[Edited. You can read the full opinion here.]

Penguin Group (USA) Inc. v. Steinbeck

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

SACK, *Circuit Judge:*

This is an appeal from an order of the United States District Court for the Southern District of New York (Richard Owen, *Judge*) granting summary judgment to the appellees Thomas, Steinbeck and Blake Smyle based on the court's conclusion that a "notice of termination" given in 2004 that purported to terminate, pursuant to the Copyright Act, 17 U.S.C. § 304(c) and (d), the 1938 grant of copyright licenses by the author John Steinbeck, was valid. We consider on appeal whether an agreement entered into in 1994 between Steinbeck's widow and the publisher terminated and superseded the 1938 agreement, and, if so, whether the termination notice is therefore ineffective. Because the termination right provided by section 304(d) pursuant to which the 2004 termination notice was issued applies only to pre-1978 grants of transfers or licenses of copyright, and because the 1994 agreement left intact no pre-1978 grant for the works in question, we conclude that the 2004 notice of termination is ineffective. The 1994 agreement remains in effect.

BACKGROUND

Grants of Licenses of Copyright

On September 12, 1938, the author John Steinbeck executed an agreement with The Viking Press (the "1938 Agreement") that established the terms for the latter's publication of some of Steinbeck's best-known works, including *The Long Valley*, *Cup of Gold*, *The Pastures of Heaven*, *To A God Unknown*, *Tortilla Flat*, *In Dubious Battle*, and *Of Mice and Men*, in all of which Steinbeck held the copyright. In 1939, the agreement was extended to apply to four later works, including *The Grapes of Wrath*, through the operation of an option clause in the agreement. The rights granted by the 1938 Agreement were later assigned by Viking to plaintiff-appellant Penguin Group (USA) Inc. ("Penguin"), and the duties thereunder assumed by Penguin. The 1938 Agreement provided to the publisher, who agreed to take out copyrights in the covered works in Steinbeck's name, the "sole and exclusive right" to publish the works in the United States and Canada, with Steinbeck receiving royalties based on net sales. The agreement would terminate if any of the covered works were not kept in print. The agreement was "binding upon [John Steinbeck's] heirs, executors, administrators or assigns."

During his lifetime, Steinbeck renewed the copyrights in the works covered by the 1938 Agreement so that they enjoyed protection under both of the consecutive 28-year copyright terms provided for by the version of the Copyright Act in effect at the time. When Steinbeck died in 1968, he bequeathed his interest in these copyrights to his widow, Elaine Steinbeck. His sons by a previous marriage, Thomas and John IV, each received a bequest of $ 50,000 in a trust arrangement.

On October 24, 1994, Elaine Steinbeck and Penguin entered into a "new agreement for

continued publication" (the "1994 Agreement"). It addressed the publication by Penguin of all works that were covered by the 1938 Agreement. It added several other early Steinbeck works, some of his posthumous works, and some of Elaine Steinbeck's own works. It also changed the economic terms of the 1938 Agreement, mostly to Elaine Steinbeck's benefit, by requiring Penguin to provide a far larger annual guaranteed advance, and royalties of between ten and fifteen percent of retail (rather than wholesale) sales. The 1994 Agreement further stated that "when signed by Author and Publisher, [it] will cancel and supersede the previous agreements, as amended, for the [works] covered hereunder."

Elaine Steinbeck died in April 2003, bequeathing her copyright interests in the Steinbeck works at issue, as well as proceeds from the 1994 Agreement, to various testamentary heirs including her children and grandchildren from a previous marriage, but she specifically excluded Thomas Steinbeck, John Steinbeck IV, and their heirs. Her statutory termination rights expired upon her death.

On June 13, 2004, John Steinbeck's surviving son Thomas, and Blake Smyle, the sole surviving child of Steinbeck's other son, the deceased John IV, (collectively the "Steinbeck Descendants") served what purported to be a notice of termination (the "Notice of Termination") on Penguin terminating the "grants" made by the 1938 Agreement to Penguin's predecessor-in-interest (Viking).

[The Court summarizes the termination provisions in subsections 304© and 304(d).]

. . . .The Notice of Termination issued in 2004 by the Steinbeck Descendants purported to terminate the 1938 grants of copyright licenses within each work's section 304(d) termination period.

District Court Proceedings

Upon receiving the Termination Notice, Penguin filed a complaint in the United States District Court for the Southern District of New York seeking a declaratory judgment against Thomas Steinbeck and Blake Smyle that the notice is invalid. Penguin argued that the 1994 Agreement, to which Elaine Steinbeck was a party, superseded and itself terminated the 1938 Agreement, and that there was therefore no pre-1978 grant of a transfer or license of the renewal copyright to which section 304(d) could be applied.

In a related action, initiated by the Steinbeck Descendants, the estate and heirs of Elaine Steinbeck filed counterclaims seeking an equivalent declaration. The district court consolidated the two actions for the purposes of the summary judgment motions.

In an order issued June 8, 2006 and amended July 18, 2006, the district court disagreed, granting summary judgment against Penguin and Elaine Steinbeck's heirs and, among other things, upholding the validity of the Termination Notice served by the Steinbeck Descendants, in 2004. . . .The court rejected Penguin's argument that the 1994 Agreement extinguished the section 304(d) termination right, observing that the agreement explicitly contemplated the future exercise of termination rights and that it did not grant Penguin rights that were any greater or lesser than those granted by the 1938 Agreement. *Id.* The court also concluded that "to the extent that the 1994 Agreement would strip [the Steinbeck Descendants] . . . of their inalienable termination rights in the pre-1978 grants, it is void as an 'agreement to the contrary' pursuant to 17 U.S.C. § 304 (c)(5)." In the district court's view, "[a]ny interpretation of the 1994 Agreement having the effect of disinheriting the statutory heirs to the termination interest -- [the Steinbeck Descendants] -- in

favor of Elaine's heirs must be set aside as contrary to the very purpose of the termination statute . . . ."

Penguin, and the estate and heirs of Elaine Steinbeck, appeal from the portion of the district court's judgment addressing the validity of the 2004 Termination Notice as to those works covered by the 1938 Agreement.

DISCUSSION

. . .The Copyright Act provides a termination right for the grant of a transfer or license of copyright made by parties other than the author only if the grant was made prior to January 1, 1978. 17 U.S.C. § 304(d). Our first inquiry, then, is whether the 1994 Agreement terminated and superseded the 1938 Agreement. We conclude that it did, leaving in effect no pre-1978 grants to which the termination rights provided by section 304(d) could be applied.

The language of the 1994 Agreement makes clear that the parties intended that the 1938 Agreement be terminated. . . . The 1994 Agreement states that "[t]his agreement, when signed by Author and Publisher, will cancel and supercede the previous agreements, as amended, for the Works # 1 - # 19 [including those works governed by the 1938 Agreement] covered hereunder." We see no valid reason to disregard this language and to regard the 1938 Agreement as surviving the 1994 Agreement.

Contrary to the district court's observation that "[a]t no point did Penguin lose or gain any rights other than those originally granted to it under the 1938 Agreement," the 1994 Agreement obligated Penguin to pay larger guaranteed advance payments and royalties calculated from the "invoiced retail price of every copy sold by the Publisher," rather than "the amount which the Publishers charge for all copies sold." The 1994 Agreement also modifies the geographic limits of the publication rights as to the covered works and imposes a requirement on Penguin to keep a greater number of Steinbeck works in print.

The district court correctly observed that the 1938 Agreement, by its terms, "was to continue for as long as the publishers keep the works 'in print and for sale,' but this has little relevance to our analysis. A contract that remains in force may still be terminated and renegotiated in exchange for, among other things, one party's forbearance of her legal right, such as a statutory right to terminate a previous grant of a copyright transfer or license. . . .

It is of similarly little relevance that the 1994 Agreement might have intended that earlier created termination rights survive it, for our central inquiry is not the parties' intent to preserve these rights -- which are granted by statute, not contract -- but rather their intent to terminate the 1938 Agreement. The 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 rights was executed and the relationship to the author of those seeking to exercise the termination right. So, even if we accept that the 1994 Agreement "explicitly carries forward possible future termination," it does not matter inasmuch as the pre-1978 grant of rights no longer existed. To the extent that the 1994 Agreement might also have contemplated the potential preservation of termination rights, it does not abrogate the 1994 Agreement's clear expression of intent to terminate all prior grants of a transfer or license in the subject copyrights.

. . . .

In any event nothing in section 304(c)(6)(D) prevents renegotiation of a prior grant where a notice of termination has not been served. Such a succeeding grant of rights would presumably take place with the parties' knowledge that the holder of a termination right *could* exercise that right if they failed to reach a new agreement. It is undisputed that no termination right was exercised prior to the 1994 Agreement, but Elaine Steinbeck did renegotiate and cancel the 1938 Agreement while wielding the threat of termination. Indeed, this kind of renegotiation appears to be exactly what was intended by Congress. *See* Section III, *supra*.

Because we conclude that the 1994 Agreement terminated and superseded the 1938 Agreement, it also eliminated the right to terminate the grants contained in the 1938 Agreement under sections 304(c) and (d).

III. Whether the 1994 Agreement is an "Agreement to the Contrary" under 17 U.S.C. § 304(c)(5)

The Copyright Act provides that "[t]ermination of the grant [of transfer or license rights] may be effected notwithstanding any agreement to the contrary." 17 U.S.C. § 304(c)(5). The 1994 Agreement is not invalid as an "agreement to the contrary" -- and the Steinbeck Descendants' termination right under section 304(d) is therefore no longer effective -- even if the agreement had the effect of eliminating a termination right that Congress did not provide until 1998.

We do not read the phrase "agreement to the contrary" so broadly that it would include any agreement that has the effect of eliminating a termination right. To do so would negate the effect of other provisions of the Copyright Act that explicitly contemplate the loss of termination rights. For example, sections 304(c) and (d) require only the consent of a simple majority in interest for the exercise of a termination right. Once the termination right is extinguished, it is extinguished with respect to all parties holding a termination interest, whether or not they agreed to its exercise. *See* 17 U.S.C. § 304(d) (providing a new termination right but only "where the author or owner of the termination right has not previously exercised such termination right"). Similarly, if a termination right expires without being exercised, the original grant is no longer subject to termination, and the Copyright Act specifically provides that in such a case a grant would "continue[] in effect for the remainder of the extended renewal term." 17 U.S.C. § 304(c)(6)(F). If the holders of a majority of an author's termination interest were to agree that they would not exercise their termination rights, this would have the effect of eliminating a termination right as to the minority termination interests. Yet such an agreement could not be held ineffective as an "agreement to the contrary" inasmuch as section 304 itself contemplates elimination of termination rights in that manner.

Moreover, the 1994 Agreement did not divest the Steinbeck Descendants of any termination right under section 304(d) when the parties entered into that agreement. In 1994, only 17 U.S.C. § 304(c) provided a termination right -- section 304(d) would not become effective for another four years. It is undisputed that the Steinbeck Descendants could not have exercised their termination rights in 1994 because they lacked more than one-half of the author's termination interest. As of 1994, then, the agreement entered into by Elaine Steinbeck did not deprive the Steinbeck Descendants of any rights they could have realized at that time. None of the parties could have contemplated that Congress would create a second termination right four years later. Had Elaine Steinbeck not entered into the 1994 Agreement, the section 304(c) termination right would have expired, and Penguin would have been bound only by the 1938 Agreement for the duration of the copyright terms absent (as ultimately happened) Congressional action. We cannot see how the 1994 Agreement could be an "agreement to the contrary" solely because it had the effect of eliminating

termination rights that did not yet exist.

Appellees' reliance on *Marvel Characters, Inc. v. Simon*, 310 F.3d 280 (2d Cir. 2002), is misplaced. There, the parties entered into a settlement agreement that contractually recharacterized an already created work as a "work made for hire." Works for hire are exempt from section 304(c) and (d). We agreed with the author that the grantee could not use such after-the-fact relabeling of the nature of the work to eliminate a future exercise of the author's termination right under section 304(c), because the contract constituted an "agreement to the contrary" that left termination rights unaffected under section 304(c)(5). *Id.* at 290. We were concerned that if such an agreement was not held to be an ineffective "agreement to the contrary," authors could be coerced into recharacterizing works already created as works for hire so as to avoid subsequent application of a section 304 termination right. *Marvel* concludes only that backward-looking attempts to recharacterize existing grants of copyright so as to eliminate the right to terminate under section 304(c) are forbidden by section 304(c)(5). There was no such attempt at recharacterization here.

There is also no indication in the statutory text or the legislative history of the Copyright Act that elimination of a termination right through termination of a pre-1978 contractual grant was precluded or undesirable. The House Report for the 1976 amendments noted, for example, that "nothing in [the Copyright Act] is intended to change the existing state of the law of contracts concerning the circumstances in which an author may cancel or terminate a license, transfer, or assignment." H.R. Rep. No. 94-1476, at 128 (1976). The report also noted more specifically 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." *Id.* at 127. So, provided that a post-1978 agreement effectively terminates a pre-1978 grant, Congress did not manifest any intent for the earlier agreement to survive simply for purposes of exercising a termination right in the future. *See Milne v. Stephen [***1619] Slesinger, Inc.*, 430 F.3d 1036, 1046 (9th Cir. 2005) (post-1978 agreement superseding 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), *cert. denied,* 548 U.S. 904, 126 S. Ct. 2969, 165 L. Ed. 2d 952 (2006).

It should be noted that under our view, authors or their statutory heirs holding termination rights are still left with an opportunity to threaten (or to make good on a threat) to exercise termination rights and extract more favorable terms from early grants of an author's copyright. But nothing in the statute suggests that an author or an author's statutory heirs are entitled to more than one opportunity, between them, to use termination rights to enhance their bargaining power or to exercise them. *See* 17 U.S.C. § 304(d) (permitting exercise of termination right only "where the author or owner of the termination right has not previously exercised such termination right"). In this case, Elaine Steinbeck had the opportunity in 1994 to renegotiate the terms of the 1938 Agreement to her benefit, for at least some of the works covered by the agreement were eligible, or about to be eligible, for termination. By taking advantage of this opportunity, she exhausted the single opportunity provided by statute to Steinbeck's statutory heirs to revisit the terms of her late husband's original grants of licenses to his copyrights. It is no violation of the Copyright Act to execute a renegotiated contract where the Act gives the original copyright owner's statutory heirs the opportunity and incentive to do so. . . . .

The 1994 Agreement was not an "agreement to the contrary" rendered ineffective by section 304(c)(5).

CONCLUSION

For the foregoing reasons, the judgment of the district court is reversed and the case remanded for entry of judgment in favor of Penguin.