxanne E. Christ, *Milne v. Slesinger: The Supreme Court Refuses to Review the Ninth Circuit's Limits on the Rights of Authors and Their Heirs to Reclaim Transferred Copyrights*, 14 UCLA ENT. L. REV. 33, 35 (2007) (stating that "[t]ermination is not automatic" under the Copyright Act of 1976).

18. Under the Copyright Act of 1909, the copyright's life was divided into an initial term of twenty-eight years and a renewal term of twenty-eight years. Copyright Act of 1909, Pub. L. No. 349, § 23, 90 Stat. 1075, 1080 (1909) (codified as amended in scattered sections of 17 U.S.C.);

provisions of the 1976 Act that provide termination rights: section 203(a), section 304(c), and section 304(d). These three termination provisions outline the transfers (or grants) that are subject to termination, when termination rights may be exercised, and who may exercise these rights.¹⁹ Section 304(c) uses the date the copyright was secured to determine the period during which termination rights may be exercised.²⁰ For grants executed before 1978, termination may be effected under section 304(c) “at any time during a period of five years beginning at the end of fifty-six years from the date copyright was originally secured, or beginning on January 1, 1978, whichever is later.”²¹

Congress created termination rights to protect new artists and authors when granting their copyright to a publisher because they did not know how successful their work would be in the future.²² On the other hand, termination rights pose a threat to transferees (such as publishing houses) because transferees can be forced to give up their rights in an author’s work when the author effectively exercises her right of termination.²³ In an effort to elude this threat, transferees often enter into post-transfer agreements with a surviving spouse or heir of the author to preclude the author’s future heirs from exercising their right of termination.²⁴ After this post-transfer

see 3 NIMMER & NIMMER, *supra* note 1, § 11.07 (“Sadly the Supreme Court largely undermined effectiveness of the [1909 Act] renewal structure The culprit was *Fred Fisher Music Co. v. M. Witmark & Sons*, which held that renewal rights may be assigned prior to their vesting. . . . [T]o avoid a similar emasculation of the termination provisions, the current [1976] Act 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.” (quoting 17 U.S.C. §§ 203(a)(5), 304(c)(5) (footnote omitted)).

19. Section 203(a) addresses the termination of transfers executed on or after January 1, 1978. Sections 304(c) and 304(d) address the termination of transfers executed before 1978 of works still under copyright on January 1, 1978. In *Penguin Group (USA), Inc. v. Steinbeck*, 537 F.3d 193 (2d Cir. 2008), section 203(a) did not apply because the initial transfer was executed in 1938. Section 304(d) was not yet enacted at the time the pertinent facts of *Penguin Group* occurred. Therefore, this Comment will exclusively deal with section 304(c).

20. 17 U.S.C. § 304(c)(3).

21. *Id.*

22. See H.R. REP. NO. 94-1476, at 124 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5740 (“[The termination provisions were necessary] 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.”).

23. See 17 U.S.C. § 304(c).

24. See, e.g., *Penguin Group*, 537 F.3d at 196 (publisher enters into agreement with author’s widow); *Classic Media, Inc. v. Mewborn*, 532 F.3d 978, 980–83 (9th Cir. 2008) (publisher enters into agreement with author’s heirs).

agreement, if another heir of the author attempts to serve the transferee with a notice of termination, the notice of termination is arguably invalid.²⁵

The Copyright Act of 1976 distinguishes between pre-1978 grants and grants made during or after 1978.²⁶ Because of this distinction, transferees in this situation argue that the author's heir has effectively surrendered statutory termination rights by executing a *non-terminable* post-1977 agreement that replaced a previously *terminable* pre-1978 agreement.²⁷ However, Congress made termination rights inalienable by inserting language into the statute explicitly stating that termination "may be effected notwithstanding *any agreement to the contrary*."²⁸ Some authors' heirs interpret this provision to mean that their pre-1978 termination rights cannot be affected by a post-1977 agreement with the transferee.²⁹ Thus, court battles between authors' heirs and transferees have thus far focused on the statutory interpretation of section 304(c)(5) of the Copyright Act and whether a post-1977 agreement constitutes an "agreement to the contrary" under this section.

B. Factual Background

*Penguin Group*³⁰ involved Nobel and Pulitzer Prize-winning author John Steinbeck and the right of termination of his copyrighted works. In 1938, Steinbeck made a transfer of rights (the "1938 Assignment") to a predecessor of Penguin Group, which covered several important works including *Tortilla Flat*, *Of Mice and Men*, *The Red Pony*, and *The Grapes of Wrath*.³¹ Later when Steinbeck died in 1968, his widow, Elaine Steinbeck, and his two sons from a previous marriage statutorily inherited his right of termination.³²

25. See *Classic Media*, 532 F.3d at 981.

26. Transfers of an author's copyright executed by anyone other than the author are subject to termination only if executed *prior* to 1978. 17 U.S.C. § 304(c) ("[A]ny copyright . . . executed before January 1, 1978, by [an author, author's surviving spouse, or statutory heir] . . . is subject to termination . . .").

27. See *supra* note 26 and accompanying text; *Steinbeck v. McIntosh & Otis, Inc.*, 433 F. Supp. 2d 395, 401 (S.D.N.Y. 2006).

28. 17 U.S.C. § 304(c)(5) (emphasis added).

29. See *Steinbeck*, 433 F. Supp. 2d at 402 n.23.

30. *Penguin Group (USA) Inc. v. Steinbeck*, 537 F.3d 193 (2d Cir. 2008).

31. *Steinbeck*, 433 F. Supp. 2d at 399 n.12.

32. *Id.* at 399.

Elaine inherited 50 percent of the termination right, and Steinbeck's two sons, Thomas and John IV, inherited 50 percent.³³

John IV died in 1991, leaving his share of the termination right to his only surviving child, Blake Smyle.³⁴ In 1994, Elaine³⁵ entered into an agreement (the "1994 Agreement") with Penguin Group in which Penguin Group retained the same rights of publication that it held under the 1938 Assignment but at an increased price.³⁶ Furthermore, the 1994 Agreement stated that "when signed . . . [it] will cancel and supersede the previous agreements . . . for the [works] covered hereunder."³⁷

Upon Elaine's death in 2003, Thomas and Blake possessed all of Steinbeck's termination interest.³⁸ In 2004, Thomas and Blake notified Penguin Group of their intention to terminate the 1938 Assignment, and Penguin Group asserted that the notice was invalid.³⁹ Penguin Group argued that the 1994 Agreement, by its express terms, canceled and superseded the 1938 Assignment, effectively transforming Steinbeck's pre-1978 grant into a new grant of copyright, executed "on or after January 1, 1978."⁴⁰ Therefore, Penguin Group asserted that the 1938 Assignment was not subject to termination under section 304.⁴¹

III. REASONING OF THE COURT

A. Whether the 1994 Agreement Superseded the 1938 Assignment

The Second Circuit found that the language of the 1994 Agreement made clear that the parties intended to terminate the 1938

33. *Id.* at 399–400. Section 304(c)(2)(B) states that a deceased author's termination right is to be divided as follows: 50 percent to his widow and the remaining 50 percent to his children and grandchildren. 17 U.S.C. § 304(c)(2)(B).

34. *Steinbeck*, 433 F. Supp. 2d at 400.

35. Elaine Steinbeck possessed the power of attorney to exercise the Steinbeck descendants' termination rights as a result of a separate 1983 settlement. *Penguin Group*, 537 F.3d at 203 n.5.

36. *Steinbeck*, 433 F. Supp. 2d at 401.

37. *Penguin Group*, 537 F.3d at 196.

38. *Steinbeck*, 433 F. Supp. 2d at 400.

39. *Id.* at 401.

40. *Id.*

41. *Id.*

Assignment.⁴² The court reasoned that a contract remaining in force may still be terminated and renegotiated in exchange for one party's forbearance of its legal right, such as a statutory right to terminate a previous grant of copyright.⁴³ Additionally, contract law provides that once terminated and superseded, the new contract provides all of the parties' obligations and remedies for breach.⁴⁴ Thus, the court concluded that the 1994 Agreement was the governing contract and the 1938 Assignment was effectively superseded.⁴⁵

Among the evidence the court relied on for its conclusion was the fact that both Penguin Group and the Steinbeck estate gained benefits other than those originally granted under the 1938 Assignment.⁴⁶ Specifically, the 1994 Agreement obligated Penguin Group to pay larger guaranteed advance payments and larger royalties.⁴⁷ The 1994 Agreement also modified the geographic limits of the publication rights to the works and imposed a requirement on Penguin Group to keep a greater number of Steinbeck works in print.⁴⁸ In return, Penguin Group could continue profiting from its publication of the Steinbeck works.⁴⁹

The court's central inquiry was not concerned with whether "the parties [intended] to preserve [their termination] rights—which are granted by statute, not contract—but rather their intent to terminate the 1938 Agreement."⁵⁰ This is because "[t]he availability of termination rights under the Copyright Act is not dependent on the intent of the parties but on, among other things, the date that a grant of right was executed and the relationship to the author of those seeking to exercise the termination right."⁵¹

42. The 1994 Agreement stated that "when signed by Author and Publisher, [it] will cancel and supersede the previous agreements, as amended." *Penguin Group*, 537 F.3d at 196 (alteration in original).

43. *Id.* at 201.

44. *Id.* at 200. Congress stated that "nothing in [section 304] is intended to change the existing state of the law of contracts concerning the circumstances in which an author may terminate a license, transfer or assignment." H.R. REP. NO. 94-1476, at 142 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5758.

45. *Penguin Group*, 537 F.3d at 202.

46. *Id.* at 200–01.

47. *Id.*

48. *Id.* at 201.

49. *Id.*

50. *Id.*

51. *Id.*

The court further noted that nothing in section 304(c) prevents the renegotiation of a prior grant where a notice of termination has not been served.⁵² This type of succeeding grant of rights presumes the parties' knowledge that the holder of the termination right can exercise that right if the parties fail to reach a new agreement.⁵³ Since the court concluded that the 1994 Agreement terminated and superseded the 1938 Assignment, it held that the 1994 Agreement also eliminated the right to terminate the grants contained in the 1938 Assignment under sections 304(c) and (d).⁵⁴

B. Whether the 1994 Agreement Was an "Agreement to the Contrary" Under Section 304(c)(5)

The court did not read the phrase "agreement to the contrary" so broadly as to include every agreement that has the effect of eliminating a termination right.⁵⁵ The court looked to the statutory text and legislative history of the Copyright Act and observed that there was no indication that elimination of a termination right, through the supersession of a pre-1978 contractual grant, was precluded or undesirable.⁵⁶ The court observed that the House Report for the 1976 amendments to the Copyright Act noted that "'parties to a transfer or license' would retain under the amendments the continued right to 'voluntarily agree . . . at any time to terminate an existing grant and negotiat[e] a new one.'"⁵⁷ Moreover, the court stated that nothing in the statute suggested that authors (or their statutory heirs) were entitled to more than one opportunity to use their termination rights.⁵⁸

IV. HISTORICAL FRAMEWORK

In another recent case, *Classic Media, Inc. v. Mewborn*,⁵⁹ the Ninth Circuit reached a different conclusion from the one that the

52. *Id.* at 202.

53. *Id.*

54. *Id.*

55. *Id.*

56. *Id.* at 203.

57. *Id.*

58. *Id.* at 204 (stating that authors and their heirs had only one opportunity to exercise their termination right regardless of whether the opportunity is taken to exercise termination rights or whether those rights are just used to enhance bargaining power).

59. 532 F.3d 978 (9th Cir. 2008).

Second Circuit announced in *Penguin Group*. Like *Penguin Group*, the issue in *Classic Media* was whether an heir's right of termination could be superseded by a post-1977 agreement.⁶⁰ However, *Classic Media* held that termination rights remained intact and were *not* superseded by an heir's subsequent agreement.⁶¹

In *Classic Media*,⁶² Eric Knight, author of the famous children's story and novel *Lassie Come Home* was survived by his widow and three daughters, who inherited the rights to the Lassie works.⁶³ In 1976, Winifred Knight Mewborn, one of Knight's daughters, executed an agreement in which she assigned her share of motion picture and television rights to Lassie Television, Inc. (the "1976 Assignment").⁶⁴ Two years later, Lassie Television obtained similar agreements from Mewborn's two sisters.⁶⁵ To conform the grant of rights among all the sisters, Mewborn signed a subsequent agreement on March 16, 1978 (the "1978 Agreement"), which contained an identical transfer of rights as those contained in the 1976 Assignment but also added language assigning ancillary rights to Lassie Television.⁶⁶

The 1978 Agreement contained the following language: "The rights granted herein to [Lassie Television] are *in addition to* the rights granted by me to [Lassie Television] under . . . an assignment dated July 14, 1976"⁶⁷ In 1996, Mewborn served a notice of termination, within the five-year period required by section 304(c),⁶⁸ on Lassie Television's successor-in-interest, Classic Media, Inc., to terminate the 1976 Assignment, effective 1998.⁶⁹ The court held that

60. *Id.* at 980–81.

61. *Id.* at 990.

62. *Id.* at 978.

63. *Id.* at 980.

64. *Id.*

65. *Id.*

66. *Id.* at 980–81.

67. *Id.* at 981.

68. Section 304(c)(3) states, "Termination of the grant may be effected at any time during a period of five years beginning at the end of fifty-six years from the date copyright was originally secured, or beginning on January 1, 1978, whichever is later." 17 U.S.C. § 304(c)(3) (2006). In this case, the original copyright was secured by Eric Knight in 1938. *Classic Media*, 532 F.3d at 980. The year 1994 is fifty-six years from 1938. Because 1994 is later than January 1, 1978, the applicable five-year window during which Mewborn could have exercised her termination rights began in 1994.

69. *Classic Media*, 532 F.3d at 981.

Mewborn's post-1977 agreement could not extinguish her statutory termination rights because "such a result would circumvent the plain statutory language of the 1976 Act."⁷⁰

The court took particular notice of section 304(c)(5), which states, "Termination of the grant may be effected notwithstanding any agreement to the contrary"⁷¹ According to the court, this language "was intended to protect against attempted contractual circumvention of the termination right."⁷² The court found that the 1976 Assignment was not substituted or revoked by the 1978 Agreement; thus, there remained a pre-1978 grant that was still subject to termination.⁷³ The court further stated that even if the post-1977 agreement superseded the 1976 Assignment, such an agreement would be void as an "agreement to the contrary" under section 304(c)(5).⁷⁴

V. ANALYSIS

Penguin Group and *Classic Media* differ on the issue of whether a subsequent, post-1977 grant of rights constituted an "agreement to the contrary" under section 304(c)(5) of the 1976 Copyright Act.⁷⁵ Section 304(c)(5) states, "Termination 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."⁷⁶ The examples—an "agreement to make a will" or "make any future grant"—do not serve as an exhaustive list of the only instances that constitute "an agreement to the contrary."⁷⁷ However, an overly broad interpretation of this provision goes against the legislative intent and statutory purpose behind section 304(c)(5).

70. *Id.* at 979–80.

71. 17 U.S.C. § 304(c)(5).

72. *Classic Media*, 532 F.3d at 985–86.

73. *Id.* at 986.

74. *Id.*

75. *Penguin Group (USA), Inc. v. Steinbeck*, 537 F.3d 193, 202 (2d Cir. 2008); *Classic Media*, 532 F.3d at 986.

76. 17 U.S.C. § 304(c)(5).

77. *See id.* § 101 ("Except as otherwise provided in this title, as used in this title, the following terms and their variant forms mean the following The terms 'including' and 'such as' are illustrative and not limitative.").

A. Distinguishing the Cases

Unlike the court in *Penguin Group*, the court in *Classic Media* held that the subsequent agreement did not supersede and extinguish statutory termination rights.⁷⁸ However, *Penguin Group* can be distinguished from *Classic Media* for two reasons. The first reason has to do with whether or not the subsequent agreement was *intended* to supersede the original grant of rights. The second reason considers the statutory heirs' *knowledge* of their vested rights at the time of negotiation.

First, in *Classic Media*, the subsequent agreement was not intended to revoke or substitute for the original assignment of rights.⁷⁹ Instead, the original assignment remained intact.⁸⁰ Conversely, in *Penguin Group*, the parties clearly intended the subsequent agreement to terminate and supersede the original assignment.⁸¹ Unlike Mewborn's subsequent agreement, which explicitly stated that it granted rights "*in addition to*" the rights granted in the original assignment,⁸² Elaine Steinbeck's subsequent agreement expressly revoked the original 1938 Assignment.⁸³

The second reason for distinguishing *Penguin Group* from *Classic Media* is the fact that in *Classic Media*, there was no evidence that Mewborn or the publisher considered Mewborn's right of termination when they entered into the 1978 Agreement.⁸⁴ Indeed, there was no evidence that Mewborn was aware of her termination rights in March 1978, which was just two months after section 304(c) became effective.⁸⁵ Moreover, at the time Mewborn was negotiating the new agreement, she would not have had the right to serve a

78. *Classic Media*, 532 F.3d at 989–90.

79. *See id.* at 989 (finding no evidence to support the conclusion that Mewborn or Lassie Television "considered Mewborn's termination rights . . . or that Mewborn intended to waive or relinquish them").

80. *Id.*

81. *See supra* Part III.A.

82. *Classic Media*, 532 F.3d at 981.

83. *Penguin Group (USA), Inc. v. Steinbeck*, 537 F.3d 193, 200 (2d Cir. 2008).

84. *See supra* text accompanying note 79.

85. Mewborn signed the 1978 contract "as is" without the advice of counsel and without negotiating any of its terms. *See supra* note 79.

notice of termination until six years later.⁸⁶ Therefore, Mewborn “had nothing in hand with which to bargain.”⁸⁷

In *Penguin Group*, the evidence suggested that Elaine Steinbeck was fully aware of the termination rights she possessed.⁸⁸ Elaine had—and more importantly, knew that she had—statutory termination rights at the time she negotiated the new agreement.⁸⁹ This enabled Steinbeck to leverage the possibility of copyright termination to secure greater benefits for herself and the Steinbeck heirs.⁹⁰ The fact that Steinbeck knew she possessed vested termination rights at the time of negotiation was crucial. Those circumstances were absent in Mewborn’s case.

Critics of the opinion in *Penguin Group* might point to the Second Circuit case of *Marvel Characters, Inc. v. Simon*,⁹¹ in which the court reached a conclusion similar to that in *Classic Media*. However, as the *Penguin Group* court correctly demonstrated, *Penguin Group* can be distinguished from *Marvel Characters* as well.⁹² The facts of *Marvel Characters* involved a settlement agreement that attempted to retroactively alter the positions of the parties to a prior agreement.⁹³

Under section 304(c)(5), the two specific categories of grants excluded from statutory termination are transfers made by will and grants of works for hire.⁹⁴ In *Marvel Characters*, Joseph Simon created the Captain America character in the iconic *Captain America Comics*.⁹⁵ In 1941, a predecessor in interest to Marvel Comics, Inc., acquired the rights to Simon’s works.⁹⁶ In 1969, Simon and the publisher entered into a settlement agreement that categorized the author’s previous works as works done by an “employee for hire.”⁹⁷

86. *Classic Media*, 532 F.3d at 989.

87. *Id.*

88. *See Penguin Group*, 537 F.3d at 196.

89. *See id.* at 202 (stating that Elaine Steinbeck renegotiated the original grant of rights “while wielding the threat of termination”).

90. *See id.* at 200–01.

91. 310 F.3d 280 (2d Cir. 2002).

92. *Penguin Group*, 537 F.3d at 203.

93. *See id.*

94. 17 U.S.C. § 304(c)(5) (2006).

95. *Marvel Characters*, 310 F.3d at 282.

96. *Id.*

97. *Id.* at 283–84.

This designation rendered termination rights unavailable under section 304(c)(5).⁹⁸

Marvel Characters presented a situation that clearly goes against the legislative purpose of section 304. The Second Circuit agreed that the author's acknowledgement that he created the works "for hire" was clear and unambiguous, but nevertheless found that fact irrelevant.⁹⁹ Instead, the court relied on the language and legislative purpose behind section 304(c).¹⁰⁰ The court interpreted that the legislative purpose was to grant an inalienable right to terminate "notwithstanding any agreement to the contrary."¹⁰¹

The court stated that not finding this to be an "agreement to the contrary" would allow a litigation-savvy publisher to use its superior bargaining position to compel authors to agree that their works were created "for hire" as a condition of publication.¹⁰² This ability would render section 304(c) a nullity.¹⁰³ Unlike the original assignment in *Marvel Characters*, the original assignment in *Penguin Group* was not being altered in any way. Instead, the termination of the original assignment enabled the Steinbeck heirs to negotiate new and more lucrative rights.¹⁰⁴

B. Implications

The U.S. Supreme Court, in *Stewart v. Abend*,¹⁰⁵ does not support a broad, plain-meaning interpretation of section 304(c)(5). Some lawyers and judges interpret the Court's dicta that "[t]he 1976 Copyright Act provides . . . an inalienable termination right"¹⁰⁶ to mean that termination rights cannot be superseded or extinguished by any subsequent agreement. However, this interpretation is too broad. Following this line of reasoning, virtually every subsequent

98. 17 U.S.C. § 304(c)(5).

99. *Marvel Characters*, 310 F.3d at 289.

100. *Id.* at 289–91.

101. *Id.*

102. *Id.* at 290–91.

103. *Id.*

104. See *Penguin Group (USA), Inc. v. Steinbeck*, 537 F.3d 193, 200–01 (2d Cir. 2008) (reasoning that the new agreement obligated Penguin Group to pay larger guaranteed advance payments and royalties, and imposed a requirement on Penguin Group to keep a greater number of Steinbeck works in print).

105. 495 U.S. 207 (1990).

106. *Id.* at 230.

agreement could be rendered an “agreement to the contrary,” and the incentive for publishers to bargain with authors would be eliminated. Therefore, by not finding the widow’s subsequent agreement in *Penguin Group* to constitute an “agreement to the contrary,”¹⁰⁷ the Second Circuit provides publishers with an incentive to negotiate more lucrative deals for authors’ heirs prior to the exercise of a statutory copyright termination.

According to the court in *Marvel Characters*, the language of section 304(c)(5) was intended to protect authors and their heirs against a publisher’s attempt to contractually circumvent their termination rights.¹⁰⁸ However, Congress stated that “nothing in [section 304] is intended to change the existing state of the law of contracts concerning the circumstances in which an author may terminate a license, transfer or assignment.”¹⁰⁹ Therefore, authors (and their heirs) should be able to contractually forfeit their statutory termination rights. This is beneficial for the publisher because it can protect its newly assigned rights. Furthermore, it is especially beneficial for the author because her heirs obtain the power to negotiate a more lucrative deal.

A basic principle of contract law is that where the parties have clearly expressed or manifested their intention for a subsequent agreement to supersede a previous agreement, the subsequent agreement extinguishes the previous one.¹¹⁰ *Penguin Group* reaffirms this basic principle by ruling that termination rights are inalienable but like most rights are still subject to contractual relinquishment.¹¹¹ By making it possible for termination rights to be effectively relinquished, this decision allows authors’ heirs to gain substantial benefits through greater bargaining power when renegotiating deals.

This contention is proven by the results of Elaine Steinbeck’s negotiation of the new agreement in *Penguin Group*.¹¹² Elaine

107. *Penguin Group*, 537 F.3d at 204.

108. See *Marvel Characters*, 310 F.3d at 290–91 (explaining that the “notwithstanding any agreement to the contrary” language in section 304(c)(5) was included to avoid the result of “provid[ing] a blueprint by which publishers could effectively eliminate an author’s termination right”).

109. H.R. REP. NO. 94-1476, at 142 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5758.

110. See *Perry v. Vanteon Corp.*, 192 F. Supp 2d 93, 96 (W.D.N.Y. 2002).

111. See *Penguin Group*, 537 F.3d at 202–04.

112. See *id.* at 196.

Steinbeck was able to negotiate a far larger annual guaranteed advance and increased royalties as a result of the bargaining power her right of termination afforded her.¹¹³ Elaine Steinbeck's choice to use the leverage of imminent vesting to revoke the pre-1978 grant and enter into a highly lucrative new grant of the same rights "achieved the exact policy objectives for which section 304(c) was enacted."¹¹⁴

Another factor to consider here is that a publisher needs no extra protection from Congress because a publisher often has the upper hand in a bargain with an author.¹¹⁵ Instead, Congress aims to protect authors from being taken advantage of by publishers in a superior bargaining position.¹¹⁶ In situations like *Penguin Group*, authors' heirs (or surviving spouses) are not disadvantaged during renegotiations because they possess knowledge that the authors did not have during their initial negotiations—the fact that their work is indeed valuable. Moreover, these heirs are usually represented by their own counsel in renegotiations. *Penguin Group* recognizes that, in such instances, an author's surviving spouse or heirs do not need to be protected from their own voluntary agreements.

Accordingly, termination rights have one primary effect: they give authors' surviving spouse and heirs bargaining power that the author did not have when the initial transfer of rights occurred.¹¹⁷ When authors and their heirs can use the threat of their termination rights as leverage in subsequent negotiations, they hold precisely the bargaining power that Congress intended for them to have.¹¹⁸ Most works that have been exploited for decades generate more predictable revenue streams. This information gives authors' heirs more bargaining power when renegotiating a grant of rights.

113. Under the new 1994 Agreement, royalties were to be calculated as 10–15 percent of *retail*, instead of *wholesale*, sales. *Id.*

114. See *Classic Media, Inc. v. Mewborn*, 532 F.3d 978, 987 (9th Cir. 2008).

115. See *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 291 (2d Cir. 2002).

116. See *Music Sales Corp. v. Morris*, 73 F. Supp. 2d 364, 371 (S.D.N.Y. 1999) ("The policy behind the statutory creation of renewal rights and the heritability of those rights is to ensure an opportunity for the author to reclaim the copyright of a work that s/he may have been forced by hardship to sell during the work's first term for an unjustly small sum.").

117. *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 172–73 (1985).

118. See *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1046 (9th Cir. 2005) (stating that a post-1977 agreement superseding a pre-1978 agreement was of "the type expressly contemplated and endorsed by Congress" because it enabled an author's statutory heirs to renegotiate the terms of an original grant with full knowledge of the market value of the works at issue).

Therefore, subsequent deals between authors or their heirs and transferees will be much more financially beneficial for the authors and their heirs.

VI. CONCLUSION

By concluding that the subsequent 1994 Agreement was not an “agreement to the contrary,” the Second Circuit in *Penguin Group* encourages authors’ heirs to make similar agreements in the future and thereby utilize their maximum bargaining power in renegotiations with publishers. The legislative purpose behind section 304(c) is clear—to give authors (including their surviving spouse or heirs) a second chance to reap the financial rewards of their successful creative work.¹¹⁹ *Penguin Group* advances this purpose by permitting authors’ heirs to use the increased bargaining power conferred to them by the imminent threat of statutory termination rights to enter into new, more advantageous agreements.

119. See *Stewart v. Abend*, 495 U.S. 207, 218 (1990).

