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

Mills Music, Inc. v. Snyder

469 U.S. 153 (1985)

JUSTICE STEVENS delivered the opinion of the Court.

This is a controversy between a publisher, Mills Music, Inc. (Mills), and the heirs of an author, Ted Snyder (Snyder), over the division of royalty income that the sound recordings of the copyrighted song "Who's Sorry Now" (the Song) have generated. The controversy is a direct outgrowth of the general revision of copyright law that Congress enacted in 1976. The 1976 Act gave Snyder's heirs a statutory right to reacquire the copyright that Snyder had previously granted to Mills; however, it also provided that 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." The sound recordings of the Song, which have generated the royalty income in dispute, are derivative works of that kind. Thus, the dispute raises the question whether an author's termination of a publisher's interest in a copyright also terminates the publisher's contractual right to share in the royalties on such derivative works.

The key that will unlock this statutory puzzle is an understanding of the phrase "under the terms of the grant" as it is used in § 304(c)(6)(A) -- the so-called "derivative works exception" (the Exception) to the "termination of transfer and licenses" provisions found in § 304(c). . . .

I

Snyder was one of three persons who collaborated in creating "Who's Sorry Now." Although Snyder actually held only a one-third interest in the Song, the parties agree that we should treat the case as if Snyder were the sole author. The original copyright on the Song was registered in 1923 in the name of Waterson, Berlin & Snyder Co., a publishing company that Snyder partly owned. That company went into bankruptcy in 1929, and in 1932 the trustee in bankruptcy assigned the copyright to Mills.

Under the Copyright Act of 1909, 35 Stat. 1075, the copyright in a musical composition lasted for 28 years from the date of its first publication, and the author could renew the copyright for an additional term of 28 years. Although Mills had acquired ownership of the original copyright from the trustee in bankruptcy, it needed the cooperation of Snyder in order to acquire an interest in the 28-year renewal term. Accordingly, in 1940 Mills and Snyder entered into a written agreement defining their respective rights in the renewal of the copyright. In essence, Snyder assigned his entire interest in all renewals of the copyright to Mills in exchange for an advance royalty and Mills' commitment to pay a cash royalty on sheet music and 50 percent of all net royalties that Mills received for mechanical reproductions.

Mills obtained and registered the renewal copyright in 1951. After filing the required statutory notice, Mills directly, or through the Harry Fox Agency, Inc., issued over 400 licenses to record companies authorizing the use of the Song in specific reproductions on phonograph records. Using a variety of different artists and different musical arrangements, these record companies prepared separate "derivative works," each of which was independently copyrightable. Because each of these derivative works was a mechanical reproduction of the Song that was prepared pursuant to a license that Mills had issued, the record companies were contractually obligated to pay royalties to Mills, and Mills, in turn, was contractually obligated to pay 50 percent of those royalties to Snyder. [3] Fox acted as an agent for Mills, performing the service of collecting royalties from the licensed record companies and, after deducting its charges, remitting the net receipts to Mills, which in turn remitted 50 percent of that income to Snyder. After Snyder's death, his widow and his son succeeded to his interest in the arrangement with Mills.

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III

Section 304 of the 1976 Act significantly affected the rights of Mills and the Snyders in three ways. First, § 304(b) provided an automatic extension of the life of the copyright; instead of expiring in 1980 at the end of the second renewal period, the copyright on the Song will endure until 1999.

Second, § 304(c) gave the widow and surviving son of Snyder a right to terminate the grant to Mills of rights in the renewal copyright. That termination could be effected at any time during the 5-year period after January 1, 1978, by serving a written notice on Mills and recording a copy in the Copyright Office before it became effective.

Third, § 304(c)(6) provided that the termination would cause all rights "covered by the terminated grant" to revert to Snyder's widow and son. That reversion was, however, subject to an exception that permitted a previously prepared derivative work to continue to be utilized after the termination "under the terms of the grant."

IV

On January 3, 1978, the Snyders delivered a written notice of termination to Mills. The notice complied with § 304(c); it identified the Song and stated that the termination applied to the "[grant] or transfer of copyright and the rights of copyright proprietor, including publication and recording rights." Additionally, the notice stated that it would become effective on January 3, 1980. [29] On August 11, 1980, the Snyders advised Fox that Mills' interest in the copyright had been terminated and demanded that the royalties on the derivative works be remitted to them. Fox placed the disputed funds in escrow and initiated an interpleader action in the United States District Court for the Southern District of New York. Mills and the Snyders appeared therein, agreed on the relevant facts, and filed cross-motions for summary judgment. The District Court

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29[29] App. 54. The record identifies Belwin-Mills Publishing Corp. as the grantee whose rights were to be terminated; the parties make no distinction between this entity and "Mills." *Ibid*.

entered judgment for Mills. . . . .

[T]he Court of Appeals for the Second Circuit reversed. [T]he Court of Appeals read the legislative history as indicating that Congress had not contemplated a situation in which the authority to prepare derivative works was derived from two successive grants rather than a single grant directly from an author to a "utilizer." The court felt that if Congress had confronted this situation, it would not have wanted "publishers and other noncreative middlemen to share in original derivative works royalties after termination."

Having granted Mills' petition for a writ of certiorari in order to resolve this important question of copyright law, 466 U.S. 903 (1984), we now reverse. We are not persuaded that Congress intended to draw a distinction between authorizations to prepare derivative works that are based on a single direct grant and those that are based on successive grants. Rather, we believe the consequences of a termination that § 304 authorizes simply do not apply to derivative works that are protected by the Exception defined in § 304(c)(6)(A). The boundaries of that Exception are defined by reference to the scope of the privilege that had been authorized under the terminated grant and by reference to the time the derivative works were prepared. The derivative works involved in this case are unquestionably within those boundaries.

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Unlike the Court of Appeals, we are persuaded that Congress was well aware of the prevalence of multiparty licensing arrangements in the music-publishing industry, as well as in other industries that the copyright law vitally affected, when it enacted the 1976 Act. There are many references in the legislative history to multiparty arrangements in the music industry, and to the importance of the role of music publishers in the marketing of copyrighted songs. These references dissipate the force of the argument that Congress did not expressly consider the precise multiparty dispute before the Court today. Indeed, there is reason to believe that the 50 percent arrangement between Snyder and Mills that was made in 1940 was a typical example of the form of copyright grant that had been prevalent in this industry for many years. Rather than assuming that Congress was unaware of a common practice in one of the industries that the general revision of the copyright law, and the termination provisions, most significantly affected, we think it more probable that Congress saw no reason to draw a distinction between a direct grant by an author to a party that produces derivative works itself and a situation in which a middleman is given authority to make subsequent grants to such producers. For whether the problem is analyzed from the author's point of view or that of the producer of derivative works, the statutory purposes are equally well served in either case.

The principal purpose of the amendments in § 304 was to provide added benefits to authors. The extension of the duration of existing copyrights to 75 years, the provision of a longer term (the author's life plus 50 years) for new copyrights, and the concept of a termination right itself, were all obviously intended to make the rewards for the creativity of authors more substantial. More particularly, the 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. That general purpose is plainly defined in the legislative history and, indeed, is fairly inferable from the text of § 304 itself.

The Exception in § 304(c)(6)(A) was designed, however, to exclude a specific category of grants -- even if they were manifestly unfair to the author -- from that broad objective. The purpose of the Exception was to "preserve the right of the owner of a derivative work to exploit it, notwithstanding the reversion." Therefore, even if a person acquired the right to exploit an already prepared derivative work by means of an unfavorable bargain with an author, that right was to be excluded from the bundle of rights that would revert to the author when he exercised his termination right. The critical point in determining whether the right to continue utilizing a derivative work survives the termination of a transfer of a copyright is whether it was "prepared" before the termination. Pretermination derivative works -- those prepared under the authority of the terminated grant -- may continue to be utilized under the terms of the terminated grant. Derivative works prepared after the termination of the grant are not extended this exemption from the termination provisions. It is a matter of indifference -- as far as the reason for giving protection to derivative works is concerned -- whether the authority to prepare the work had been received in a direct license from an author, or in a series of licenses and sublicenses. The scope of the duly authorized grant and the time the derivative work was prepared are what the statute makes relevant because these are the factors that determine which of the statute's two countervailing purposes should control.

The obligation of an owner of a derivative work to pay royalties based on his use of the underlying copyright is not subject to renegotiation because the Exception protects it. The "terms of the grant" as existing at the time of termination govern the author's right to receive royalties; those terms are therefore excluded from the bundle of rights that the author may seek to resell unimpeded by any ill-advised prior commitment. The statutory distinction between the rights that revert to the author and those that do not revert is based on the character of the right -- not on the form or the number of written instruments that gave the owner of the derivative work the authority to prepare it. Nothing in the legislative history or the language of the statute indicates that Congress intended the Exception to distinguish between two-party transactions and those involving multiple parties.

The example most frequently discussed in the legislative history concerning the Exception involved the sale of a copyrighted story to a motion picture producer. The Court of Appeals explained the need for the Exception as the interest in protecting the large investment that is required to produce a motion picture, and recognized that record companies similarly must also make a significant investment in compensating vocalists, musicians, arrangers, and recording engineers. Therefore, the court concluded that record companies are clearly within the class that the Exception protects. The court felt, however, that music publishers -- as middlemen -- were not similarly situated, but rather merely had an ownership interest in the copyright that reverted to the author upon termination. As a matter of fact -- or of judicial notice -- we are in no position to evaluate the function that each music publisher actually performs in the marketing of each copyrighted song. But based on our reading of the statute and its legislative history, in interpreting the Exception we find no reason to differentiate between a book publisher's license to a motion-picture producer and a music publisher's license to a record company. Neither publisher is the author of the underlying work. If, as the legislative history plainly discloses, the Exception limits the reversion right of an author who granted his copyright on an original story to a book publisher who in turn granted a license to a motion-picture producer, we can see no reason why the Exception should not also limit the right of a composer, like Snyder, who made such a grant to a music publisher, like Mills, that preceded a series of licenses to record companies.

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Under the terms of the grant in effect at the time of termination, Mills is entitled to a share of the royalty income in dispute.

The judgment of the Court of Appeals is reversed.

It is so ordered.

JUSTICE WHITE, with whom JUSTICE BRENNAN, JUSTICE MARSHALL, and JUSTICE BLACKMUN join, dissenting.

I can accept the assertion that the "terminated grant" referred to in § 304(c)(6)(A) is the original grant from Snyder to Mills. I also have no trouble with the notion that the derivative works at issue in this case were prepared "under authority of the grant," in that the Snyder-Mills grant endowed Mills, as owner of the copyright, with the authority to license the preparation of sound recordings of the Song. And it is merely an obvious rephrasing of the statutory language to say that users of these derivative works may continue to utilize them under the specific terms of the licenses issued by Mills. But these observations provide no basis for construing the statute so as to extend the benefits of the Exception to Mills, as well as to users of derivative works, after the Snyders have terminated the original grant and reclaimed ownership of the copyright.

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The derivative-works clause reflects an accommodation between two competing concerns: that of providing compensation to authors, and that of promoting public access to derivative works. The majority apparently concludes that its interpretation of the Exception does justice to both of these concerns. But to promote public access to existing derivative works, it is necessary to go no further than to allow the owners of these works to continue to disseminate them. The rights of middlemen to receive royalties under terminated grants do not enter into the balance; regardless of who receives the royalties, the owner of the derivative work may continue to pay the same rate, and public access to the work will be unimpeded.

By going further than necessary to effect the goal of promoting access to the arts, the majority frustrates the congressional purpose of compensating authors who, when their works were in their infancy, struck unremunerative bargains. That such frustration will result is clearest in the situation, not uncommon in the music industry, where an author has assigned his rights for a one-time, lump-sum payment. Under the majority's interpretation of the Exception, the publisher-middleman would be free to continue to collect all royalties accruing during the extended 19-year copyright term, and the author would receive nothing. While my interpretation of the Exception results in the author's receiving more than he would have received under the terminated grant, such a result is the very objective of the termination provisions.

To allow authors to recover the full amount of derivative-works royalties under the Exception is not to slight the role of middlemen such as music publishers in promoting public access to the arts. Achieving that fundamental objective of the copyright laws requires providing incentives both to the creation of works of art and to their dissemination. But the need to provide incentives is inapposite to the circumstances of this case, because the rights at issue are attached to a term of copyright that extends beyond what was contemplated by the parties at the time of the initial grant. In 1940, when Ted Snyder and Mills entered into their royalty-division agreement, neither party could have acted in reliance on the royalties to be derived from the additional 19-year term created by the 1976 Act. In this situation, the author and the grantee have each already reaped the benefit of their bargain, and the only question is which one should receive the windfall conferred by Congress. The considerations that should govern the allocation of a windfall are not those of providing incentives but those of providing compensation. And the legislative history of the renewal and termination provisions indicates a congressional purpose to compensate authors, not their grantees. In attempting to claim for itself the benefits of the derivative-works exception, Mills bears the burden of proof. In my view, it has fallen far short of carrying that burden.