1999

Fred Alert Music Corp. v. Warner. Chappell Music, Inc. - Post-Termination Licensing of Pre-Termination Derivative Works: Whose Song Is It Anyway

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FRED AHLERT MUSIC CORP. v. WARNER/CHAPPELL MUSIC, INC. — POST-TERMINATION LICENSING OF PRE-TERMINATION DERIVATIVE WORKS: WHOSE SONG IS IT ANYWAY?

I. INTRODUCTION

The principle that one's writings and inventions should be secured and protected from exploitation is a cornerstone of our legal system. Copyright laws, in particular, support this principle in several key ways. The copyright laws enable authors to obtain exclusive rights to their works, and they also provide a uniform system of enforcement to protect these rights, thereby promoting further writing and scholarship.

In addition to conferring exclusive ownership rights, however, copyright laws also prescribe the terms under which the public gains access to a copyright holder's creative works. It is Congress' responsibility, in enacting laws, to strike a balance between the rights of copyright holders and society's equally compelling interest.

1. See U.S. CONST. art. I, § 8, cl. 8. This clause empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Id.

2. See H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 129 (1976) [hereinafter House Report]. In reference to copyrights, the Report states that "[o]ne of the fundamental purposes behind the copyright clause of the Constitution . . . was to promote national uniformity and to avoid the practical difficulties of determining and enforcing an author's rights under the differing laws and in the separate courts of the various States." Id.

3. See Virginia E. Lohmann, Note, The Errant Evolution of Termination of Transfer Rights and the Derivative Works Exception, 48 OHIO ST. L.J. 897, 898 (1987) (quoting United States v. Paramount Pictures, 334 U.S. 131, 158 (1948)). See also 1 WILLIAM F. PATRY, COPYRIGHT LAW AND PRACTICE 24 (1994) [hereinafter Patry]. Patry reasons that the public interest is also served when authors obtain exclusive rights to their works. See id. He notes that "the Founding Fathers believed private property, including intellectual property, was the best way to ensure the triumph of democracy over the tyranny of the aristocracy." Id.
in ensuring the free flow of ideas. The courts' primary task is to maintain this balance when interpreting federal copyright laws.

In *Fred Ahlert Music Corporation v. Warner/Chappell Music, Inc.*, both parties claimed the right to license and receive royalties from a 1969 Joe Cocker recording used on the movie soundtrack and soundtrack album of the motion picture "Sleepless in Seattle." The Cocker recording is a derivative work based on the original copyrighted musical composition "Bye Bye Blackbird" (the "Song").

The controversy stems from the changes Congress introduced into copyright law with the enactment of the Copyright Act of 1976 ("the Act"). Specifically, the Act has made it difficult to determine whether the author or the publisher has the authority to license

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   "As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product. . . . [T]his task involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand."

*Id.*

5. See *Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 696 (2d Cir. 1992) ("[T]he copyright law seeks to establish a delicate equilibrium. . . . In applying the federal act to new types of cases, courts must always keep this symmetry in mind."); *see also* Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 *CORNELL L. REV.* 857, 903-04 (1987). Litman notes that Congress encouraged negotiations between various interest groups, which eventually resulted in substantive compromises that made the revised copyright legislation possible. *See id.* at 903. Litman recognizes that "[t]he legislative process may have struck an unwise balance," but believes that it was "also a balance around which the represented industries have since structured their relationships." *Id.* Litman concludes that, in order to maintain this balance, courts must view the statute's provisions in the context of the negotiations leading to their enactment. *See id.* at 904.

6. 155 F.3d 17, 19 (2d Cir. 1998).

7. *See id.*

8. *See id.* Section 101 of the Copyright Act defines "derivative work" as:

   [A] work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, 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.


new uses of a derivative work prepared prior to a statutory termination of a copyright grant.\(^{10}\)

This Note focuses on the difficulties presented by this complex issue. First, Part II details the facts of the \textit{Ahlert} case.\(^{11}\) Next, Part III outlines the changes in copyright law resulting from the Act, as well as how subsequent case law reflects these changes.\(^{12}\) Part IV of this Note traces the Second Circuit's attempt to construe this novel issue within the confines of emerging case law.\(^{13}\) Finally, Part V discusses the effect of the court's holding on the licensing of derivative works following a statutory termination.\(^{14}\)

\section*{II. FACTS}

The Song was written by Mort Dixon and Ray Henderson, who registered their copyright on May 3, 1926.\(^{15}\) The copyright was scheduled to expire in December 1982, but was renewed by the authors on May 6, 1953.\(^{16}\) After the renewal, each author assigned his interest in the copyright to Remick Music Corporation, the predecessor in interest to Warner.\(^{17}\) Dixon died in March 1956.\(^{18}\)

In May 1969, Warner granted a nonexclusive mechanical license\(^{19}\) to A & M records ("A & M") to record and manufacture a

\(^{10}\) Section 304(c)(6)(A) of the Act provides that an authorized derivative work prepared before a copyright grant was terminated can continue to be used after termination. See 17 U.S.C. § 304(c)(6)(A) (1994). However, while the exception specifically prohibits the creation of new derivative works, it does not address the issue of new uses of derivative works. See \textit{id}; see also Paul Goldstein, \textit{Derivative Rights and Derivative Works in Copyright}, 30 J. COPYRIGHT SOC'Y U.S.A. 209 (1983) ("[t]he language of the derivative works exception leaves many important questions unanswered").

\(^{11}\) For a full discussion of the facts and procedural history of this case, see \textit{infra} notes 15-59 and accompanying text.

\(^{12}\) For an overview of the legislative history and statutory background of the 1976 Copyright Act, see \textit{infra} notes 40-77 and accompanying text; see \textit{infra} notes 78-99 for a discussion of judicial interpretation of the Act.

\(^{13}\) For a comprehensive discussion of the court's reasoning in \textit{Ahlert}, see \textit{infra} notes 100-157 and accompanying text.

\(^{14}\) For a discussion of the impact of the court's decision on both authors' and publishers' rights, see \textit{infra} notes 158-66 and accompanying text.

\(^{15}\) \textit{See} Fred Ahlert Music Corp. v. Warner/Chappell Music, Inc., 155 F.3d 17, 19 (2d Cir. 1998).

\(^{16}\) \textit{See id.} For a discussion of the copyright renewal provisions, see \textit{infra} note 59 and accompanying text.

\(^{17}\) \textit{See Ahlert}, 155 F.3d at 19. For a discussion of the effect of transferring copyright interests, see \textit{infra} notes 61-63 and accompanying text.

\(^{18}\) \textit{See Ahlert}, 155 F.3d at 19.

\(^{19}\) See Fred Ahlert Music v. Warner/Chappell Music, 958 F. Supp. 170, 171 n.2 (S.D.N.Y. 1997). The district court defined a mechanical license as a grant to use a copyrighted work in the manufacture and distribution of phonorecords. See \textit{id.}; see also Vincent D. Paragano, \textit{Making Money from the Airwaves: The Basics of Music
phonorecording of the Song performed by Joe Cocker. The terms limited the agreement as "RECORD NO. SP 4182, RECORDING ARTIST Joe Cocker." A & M subsequently produced a version of the Song performed by Joe Cocker ("the Cocker derivative").

In 1978, pursuant to The Copyright Act of 1976, Dixon's statutory heirs formally terminated Dixon's grant to Remick effective May 3, 1982. On February 24, 1986, Dixon's heirs transferred their reverted interest in the Song to Fred Ahlert, a music publisher.

In 1992, Tri-Star Pictures, Inc. ("TriStar") requested Ahlert's authorization to include the Song on the soundtrack of the motion picture "Sleepless in Seattle." In June 1993, Ahlert issued a synchronization license granting TriStar domestic rights to the Song for the "Sleepless in Seattle" movie soundtrack. The license specified one background vocal usage of the Song and five background

20. See Ahlert, 155 F.3d at 19-20.
21. See id. at 20. More specifically, the license was a "non-exclusive license to use, in whole or in part[,] . . . the copyrighted musical composition entitled BYE BYE BLACKBIRD . . . in the recording and manufacturing of phonograph records to be manufactured and sold only in the United States," with the additional limitation that the license "cover[ed] only the particular recording mentioned herein." Ahlert, 958 F. Supp. at 171. The license also stated that it was "personal and non-assignable." Recent Development in the Court: Mechanical License Does Not Encompass Movie Soundtrack, 9 No. 6 J. PROPRIETARY RTS. 30 (1997)[hereinafter Recent Development].
22. See Ahlert, 155 F.3d at 20.
23. See 17 U.S.C. § 304(c)(2) 1994. When an author is deceased, his or her spouse or children may exercise the author's termination rights. See id. For a discussion of the Act's termination provisions, see infra notes 60-67 and accompanying text.
24. See Ahlert, 155 F.3d at 20. The Second Circuit analyzed the rights of Ahlert and Warner as though Dixon were the sole author of the Song. See id. at 20 n.4. Accordingly, the interests of Ray Henderson were not an issue in the lawsuit. See id. Dixon's heirs only terminated Warner's right to use the song in the United States; Warner retained the foreign rights to the song. See Ahlert, 958 F. Supp. at 171 n.1.
25. See Ahlert, 155 F.3d at 20.
26. See id.
27. See Ahlert, 958 F. Supp. at 171. A synchronization license grants a film company authority to use a song in synchronization with an on-screen image. See id. at 171 n.2. The synchronization license permits the actual juxtaposition of the words and music to a video image. See Paragano, supra note 19, at 12.
instrumental uses that were recorded specifically for the film.\textsuperscript{29} At the same time, Warner issued a license to TriStar granting foreign rights for identical uses of the Song.\textsuperscript{30} When TriStar ultimately produced the soundtrack for the movie, however, the soundtrack contained only an edited version of the 1969 Cocker derivative for the background vocal.\textsuperscript{31}

In July 1993, Ahlert’s agent, The Harry Fox Agency, Inc. ("Fox"), issued a mechanical license to TriStar’s affiliate, Sony Music Entertainment ("Sony"), authorizing Sony to use the Cocker derivative on the soundtrack album.\textsuperscript{32} In return, Sony agreed to pay Ahlert a royalty fee for each phonorecord of the soundtrack album made and distributed.\textsuperscript{33} In response, Warner notified Fox that it was entitled to all revenues derived from uses of the Cocker derivative, particularly mechanical royalties earned from use of the Song on the “Sleepless in Seattle” soundtrack album.\textsuperscript{34} As a result, Fox canceled Ahlert’s license to Sony and, in its place, issued a mechanical license to Sony on Warner’s behalf.\textsuperscript{35} Thereafter, Sony paid royalties to Fox from sales of the “Sleepless in Seattle” soundtrack album; Fox then remitted the royalties to Warner.\textsuperscript{36}

Warner appealed a district court decision requiring it to make royalty payments to Ahlert.\textsuperscript{37} The Second Circuit affirmed the district court’s decision that the right to authorize new uses of the Song as embodied by the Cocker derivative reverted to Dixon’s heirs.\textsuperscript{38} The Second Circuit concluded that the license from Warner to A & M for the limited purpose of recording the Cocker derivative did not authorize any additional releases of the Cocker derivative.

\textsuperscript{29} See id. at 172.
\textsuperscript{30} See Ahlert, 155 F.3d at 20.
\textsuperscript{31} See Ahlert, 958 F. Supp. at 172.
\textsuperscript{32} See Ahlert, 155 F.3d at 20. The soundtrack album included the full version of the Cocker derivative. See Recent Development, supra note 21, at 30.
\textsuperscript{33} See Ahlert, 958 F. Supp. at 172.
\textsuperscript{34} See Ahlert, 155 F.3d at 21.
\textsuperscript{35} See id.
\textsuperscript{36} See id. On February 8, 1996, Ahlert brought a declaratory judgment action in the United States District Court for the Southern District of New York. See Ahlert, 958 F. Supp. at 170-71. On motions for summary judgment presented by both sides, the district court ruled that all of the rights in the Cocker derivative, other than the manufacture of phonorecords, were part of the rights that reverted back to Dixon’s heirs upon termination of the grant. See id. at 174. The court held that, because Dixon’s heirs had transferred their interest in the Song to Ahlert, he had the right to receive the royalties for the “Sleepless in Seattle” soundtrack album. See id.
\textsuperscript{37} See Ahlert, 155 F.3d at 21.
\textsuperscript{38} See id. at 24.
derivative that would be preserved by the Derivative Works Exception ("the Exception").

III. BACKGROUND

A. Legislative History

In 1790, the First Congress used its Article I power to enact the first copyright law of the United States. Comprehensive revisions were enacted in 1831, 1870, and 1909. In 1909, Congress enacted the precursor to current copyright law, codified in Title 17 of the United States Code.

Although Congress considered a number of revision measures between 1924 and 1940, copyright law remained largely unchanged for many years. Finally, following World War II, the first shift toward a comprehensive reworking of the copyright structure occurred when the United States assisted in the development of the Universal Copyright Convention and became a party in 1955.

In the same year, Congress began efforts to substantially revise the copyright laws to reflect the significant changes that had occurred in technology since the last revision in 1909. This revision proceeded in two phases. Phase one was a "non-Congressional phase" consisting of the extensive use of outside experts and representatives of copyright interests.

39. See id.
40. See H.R. Rep. No. 94-1476, at 47 (1976). The first copyright law provided copyright protection for an author's work for a period of fourteen years and a renewal period of an additional fourteen years. See Lohmann, supra note 3, at 898-99. American copyright law originated from English statutory law. See Douglas Reid Weimer, Digital Audio Technology: Challenges to American Copyright Law, 22 St. Mary's L.J. 455, 459 (1990). After the American Revolution, the Continental Congress encouraged the states to enact copyright legislation. See id. Due to the resultant lack of uniformity in the state laws, the Framers of the Constitution ultimately decided to vest control of copyright law in the legislative branch. See id. at 460.
41. See H.R. Rep. No. 94-1476, at 47.
42. See id.
43. See id.
44. See id.
45. See id; see also Sony Corp. of America v. Universal Studios, Inc., 464 U.S. 417, 430-31 (1984) ("From its beginning, the law of copyright has developed in response to significant changes in technology. . . . Repeatedly, as new developments occurred in this country, it has been the Congress that has fashioned the new rules that new technology made necessary.").
47. See id. at 206. Abrams lists "three striking characteristics" of the first phase of the revision process: (1) the Register's near complete control over a lengthy
Legislative appropriations provided the Copyright Office with funds for a comprehensive study of copyright law that established the basis for the revision process. During a three-year period, the Office issued thirty-five monographs dealing with the substantive issues hampering the revision process. In 1961, the Copyright Office issued the "Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law." Ultimately, this phase culminated in the 1964 Copyright Revision Bill, the first of the copyright revision bills leading up to the 1976 Copyright Act. During this "pre-Congressional" phase, the termination provisions and the Exception were also put into final form.

The second phase, which included lengthy congressional hearings, began only after the Copyright Office submitted the 1965 draft revision bill. The hearings on the bill lasted over three weeks during a three-month period and included testimony from more than one hundred witnesses. Revision bills were submitted

process of formulating a copyright revision bill; (2) the extensive use of outside experts and representatives of copyright interests in the initial stages of drafting and formulating revisions to copyright law; and (3) the lack of substantive congressional involvement. See id. According to Abrams, it was necessary to involve a significant majority of copyright lawyers and scholars in the initial phase in order to be able to pass a copyright bill "through a Congress that was largely ignorant and uncaring about copyright issues." Id. at 207. Abrams points out that, by involving consultants who represented the interests of the copyright industry, the Register gained a consensus among the copyright industries on the proposed revisions and thereby forestalled potential clashes that would have delayed the revision process. See id. In Abrams' view, this enabled the Register to present a proposed bill to Congress that had the approval of the majority of the copyright interests and contained comparatively few unresolved issues requiring congressional input. See id. at 208.

49. See id.
50. Id.
51. See Abrams, supra note 46, at 208. Abrams notes that, despite the fact that proposed legislation was pending before Congress, the task of amending and perfecting the legislation remained with the Register of Copyrights and his chosen panel of advisors and experts. See id. The Register drafted the 1965 Revision Bill, which was accompanied by his Supplemental Report containing a detailed explanation of the proposed revisions. See id. at 208-09.
52. See id. at 209. According to Abrams, Congress did not give any substantive consideration to the issues raised by the Exception. See id. Consequently, in Abrams' view, only the activities of the Register leading up to the 1965 Revision Bill shed any light on the problems created by the Exception. See id.
54. See id. at 160 (citing SUPPLEMENTAL REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW: 1965 REVISION BILL, 89th Cong., COPYRIGHT LAW REVISION, PART 6 (H. Judiciary Comm. Print 1965)).
to Congress in each term for the next ten years.\textsuperscript{55} Yet, when Congress finally enacted the Copyright Act in 1976, the termination provisions and the Exception were in essentially the same form as they had originally appeared in the revision bill when it was first proposed in 1965.\textsuperscript{56}

\section*{B. Statutory Background}

By passing the Copyright Act of 1976,\textsuperscript{57} Congress aimed to fulfill its constitutional mandate of ensuring authors the right to the fruits of their creative efforts while simultaneously promoting public access to their works.\textsuperscript{58}

The Act expands the rights of authors and their heirs by automatically extending the life of copyrights in effect at the time of enactment, creating a total copyright period of seventy-five years.\textsuperscript{59} In addition, the Act contains two termination provisions, sections 203 and 304, that enable authors or their statutory beneficiaries to terminate copyright interests previously granted to others.\textsuperscript{60} Generally, the termination provisions apply to any "transfer of copyright ownership," nonexclusive license, or any right comprised in a copyright.\textsuperscript{63}


\textsuperscript{56} See Mills Music, 469 U.S. at 160-61.


\textsuperscript{58} See Lohmann, supra note 3, at 898.

\textsuperscript{59} See 17 U.S.C. §§ 304(a) and (b) (1994). Section 304(a) applies to copyrights in their first twenty-eight year term as of January 1, 1978. See 17 U.S.C. § 304(a). Section 304(a) provides for the renewal and extension of the copyright for an additional term of 47 years, for a total of 75 years. See id. Section 304(b) applies to copyrights in their second renewal term prior to January 1, 1978 and increases the copyright term by an additional 19 years, for a total of 75 years. See 17 U.S.C. § 304(b). This nineteen-year period is referred to as the "extended renewal term." Ahlert, 155 F.3d at 19.

\textsuperscript{60} See 17 U.S.C. §§ 203(a), 304(c) (1994). Section 203(a) covers inter vivos transfers executed by the author on or after January 1, 1978; the § 304 provision applies to copyrights that were in either their first or renewal term on or before January 1, 1978 but were transferred before January 1, 1978. See id.

\textsuperscript{61} See 17 U.S.C. § 101 (1994). A "transfer of copyright ownership" is defined as follows: "[A]n assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license." Id.

\textsuperscript{62} See 17 U.S.C. §§ 203(a), 304(c). Nonexclusive licenses were included in the termination provisions in order to prevent the grantee from avoiding the effect of termination by compelling the author to grant a nonexclusive license along with a statutorily limited transfer of exclusive rights. See 3 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 11.02[A], at 11-11 (1994) [hereinafter Nimmer].

\textsuperscript{63} See Nimmer, supra note 62, § 11.02[A], at 11-11.
Section 203 serves two purposes: (1) it protects authors from unremunerative bargains in providing for termination of an earlier grant of rights during the first copyright period; and (2) it encourages investment in derivative works by according owners of such works a fixed period in which to realize a return on their investment.  

In contrast, the main purpose of the section 304 provision is to give authors or their beneficiaries the opportunity to benefit from the extended copyright term in instances where they had already transferred their rights. Congress determined that existing provisions provided grantees ample opportunity to realize a return on their investment; accordingly, it intended that the author or the author's heirs should primarily benefit from the extended copyright term. Under both provisions, however, only rights that were originally the subject of the grant revert to the original copyright owner after termination.

In order to balance the broadness of the termination provisions, Congress also incorporated the Exception in the 1976 Copyright Act. By enacting this provision, Congress effectively

64. See 17 U.S.C. § 203(a)(3). According to the House Report on the Act, a provision of this sort is needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work's value until it has been exploited. Section 203 reflects a practical compromise that will further the objectives of copyright law while recognizing the problems and legitimate needs of all interests involved. H.R. REP. NO. 94-1476, at 124; see also Lohmann, supra note 3, at 909 ("Congress explicitly sought to protect authors from early unremunerative bargains.").

65. See H.R. REP. NO. 94-1476, at 140. The House Report states that "the extended term represents a completely new property right, and there are strong reasons for giving the author, who is the fundamental beneficiary of copyright under the Constitution, an opportunity to share in it." Id.

66. See Lohmann, supra note 3, at 910. In Mills Music, the Supreme Court echoed this sentiment and stated that "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." 469 U.S. 153, 172-73 (1985).


68. See 17 U.S.C. §§ 203(b)(1), 304(c)(6)(A). Although the Exception applies to two separate provisions of the Act, the language used to describe it in each instance is identical. The Exception was included in both provisions of the Act "to keep the derivative work in circulation and not to deprive the owner of the derivative work of the use of its [sic] own property." Lohmann, supra note 3, at 911 (quoting Barbara Ringer, Civil and Criminal Enforcement of the Copyright Laws: Hearings Before the Subcomm. on Patents, Copyrights, and Trademarks of the Senate Comm. on the Judiciary, 99th Cong., 85-86 (1985)) [hereinafter Hearings]. The Exception was created largely on the basis of objections made by the motion picture industry to the termination provisions. See Howard B. Abrams, The Law of Copyright § 12.05[F][5][a], at 12-42 (1998) [hereinafter Abrams, The Law of Copyright].
curtailed the rights provided to underlying copyright owners in the termination provisions. As a result of the Exception, "[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."70

The "sole beneficiary" of the Exception is the owner of the derivative work;71 the Exception protects the actual owners of derivative works from having to renegotiate their rights in the original copyrighted work when an author terminates the grant.72

Generally, the scope of the Exception is broadly construed; it preserves the right of the owner of a derivative work to continue to exploit it, even if the owner acquired that right through an agreement unfavorable to the original author of the work.73 This right, however, does not extend to derivative works prepared after a grant has been terminated.74 Consequently, courts must maintain a careful balance in construing the extent of the Exception.75 To achieve this, courts are required to make two critical determinations.76 First, they must discern the actual scope of the grant, and, second, they must pinpoint the time when the derivative work was prepared.

Industry members argued that they invested substantial resources in acquiring the rights to make a motion picture based on an underlying work and also in creating and producing a new and often "highly original" derivative work. Id. Accordingly, industry proponents reasoned that it would be unfair to prevent them from being able to exploit and benefit from the finished work because an author's ability to exercise his or her termination rights. See id.

69. See H.R. Rep. No. 94-1476, at 127 ("An important limitation on the rights of a copyright owner under a terminated grant is specified in section 203(b)(1).”).
71. See Lohmann, supra note 3, at 911 (quoting Ringer, Hearings, supra note 68).
72. See Lohmann, supra note 3, at 913. Lohmann writes that the Exception was necessary because "[o]therwise the author or his or her heirs might veto a continued performance of a lawfully created derivative work prior to the termination." Id.
73. See Mills Music Inc. v. Snyder, 469 U.S. 153, 173 (1985) ("[E]ven 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.").
74. See 17 U.S.C. § 304(c)(6)(A). In attempting to clarify this distinction, the House Report draws on the example of a film made from a play and states that "a film made from a play could continue to be licensed for performance after the motion picture contract had been terminated but any remake rights covered by the contract would be cut off." H.R. Rep. No. 94-1476, at 127 (1976) (emphasis added).
75. See Lohmann, supra note 3, at 898 ("Determining the scope of this exception involves balancing the competing rights of authors of underlying works against those of proprietors of derivative works.").
76. See Mills Music, 469 U.S. at 174.
because these two factors "determine which of the statute's counter-vailing purposes should control." 77

C. Judicial Interpretation of the Act

The phrase "terms of the grant" in the Exception is the source of the difficulty in ascertaining who has the authority to license new uses of a pre-termination derivative work after termination. 78 The problem with the statutory language is that it speaks only of a single grant, while commonly more than one grant is involved in authorizing the creation of a derivative work. 79 Mills Music, Inc. v. Snyder 80 is the seminal case that interpreted the phrase "terms of the grant." 81

The crux of the Supreme Court's opinion in Mills Music turns on its definitive construction of the phrase "under the terms of the grant." 82 This phrase in the Exception was the focus of the dispa-

77. Id.

78. See ABRAMS, THE LAW OF COPYRIGHT, supra note 68, § 12.05[F][5][a], at 12-43 ("A drafting oversight in the language of the statute created a serious problem.").

79. See id.


81. Mills Music, 469 U.S. at 156. In Mills Music, the dispute concerned the musical composition "Who's Sorry Now" composed in the early 1920's by Ted Snyder, Burt Kalmar, and Harry Ruby. See Fox, 543 F. Supp. at 847. According to industry custom, the authors assigned their copyright to a music publisher, Water- son, Berlin & Snyder Company. See id. at 848. In 1952, the trustee in bankruptcy of the company assigned the copyright to Mills Music. See id. In the same year, Mills recorded the assignment in the Copyright Office as the exclusive copyright owner and publisher of the song for the remainder of the original term of the copyright. See id. In 1940, the authors assigned all their renewal rights to Mills, including the exclusive right to act as the publisher of "Who's Sorry Now." See id. Over the years, the Harry Fox Agency, as Mills' agent, issued mechanical licenses for "Who's Sorry Now" to producers of phonorecords and distributed royalties it collected equally between Mills and the authors. See id.

In 1978, pursuant to § 304(c)(2) of the Copyright Act of 1976, Ted Snyder's widow and son terminated his grant to Mills Music and claimed exclusive right to all mechanical royalties. See Fox, 543 F. Supp. at 848. At issue was whether an author's termination of a publisher's interest also terminated the publisher's right to share in the royalties generated from derivative works. See Mills Music, 469 U.S. at 156. Neither party disputed the fact that Snyder's assignment of the copyright was a grant within § 304(c) of the Act, nor did they dispute that the sound recordings made from licenses to record companies met the statutory definition of derivative works under the Act. See id. at 153.

82. Mills Music, 469 U.S. at 156 (stating "[t]he key that will unlock this statutory puzzle is an understanding of the phrase 'under the terms of the grant' as it is used . . . in the 'derivative works exception'. . . .").
rate district court and Second Circuit opinions in the *Mills Music* case.  

In its analysis, the Supreme Court flatly rejected the Second Circuit's holding that Congress intended to distinguish between derivative works based on a single grant and those based on successive grants. Rather, the Court held that the word "grant" appeared three times in the one-sentence definition of the Exception, and that it was "logical" to accord the same meaning to a word when it is used several times in the same sentence. Moreover, the Court reasoned that the Exception had to apply to each grant in order to preserve all the contractual relationships that made it possible to create the derivative works and to provide the basis for the Snyders' right to collect derivative-works royalties. The Court determined

83. See id. at 163. The district court had ruled that all of the agreements in effect before termination governed the allocation of the royalty payments. See Fox, 543 F. Supp. at 867-69. The Second Circuit acknowledged that the derivative works resulted from two distinct grants: the original grant from Snyder to Mills and the subsequent grants from Mills to the various record companies. In contrast to the district court, however, the Second Circuit concluded that only the grants from Mills to the record companies defined the circumstances under which derivative works could be prepared. See Fox, 720 F.2d at 738-39. Accordingly, the Second Circuit held that the Exception preserved only the second set of grants. See id. at 739. The court found that the Exception did not preserve the original grant from the Snyders, which gave Mills a share of the mechanical royalties. See id.

Furthermore, the court determined that Mills was not a "utilizer" of a derivative work, but merely the licensor of the underlying copyright to others who created and ultimately utilized the derivative works. Id. The court reasoned that Mills could not rely on the Exception to protect its interests because the very purpose of the Exception was to protect continued utilization of derivative works, not continued utilization of rights attached to the underlying work. See id. In interpreting the legislative history of the Act, the Second Circuit also concluded that Congress contemplated only a single grant from the copyright owner to the grantee and not a situation where the authority to prepare derivative works arose from successive grants. See id. at 740. The court noted that, precisely for this reason, the drafters accommodated the interests of "publishers and other non-creative middlemen" elsewhere in the Act. See id. at 743.

84. See *Mills Music*, 469 U.S. at 164.

85. See id. at 165. The Court also stated that, "[i]n construing a federal statute, it is appropriate to assume that the ordinary meaning of the language that Congress employed 'accurately expresses the legislative purpose.'" Id. at 164 (citing *Park 'N Fly Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 194 (1985)).

86. See *Mills Music*, 469 U.S. at 166-68. The Court stated that two significant problems would result if the approach of the Second Circuit were followed and the "terms of the grant" were limited to those in the individual licenses. Id. at 167. First, the word "grant" would have inconsistent meanings not only within the definition of the Exception but within the entire termination provision of the Act. Id. Second, if the scope of the entire set of documents that defined each licensee's right were not used to determine the relevant "terms of the grant," Mills would not be contractually or statutorily bound to pay royalties to the Snyders, effectively nullifying the benefit which the termination provision was expressly designed to confer. Id. at 166. In addressing the Second Circuit's holding that Mills was not a "utilizer" entitled to the Exception, the Court stated that the term "utilized" could
that the statutory distinction between the rights that revert to the author and those that did not depended "on the character of the right" and not on the form or number of documents authorizing the preparation of the derivative work.\textsuperscript{87} The Supreme Court concluded that the "terms of the grant" in effect at the time of termination governed an author's right to receive royalties, and those terms were therefore "excluded from the bundle of rights that the author may seek to resell unimpeded by any ill-advised prior commitment."\textsuperscript{88}

In \textit{Woods v. Bourne Co.},\textsuperscript{89} the Second Circuit revisited the issue of how to allocate royalty payments during the renewal period following termination of a publisher's interest in a song.\textsuperscript{90} In \textit{Woods}, the royalties were generated by several different post-termination uses of a derivative work.\textsuperscript{91} In its decision, the court reasoned that it was not necessary for publishers, rather than authors, to receive the royalties generated by derivative works in order to keep them in public circulation.\textsuperscript{92} The court followed the analysis in \textit{Mills Music} and held that the main goal of the Exception was to preserve "the

\textsuperscript{87} See \textit{Mills Music}, 469 U.S. at 174.
\textsuperscript{88} Id.
\textsuperscript{89} 60 F.3d 978 (2d Cir. 1995).
\textsuperscript{90} See id. at 985 ("The royalties generated during the extended renewal term will be a windfall to either authors (and their heirs) or publishers . . . . The question, therefore, is: Who is the beneficiary of this windfall?"). The heirs of song composer Harry Woods claimed that they were entitled to royalties from the song "When the Red, Red, Robin Comes Bob, Bob, Bobbin' Along" pursuant to their termination rights under § 304(c) of the Act. See id. at 981-83. Bourne, a music publisher, maintained that the post-termination uses of the song were derivative works prepared prior to termination and were therefore protected by the Exception. See id. at 985.
\textsuperscript{91} See id. at 984. The uses included audiovisual works, radio performances of sound recordings, and sales of reprints of published arrangements. See id.
\textsuperscript{92} See id. at 986.
panoply of contractual obligations" governing derivative works.93 Consequently, the court held that, if one of the grants required payment of royalties to an intermediary licensee, such as a publisher, then continued utilization of a derivative work "under the terms of the grant" required that the royalties should continue to be paid to the publisher.94

In its decision, however, the court carefully distinguished those uses that were derivative works in the pre-termination period and those that lacked sufficient originality to be deemed derivative works.95 In doing so, the court analyzed the entire "panoply of contractual obligations" individually to determine which uses should benefit from the protection of the Exception.96 Consequently, the court held that the Exception would not apply where the post-termination use was based on a pre-termination derivative work not protected by copyright.97

The Second Circuit's opinion in Woods established a new criterion, albeit not a clear one, for determining when a derivative work would be entitled to protection under the Exception.98 The decision, however, failed to clarify if post-termination uses of a deriva-

93. See id. at 987.
94. See Woods, 60 F.3d at 988 ("[E]ven if the terms of a grant to perform any single work may be somewhat obscured by the bulk trading of performance rights, the terms are necessarily contained within the overarching grants . . . and may be reconstructed by reference to them.").
95. See id. at 990-93.
96. See id. at 989. The court stated, "even though a sound recording is conceded a derivative work, that fact alone does not justify application of the Derivative Works Exception . . . . We must still consider, however, whether a different analysis requires application of the Exception." Id. The court further noted that "[t]he same analysis applies to the royalties from the remaining post-termination uses of the Song . . . ." Id; see also Robert C. Osterberg, The Use of Derivative Works After Copyright Termination — Does Woods v. Bourne Expose A Quagmire?, 43 J. COPYRIGHT Soc'y U.S.A. 28, 31 (stating that "almost the entirety of the trial was devoted to expert testimony on the originality of the musical arrangements claimed to be derivative works").
97. See Osterberg, supra note 96, at 31 ("[w]hat Mills did not address and the Second Circuit did address is the effect of the post-termination copyright status of a derivative work and the relationship between the copyright in the derivative work and the use of the derivative work."). According to Osterberg, if the pre-termination derivative work is not protected by copyright, and the only copyright interest that exists is in the original work, then the Exception does not apply. See id. Therefore, Osterberg reasons, under the Woods decision, mere use of a pre-termination work is not sufficient; the publisher must show that the derivative work itself is able to be copyrightable or included in the use of a copyrightable underlying derivative work for the Exception to apply. See id.
98. See id. ("determining the copyright status of works used to generate post-termination royalties will not always be easy.").
tive work that had met this criterion would be encompassed by the Exception. 99

IV. ANALYSIS

A. Narrative Analysis

In Ahlert, the Second Circuit confronted once again the issue of deciding which party had the right to license new uses of a pre-termination derivative work after termination. 100 In making its determination, the court began with an analysis of the Exception itself. 101 The court underscored the necessity for the Exception, stating that it was fundamental in preventing both the creator and the public at large from being "held hostage" to the "potentially exorbitant demands" of the owner of the underlying copyright. 102 The court conceded, without discussion, that the Cocker derivative was entitled to protection as a derivative work. 103 Consequently, in its analysis, the court focused solely on whether inclusion of the Cocker derivative on the movie soundtrack and soundtrack album of "Sleepless in Seattle" was encompassed by the "terms of the grant" to Warner. 104 The Second Circuit turned to the Supreme

99. See id. at 32. Osterberg explains that the Second Circuit's decision makes it difficult to distinguish between the rights of a renewal publisher and the rights of a post-termination publisher particularly in regard to sound recordings on movie soundtracks and soundtrack albums. See id. He maintains that the court's opinion adds a level of complexity to the situation because "the new motion picture is a derivative work prepared after termination that utilizes a pre-termination derivative work and the soundtrack may be a new derivative work prepared after termination that utilizes both derivative works." Id.

100. See Fred Ahlert Music Corp. v. Warner/Chappell Music, Inc., 155 F.3d 17, 23 (2d Cir. 1998) ("The Supreme Court in Mills Music did not specifically address the question before us: whether the author or the publisher has the authority to license new uses of a pre-termination derivative work after termination."). In Ahlert, Dixon's heirs terminated his grant to Remick, Warner's predecessor in interest, when the copyright was in its second renewal term. See id. at 20. Accordingly, § 304(c) of the Copyright Act is the controlling provision in this case. See 17 U.S.C. § 304(c)(2) (1994). For a discussion of this provision of the Act, see supra notes 65-67 and accompanying text.

101. See Ahlert, 155 F.3d at 22.

102. See id.

103. See id. ("The parties to the present case do not dispute that the Cocker derivative is a 'derivative work prepared under authority of the grant before its termination."). The court did not engage in an analysis of whether the Cocker derivative was copyrightable as required by the Second Circuit's prior decision in Woods. For a discussion of the court's decision in Woods, see supra notes 89-99 and accompanying text.

104. Ahlert, 155 F.3d at 22.
Court’s opinion in *Mills Music, Inc. v. Snyder*105 for guidance in making this determination.106

The Second Circuit outlined the Supreme Court’s reasoning in *Mills Music* and concluded that, in order to be faithful to the Court’s interpretation of the phrase “terms of the grant,” it had to enforce the “entire set of documents that created and defined each licensee’s right to prepare and distribute [the] derivative work[ ].”107 Consistent with this analysis, the court examined the scope of the two sets of grants that led to the creation of the Cocker derivative: (1) the original grant from Dixon to Remick, Warner’s predecessor in interest; and (2) the subsequent grant from Warner to A & M that was the basis for the Cocker derivative.108 The court stated that the original grant from Dixon to Remick would have authorized inclusion of the Cocker derivative on the movie soundtrack and soundtrack album.109 It ultimately determined, however, that the second grant from Warner to A & M limited Warner’s right to use “Bye Bye Blackbird” solely for creating and releasing the Cocker derivative as a phonorecord.110

Accordingly, the court concluded that the right to authorize new uses of the Song, such as the Cocker derivative, reverted to Dixon’s heirs because that right was not within the “terms of the grant” preserved under the Exception.111 The court further held


106. See Ahlert, 155 F.3d at 22.

107. Id. at 23 (quoting the Supreme Court’s opinion in *Mills Music*, 469 U.S. at 167) (alteration in original).

108. See Ahlert, 155 F.3d at 24.

109. See id.

110. See id. The court held that Warner was bound by the terms of the second grant, which enabled Warner to receive royalties for the sale of the Cocker derivative on A & M’s label but also limited exploitation of the Song exclusively to sales of that phonorecord. See id. The district court’s opinion was apparently influenced by one of the defendant’s experts, who wrote a book entitled *Kohn on Music Licensing*. See Fred Ahlert Music Corp. v. Warner/Chappell Music, Inc., 958 F. Supp. 170, 174 n.5 (S.D.NY. 1997). In his book, Kohn stated that inclusion of a record number on a license limited the license to that configuration (i.e., phonorecord rather than CD). See id. Kohn submitted an affidavit on behalf of Warner and attempted to distinguish this analysis from the license at issue in the Ahlert case, but the district court did not accept the distinction. See id. Although the Second Circuit did not address this point, it was a controlling factor in its opinion. See Ahlert, 155 F.3d at 24 (holding that “[j]ust as Warner continues to benefit from the terms of the second grant . . . it is bound by those terms of the second grant . . . .”).

111. See Ahlert, 155 F.3d at 25 (implying that, by terminating Warner’s copyright interest in Song under first grant, Dixon’s heirs effectively terminated Warner’s interest in Cocker derivative under second grant for any purpose beyond sale of phonorecords).
that such a result was necessary to promote the policies underscoring the implementation of the Exception.\footnote{112}

B. Critical Analysis

The court's decision in \textit{Ahlert} fundamentally conflicts with both the Supreme Court's ruling in \textit{Mills Music} and the Second Circuit's opinion in \textit{Woods} for several reasons.\footnote{113} First, in denying Warner's right to authorize new uses of the Cocker derivative and to receive the resulting royalties, the \textit{Ahlert} court drastically departed from judicial precedent.\footnote{114} Second, the court's failure to distinguish between new uses of a derivative work and new derivative works is inconsistent with both established precedent and with the provisions of the Act.\footnote{115} Finally, by denying Warner its right to receive royalties from new uses of the Cocker derivative, the court breached its duty to balance the interests of copyright holders with those of the owners of derivative works.\footnote{116} In effect, the court failed to carry out the legislative intent of the Act.\footnote{117}

\footnote{112} See id. at 24 ("[t]his result is consistent with the purposes of the Derivative Works Exception, which seeks to protect the rights of persons who have invested in creating the derivative work as well as to protect public access to derivative works."). In its opinion, the court identified three reasons why it was necessary to grant Ahlert rather than Warner the power to authorize new uses of the Cocker derivative: (1) Warner's investment was already protected because it continued to receive royalties from the sale of the A & M phonorecord; (2) a ruling for Warner would not increase public access to the Cocker derivative because any new use would have to be specifically licensed and there was no guarantee that Warner would authorize new uses more frequently than Ahlert; and (3) a ruling for Ahlert was more consistent with the policies of § 304, which was specifically designed to allow authors or their heirs the opportunity to exploit their copyrights during the extended renewal term. See id. at 25.


\footnote{114} See infra notes 118-24 and accompanying text for an analysis of judicial precedent.

\footnote{115} For a discussion of the distinction between new uses of derivative works and new derivative works, see infra notes 125-48 and accompanying text.

\footnote{116} See infra notes 149-157 and accompanying text for a discussion of the \textit{Ahlert} court's holding in light of the policy of the 1976 Copyright Act.

\footnote{117} See Neil Weinstock Netanel, \textit{Copyright and a Democratic Society}, 106 Yale L.J. 283, 285 (1996). Netanel describes the purpose of copyright law as follows: Copyright law strikes a precarious balance. To encourage authors to create and disseminate original expression, it accords them a bundle of proprietary rights in their works. But to promote public education and creative exchange, it invites audiences and \textit{subsequent authors} to use existing works in every conceivable manner that falls outside the province of the copyright owner's exclusive rights. 

\textit{Id.} (emphasis added).
1. *Departure from Precedent*

The Supreme Court in *Mills Music* and the Second Circuit in *Woods* held that, to secure all the rights to which the owner of a derivative work was entitled, courts must preserve the entire chain of authority leading to the preparation of the derivative work.\(^{118}\) In Ahlert, the court acknowledged its obligation to precedent when it held that a court must enforce the entire set of documents creating and defining each licensee's right to prepare and distribute derivative works.\(^{119}\) In determining that Ahlert was entitled to license and receive royalties for use of the Cocker derivative, however, the effect of the court's decision was essentially to nullify the very grant that led to the creation of the derivative work.\(^{120}\)

For this reason, the holding in Ahlert directly contradicts the Supreme Court's decision in *Mills Music*, as well as the Second Circuit's earlier decision in *Woods*.\(^{121}\) In *Mills*, the Supreme Court held that termination of the initial grant of rights in a multiple-grant transaction did not abrogate the contractual rights of an intermediate licensee; consequently, an intermediate licensee was entitled to continue collecting payments for the use of a derivative work by a licensee who had actually prepared the derivative work.\(^{122}\) Similarly, in Ahlert all of the contractual obligations in effect at termination were necessary to the creation of the Cocker derivative; consequently, it is only logical to conclude that they remained in effect when Warner invoked its right under the Exception to make use of the Cocker work after termination.\(^{123}\) Accordingly, to be

\(^{118}\) See *Mills Music*, 469 U.S. at 166-68; *Woods*, 60 F.3d at 987.

\(^{119}\) See Fred Ahlert Music Corp. v. Warner/Chappell Music, Inc., 155 F.3d 17, 24 (2d Cir. 1998).

\(^{120}\) See *Mills Music*, 469 U.S. at 166 ("[i]t is undisputed that the . . . grant did not itself specify the terms that would apply to the use of any particular derivative work. . . . But if the underlying grant . . . had not authorized those separate licenses, they would have been nullities."). It was the grant from Warner to A & M that led to the recording of the Cocker derivative. See Ahlert, 155 F.3d at 19-20.

\(^{121}\) See *Mills Music*, 469 U.S. at 153; see *Woods*, 60 F.3d at 978. For a discussion of *Mills Music*, see supra notes 80-88 and accompanying text. For a discussion of *Woods*, see supra notes 89-99 and accompanying text.

\(^{122}\) See *Mills Music*, 469 U.S. at 167; see also Abrams, THE LAW OF COPYRIGHT, supra note 68, § 12.05[F][5], at 12-44 (noting that Supreme Court based its decision on "the concept that the series of documents running from the author to the ultimate preparer of the derivative work should best be treated as a single transaction although it was spread over several documents executed at different times").

\(^{123}\) See Abrams, The Law of Copyright, supra note 68, § 12.05[F][5], at 12-49. Abrams writes:

[T]he Supreme Court's majority's integrating of multiple documents that create the authority to prepare a derivative work into a single, unalterable unit for determining what rights and duties remain in effect after termination is a logical approach that resolves the ambiguity of the word
consistent with judicial precedent, the Ahlert court should have preserved all the contractual obligations leading up to the creation of the Cocker derivative and granted Warner the royalties from the "Sleepless in Seattle" soundtrack album.124

2. Failure to Distinguish New Uses from New Derivative Works

The central issue in the Ahlert case was whether inclusion of the Cocker derivative on the movie soundtrack and soundtrack album of the movie "Sleepless in Seattle fell "under the terms of the grant."125 In its decision, the court did not examine these uses separately, but merely held that the grant from Warner to A & M authorized use of "Bye Bye Blackbird" only for the recording of the Cocker derivative.126

The Ahlert court erred, however, by ignoring the differences between new uses of derivative works and new derivative works.127 The court simply concluded that the right to authorize new uses of the Cocker derivative reverted to Dixon's heirs "because that right is not within the 'terms of the grant' preserved by the Derivative Works Exception."128 The proper approach would have been for the court to follow the analysis set forth in Woods and to determine which of the contemplated post-termination uses would qualify for the Exception.129

It is difficult to reconcile the facts of Ahlert with the court's holding that, "[a]lthough the original grant would presumably authorize this new use, plainly Warner's license to A & M does not."130

The 1976 Copyright Act clearly provides a basis for distinguishing

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124. See id. § 12.05[F][5], at 12-45. Abrams also states that an "expansive reading of the term 'grant' is the 'cornerstone' of the majority's decision" in Mills Music. Id.

125. Ahlert, 155 F.3d at 22 ("[The parties] dispute whether the inclusion of the Cocker derivative on the soundtrack and soundtrack album constitutes 'utiliz[ation] under the terms of the grant.'"). (second alteration in original).

126. See id. at 24.

127. See id. at 22 n.7. ("The parties also dispute whether or not the soundtrack and the soundtrack album represent new derivative works prepared after termination. . . . In light of our disposition of this case, we need not resolve this question.").

128. Id. at 25.


130. Ahlert, 155 F.3d at 24.
between movie soundtracks and soundtrack albums. The House Report on the Act states that "sound tracks of motion pictures . . . are specifically included in the definition of ‘motion pictures,’ and excluded in the definition of ‘sound recordings.’" Accordingly, the Ahlert court properly held that the use of the Cocker derivative on the movie soundtrack would not be entitled to protection under the Exception because it falls outside the "terms of the grant."

The "terms of the grant" would, however, encompass use of the Cocker derivative on the soundtrack album. By assigning their interest in the Song, the authors granted Remick, Warner’s predecessor in interest, the right to prepare derivative works. Consequently, A & M’s production of the Cocker derivative could be viewed as the means by which Warner chose to exercise its right to prepare a derivative work.

Therefore, the post-termination license authorizing use of the Cocker derivative on the soundtrack album simply constitutes the further utilization of a previously prepared derivative work. This conclusion is supported by the fact that the Cocker derivative is but one of a series of songs originating from various musicians and compiled for use on the "Sleepless in Seattle" soundtrack album.

Additionally, the Supreme Court has implicitly indicated that it is the publisher who has the authority to license new uses of deriva-

131. See 17 U.S.C. § 101 (1994). The statute defines “sound recordings” as "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." Id. (emphasis added).


133. Ahlert, 155 F.3d at 24.

134. See Nimmer, supra note 62, § 11.02[C][1], at 11-18.10 ("Assuming that the recording . . . is unchanged from the form in which it was originally licensed, this usage therefore should not be barred as a new derivative use.").

135. See Abrams, THE LAW OF COPYRIGHT, supra note 68, § 12.05[F][5], at 12-44 n.191.

136. See id.

137. See Nimmer, supra note 62, § 11.02[C][1], at 11-18.10. Nimmer specifically addresses the issue of sound recordings and states that "[p]lacing the sound recording in a new album . . . constitutes the preparation of a new compilation, but it does not constitute the preparation of a new derivative work." Id. (emphasis added).

138. See id. Nimmer analyzes the very problem under consideration in Ahlert. See id. He makes a comparison between sound recordings used in a new "greatest hits" album after termination and an old sound recording used in a new motion picture that is incorporated into a soundtrack album. See id. Nimmer concludes that "[i]t would be bizarre to allow the usage in a ‘greatest hits’ album, given its status as a compilation, and simultaneously to deny its usage in a ‘soundtrack album,’ which is also a compilation. For one and the same old recording is compiled into each." Id. at § 11.02[C][1], at 11-18.10 n.76.4.
tive works. In *Mills Music*, the district court determined that the publisher retained the authority to license new uses of derivative works first licensed prior to termination, provided the new uses did not constitute new derivative works. In its holding in *Mills Music*, the Supreme Court did not overrule the district court's decision on this issue.

The *Ahlert* court, however, specifically rejected the district court's reasoning in *Mills Music*. It claimed that, if the holding were adhered to, only the terms of the original grant from the author to the music publisher would be enforced while the terms of the subsequent grant from the music publisher to the record company would be ignored. The court in *Ahlert* held that, to be consistent with the Supreme Court's ultimate holding in *Mills Music*, the entire pre-termination transaction leading up to Cocker derivative had to be preserved, including any limitations. The court concluded that this necessarily restricted Warner's right to authorize post-termination uses of the derivative work. Yet, as the Supreme Court in *Mills Music* made clear, the entire set of documents that created and defined a derivative work must be analyzed together to determine the "terms of the grant." Accordingly,

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139. See Abrams, The Law of Copyright, supra note 68, § 12.05[F][5], at 12-52.

140. See The Harry Fox Agency, Inc. v. Mills Music, Inc., 543 F. Supp. 844, 868 (S.D.N.Y. 1982). The district court dismissed the Snyder's argument that Mills' subsequent licenses were limited to the single use identified and authorized under each license, thereby limiting Mills' right to license a new use of an old derivative work. See id. The court held that it was "illogical" to impose on Mills a limitation on use that Mills had imposed solely on its own licenses. See id. The court found that, under this reasoning, Mills would be constrained by a contractual self-imposed limitation that bore no relationship to Ted Snyder's original grant to Mills. See id. The court concluded that the Snyder's argument had to be rejected because employing it would abrogate Mills' right to license re-releases of old sound recordings contemplated in the original grant. See id.

141. Abrams, The Law of Copyright, supra note 68, § 12.05[F][5], at 12-52. According to Abrams, because the Supreme Court in *Mills Music* did not even consider the particular issue of post-termination licensing of pre-termination derivative works when it reversed the Second Circuit decision, the district court's opinion must be given some precedential value. See id.

142. See Fred Ahlert Music Corp. v. Warner/Chappell Music, Inc., 155 F.3d 17, 24 (2d Cir. 1998) ("We are not persuaded by the district court's reasoning in *Harry Fox Agency*.").

143. See id.


145. See Ahlert, 155 F.3d at 24 (stating that license from Warner to A & M "is a narrow one granting A & M the right to use 'Bye Bye Blackbird' for the limited purpose of recording the Cocker derivative and releasing it as 'Record No. SP 4182.'").

both the original grant from Dixon to Remick and the subsequent grant from Warner to A & M have to be considered as a whole in judging the uses for which a derivative work can be employed.\(^{147}\) And, as the Ahlert court itself conceded, the original grant from Dixon would authorize inclusion of the Cocker derivative on the "Sleepless in Seattle" soundtrack album.\(^{148}\)

3. **Implementing the Policies of the 1976 Copyright Act: Balancing Competing Rights to Derivative Works**

A more basic problem with the Ahlert decision is that it is inconsistent with the policies of the 1976 Copyright Act and, in particular, the Exception. As the Supreme Court noted in Mills Music, "[t]he purpose of the Exception was to 'preserve the right of the owner of a derivative work to exploit it, notwithstanding the reversion.'"\(^{149}\) The Court further held that, in preserving this right, there was no discernable distinction between those who actually prepared derivative works and those intermediaries who granted licenses leading to their creation.\(^{150}\)

Congress included the Exception in the Act to allay publishers' concerns that the termination provisions would divest them of their interest in a copyrighted work.\(^{151}\) As discussed above, the Act was the result of a series of negotiated compromises among various interest groups to which Congress gave its stamp of approval.\(^{152}\) By giving these compromises effect in their decisions, courts do no more than implement Congress' will.\(^{153}\) Accordingly, in order to

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147. See id. (finding "the scope of the entire set of documents that created and defined each licensee's right to prepare and distribute derivative works is used to define the relevant 'terms of the grant' for purposes of the Exception").

148. See Ahlert, 155 F.3d at 24 (stating that "the original grant [from Dixon to Warner's predecessor in interest] would presumably authorize this new use").


150. See Mills Music, 469 U.S. at 175-76; see also Abrams, The Law of Copyright, supra note 68, § 12.05[F][5], at 12-47 to 12-48.

151. See Litman, supra note 5, at 893 ("Indeed, the vehemence of publishers' opposition to reversion, even when modified by the derivative works exception, indicates that they envisioned that reversion or termination would divest publishers and other intermediaries of any interest whatsoever in the copyrighted work.").

152. See id. at 903 ("Members of Congress revised the copyright law by encouraging negotiations between interests affected by copyright, by trusting those negotiations to produce substantive compromises, and by ultimately enacting those compromises into law."). For a comprehensive discussion of the legislative history of the Act, see supra notes 40-56 and accompanying text.

153. See Litman, supra note 5, at 894 ("If courts were to interpret the statute by determining whether they could give those compromises effect, they would nec-
give effect to Congress' intent, the Second Circuit should have granted Warner, not Ahlert, the right to license and receive royalties for post-termination use of the Cocker derivative on the "Sleepless in Seattle" soundtrack album. Instead, by denying Warner the right to receive royalties, the court divested Warner of any right in the Cocker derivative and overturned the basic premise of the Exception. This result seems particularly unjust in view of the fact that it was Warner's grant to A & M that led to the creation of the derivative work.

Moreover, if the Second Circuit's opinion is adhered to, then a grantee would have to include in each of its subsequent licenses every conceivable use of a contemplated derivative work or risk losing the royalties generated from such works when an initial grant was terminated. Such a requirement is totally at odds with the Exception, which was designed specifically to preserve the rights of derivative works owners and to ensure continued utilization of a pretermination derivative work after termination.

V. Impact

The courts decided Mills Music and Woods without resolving the issue of post-termination licensing of new uses of derivative works prepared prior to termination. With Ahlert, the Second Circuit had the opportunity to clarify an ambiguous area of the law. Instead, the court's decision only further confuses an already muddled area of copyright law because it goes against the weight of established precedent and conflicts with the policies of the 1976 Copyright Act.


155. See Litman, supra note 5, at 892-93 ("The parties also included in their compromise the Register's proposal to permit the proprietor of a derivative work to continue exploiting it after termination of the grant.").

156. See Ahlert, 155 F.3d at 19-20.

157. See Mills Music Inc. v. Snyder, 469 U.S. 153, 173 (1985) ("Pre-termination derivative works — those prepared under the authority of the terminated grant — may continue to be utilized under the terms of the terminated grant."). For a comprehensive discussion of the Exception, see supra notes 68-77 and accompanying text.

158. See Mills Music, 469 U.S. 153 (1985); Woods, 60 F.3d 978 (2d Cir. 1995). For a discussion of Mills Music, see supra notes 80-88 and accompanying text. For a discussion of Woods, see supra notes 89-99 and accompanying text.

159. For a comprehensive discussion of the legislative history of the Act, see supra notes 40-56 and accompanying text.
When it decided *Mills Music*, the Supreme Court's goal was to strike a balance between the two competing interests established by the 1976 Copyright Act: (1) the ability of authors or their heirs to regain rights that may have been improvidently given away; and (2) the right of the owner of a derivative work to continue to exploit the derivative work after termination. There is a natural tension between two such divergent interests. As the Supreme Court stated in *Mills Music*, the termination provisions and the Exception are "countervailing purposes" of the statute.

The termination provisions were intended to "produce an accommodation and a balancing among various interests." Certainly, the main purpose of the termination provisions was to protect the interests of authors and their heirs and to maximize their ability to exploit the value of their works during the renewal term. Neither the Act itself nor its legislative history, however, indicate that this was to be accomplished at the expense of the legitimate rights of others to continue to utilize their derivative works after termination.

The Second Circuit's decision in *Ahlert* provides no clear guidance for determining parties' rights under the Act because it runs counter to Congressional policy as well as judicial precedent. Presumably, as more authors or their heirs exercise their termination rights, there will be additional opportunities for the courts to inter-

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160. See Abrams, *The Law of Copyright*, supra note 68, § 12.05[F][5], at 12-47.

161. See Donald A. Hughes, Jr., *Jurisprudential Vertigo: The Supreme Court's View of "Rear Window" is for the Birds*, 60 Miss. L.J. 239, 250 (1990). In explaining the cause of this tension, Hughes states:

The power to make a derivative work is one of the expressly enumerated rights granted to a copyright owner in § 106. But once the owner of the underlying copyright has acquiesced to the making of a derivative work and the derivative work has in fact been made, the derivative work is outside the sphere of control of the underlying copyright holder.

*Id.* at 251.


163. *Id.* at 174 n.41.


165. See Hughes, *supra* note 161, at 239 ("The termination provisions of the 1976 Copyright Act and their legislative history are unambiguous with regard to the continued use of derivative works after the termination of the prior grants which created them."). Hughes writes:

The derivative work is a work in its own right, albeit one based on a pre-existing work. It is not analogous to a license to reproduce the underlying work for a particular period of time which is void when the period expires. One cannot go back in time and undo the derivative work; for good or ill it has been created, frequently on a scale and at a cost which dwarf the underlying work.

*Id.* at 252.
interpret this complex area of copyright law. Clarity will not be restored to copyright jurisprudence until the judiciary reaffirms, in carefully considered decisions, its primary task of maintaining the delicate balance Congress sought to achieve when it implemented the Copyright Act of 1976.¹⁶⁶

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¹⁶⁶. See Sony Corp. of America v. Universal Studios, Inc., 464 U.S. 417, 431-32 (1984) ("The limited scope of the copyright holder's statutory monopoly . . . reflects a balance of competing claims. . . . The immediate effect of our copyright law is to secure a fair return for an 'author's' creative labor. But the ultimate aim is . . . to stimulate artistic creativity for the general public good.").