

# Whose Right Is It Anyway?

## *Captain America Smashes Through to Preserve an Author's Right to Terminate a Copyright Grant Notwithstanding a Retroactive Work for Hire Agreement*

By Ross J. Charap and Faith Wu

The year was 1940. The Nazi war machine had overrun much of Europe and the battle for control of the skies over Britain had begun. America was still more than a year from entry into the war, but most Americans despised Hitler as the greatest villain the world had ever known. Among them was Joe Simon, a young cartoonist who was carving a niche in the then brand-new medium of comic books.<sup>1</sup> Simon decided to start his own private war with Hitler by making Der Fuhrer the villain of a new comic book series, *Captain America*. Simon's hero, Steve Rogers, was a buck private who was transformed from a skinny weakling into a superhero by means of an experimental serum. As Captain America, he has fought the enemies of our nation for over 60 years. Now, the United States Court of Appeals for the Second Circuit has decided Captain America's latest battle, *Marvel Characters, Inc. v. Joseph H. Simon*,<sup>2</sup> in favor of "Cap's" creator.

### Background

Pursuant to the provisions of the 1976 Copyright Act, an author (or his statutorily named heirs) of works, other than works for hire, may terminate original grants (other than by will) of copyright at the end of 56 years from the date copyright was originally secured and enjoy the fruits of his labor for the so-called extended renewal term.<sup>3</sup> In 1999, Simon did just that, terminating his 1940 grant of copyright to Marvel Comics and reclaiming copyright for the *extended* renewal term. Marvel rejected the termination, filed a declaratory judgment action and invoked a 30-year old settlement agreement resolving litigation over the renewal term in which Simon acknowledged that he had created Captain America as an employee for hire. Simon denied that Captain America was a work for hire and sought to disavow the settlement agreement as an ineffective "agreement to the contrary" under 17 U.S.C. § 304(c)(5).

The district court granted Marvel's motion for summary judgment, but the Second Circuit reversed, finding that Simon's work for hire status was still an issue of material fact. Specifically, the Second Circuit issued the judicial equivalent of the poker rule, "the cards call themselves," that is, that parties may not agree *retroactively* that a work was made for hire. Such an agreement may be disavowed as an "agreement to the contrary" for purposes of termination.<sup>4</sup> This decision is likely to have far-reaching effects for all creators of copyrighted material. It will restrain those who exploit copyrighted

works and possess economic leverage from forcing authors to agree by contract that they had created works made for hire when they had not.

### POW!—Cap Goes to War

Simon was a natural for the comic book business. He had been a professional artist since high school, was a devotee of pulp fiction and science fiction and had enjoyed successful stints as a sports cartoonist and columnist for the Hearst papers in Rochester and Syracuse. After he came to New York City in 1939, he soon became obsessed with comic books. During the day, he served as an editor for Fox Publications, a leading comic book publisher. In the evening and on weekends, he and a group of freelancers he hired churned out story after story. Simon shopped these works to comic book publishers through a middleman, Funnies Incorporated. Simon sold many stories through Funnies, including his first big success, *Blue Bolt*.



As war raged in Europe, Simon hit upon the idea of making Adolf Hitler a figure of ridicule by featuring the hated dictator and his heinous henchmen as the principal villains in a new comic book. But who was to protect America from these dastardly evildoers? Inspired by Hitler's villainy, Simon created Captain America.

Simon believed that Captain America was a surefire commercial property. He decided to bypass Funnies and shop his creation himself. The property was turned down by Fox and others, but Martin Goodman of Timely Comics was so impressed that he agreed to feature Cap in a comic book of his own. Simon orally assigned his interest to Timely for a per-page fee and a piece of the profits, and the first issue was published and copyrighted in December 1940 by Timely. It was a tremendous success, with more than a million copies sold.<sup>5</sup> Simon and his assistants, including the legendary comic book creator Jack Kirby,<sup>6</sup> created the second through tenth issues of Captain America as freelancers before Simon ("stuffed" by Timely on the profits) and Kirby left to work for DC Comics. Since 1941, Simon has received but a few thousand dollars for his iconic creation.

### BAM!—The Fight for Renewal

As the renewal term for Captain America approached, Simon decided to reclaim copyright in his work. He reasoned that he

had merely assigned first publication rights to Timely for the first 28-year term under the 1909 Copyright Act and should have been able to recapture the copyright for the 28-year renewal term.<sup>7</sup> To that end, Simon commenced a two-front war in separate lawsuits against Martin Goodman and others.

Simon sought a declaratory judgment that he had the sole right to claim the renewal term in Captain America in the Southern District of New York. Earlier, in a New York state court action, Simon sought an accounting, damages and injunctive relief, claiming that Goodman had misappropriated his state law property rights.

The battle raged for three years. By 1969, Simon, short of men and material, was forced to settle. In the settlement agreement, promulgated by Marvel, Simon first assigned "any and all right, title and interest he may have or control or which he has had or controlled in [the works] (without warranty that he has had or controlled any such right, title or interest)..."<sup>8</sup> to Goodman. However, Simon was also forced to acknowledge that all of his work on Captain America "was done as an employee for hire of the Goodmans."<sup>9</sup> Although this was untrue, Simon saw no harm in agreeing to sign—he was giving up the renewal term for a cash payment and, at the time, there were no other rights to assert in his work. The parties ceased fire and filed stipulations of dismissal with prejudice.

### WAK!—The Final Battle?

For 30 years, it was all quiet on the comic front. Then, in 1999, while surfing the Internet, Simon, now 86 years old, read about the efforts of the heirs of Jerry Siegel, one of the creators of Superman, to recapture copyright in that work for the extended renewal term. Simon soon learned that seven years after the settlement of his renewal war, Congress had revised the copyright law in the Copyright Act of 1976. An important provision of the new Act added 19 years to the renewal term of copyright<sup>10</sup> and permitted authors or their statutory heirs, except in the case of works for hire and transfers by will, to terminate the rights of an original grantee and its successor-in-interest.<sup>11</sup>

Simon was thrilled to have another opportunity to reclaim Cap. In December 1999, pursuant to § 304(c), Simon filed notice with the Copyright Office to terminate his transfer of the copyright in Captain America to Marvel and its predecessor, Timely. Marvel's bellicose response was to file suit in the Southern District of New York seeking a declaratory judgment that the termination notice was invalid and that it was the sole owner of the copyright.<sup>12</sup> Simon counterclaimed, seeking a declaratory judgment that he was the sole author of the work, that the termination notice was valid and that the copyright in Captain America reverted to him on the effective date of the termination notice.<sup>13</sup>

After a year of discovery, Marvel moved for summary judgment, arguing that under the doctrines of *res judicata* (claim preclusion) and equitable estoppel (issue preclusion), and basic principles of contract law, Simon could not terminate because he had acknowl-

edged in the settlement agreement that he was an employee for hire.<sup>14</sup> Simon's opposition to the summary judgment motion was grounded in the statutory declaration that terminations could be effected "notwithstanding any agreement to the contrary"<sup>15</sup> Because Simon denied that he had been an employee for hire, he contended that the 1969 settlement agreement was just such an "agreement to the contrary," which he could disavow for purposes of termination.

Judge Casey of the district court found that the plain language of § 304(c) did not permit equitable considerations, and that the application of equitable estoppel to this case would contravene Congress' intent to permit authors a fresh opportunity to benefit from ownership of their works.<sup>16</sup> The court further held that Simon's claim was not barred by *res judicata* because the 1969 actions could not have resolved the question of whether Simon was entitled to termination rights—a new and separate right from Simon's previous claim to the renewal term that did not exist at the time of the earlier actions.<sup>17</sup> Judge Casey also rejected Marvel's collateral estoppel argument, noting that the issue of authorship had not been fully and fairly litigated in the prior actions—the parties had filed only bare-boned stipulations of dismissal.<sup>18</sup> Yet, having disposed of all of these arguments, the district court still granted summary judgment to Marvel. Judge Casey found that, in the 1969 agreement, Simon had explicitly acknowledged creating a work for hire and was thus barred from exercising termination rights.<sup>19</sup> Oddly, the district court made no mention whatsoever of the critical "notwithstanding any agreement to the contrary" language of § 304(c).

On appeal, Marvel continued to argue that there was no difference between the authorship issue raised in the previous actions and the termination right Simon was seeking in this case.<sup>20</sup> Simon argued that the district court was mistaken: The authorship issue had not been fully and fairly litigated in the previous actions or disposed of by the 1969 settlement agreement and, therefore, should be sent to a jury for determination.<sup>21</sup>

The Second Circuit found for Simon on all issues. With respect to *res judicata*, the court found that the 1969 stipulations and dismissals with prejudice served only as a final judgment on the competing claims to the *renewal* term, and not the *extended* renewal term.<sup>22</sup> First, the Second Circuit noted that the termination right did not exist until 1978; therefore, the 1969 judgments could not address or extinguish claims that did not exist.<sup>23</sup> Moreover, the courts in the prior actions could not reward the requested relief in the instant action—the right to terminate the grant to Marvel and to recapture the copyright in the extended renewal term.<sup>24</sup>

As for Marvel's collateral estoppel argument, the Second Circuit reasoned that "a stipulation of settlement unaccompanied by findings of fact...does not bind parties on any issue...which might arise in connection with another cause of action."<sup>25</sup> Here the stipulations did not include any specifics about the authorship issue in the set-

tlement agreement. Thus, the issue of authorship—who actually created Captain America and under what circumstances—was not fully litigated in the 1969 actions. For these reasons, the court determined that Simon was not precluded from claiming that he is the author of Captain America for purposes of exercising his rights under § 304(c).<sup>26</sup>

Having concluded that Simon could assert that he is the author of *Captain America* in order to exercise his termination right, Judge McLaughlin, speaking for the court, addressed the issue of first impression in this case: Whether an agreement in which parties retroactively agree that a work was made for hire constitutes an ineffective "agreement to the contrary" which may be disavowed for termination purposes. The Second Circuit held that such an agreement was an "agreement to the contrary" under § 304(c)(5).<sup>27</sup> Therefore, Simon was not bound by the 1969 settlement agreement and the district court was wrong to rely upon that agreement in granting summary judgment to Marvel.<sup>28</sup>

To reach this conclusion, the court engaged in a lengthy analysis of the legislative intent and purpose of § 304(c), looking first to the language of the statute itself.<sup>29</sup> The termination clause provides in pertinent part:

In the case of any copyright subsisting in either its first or renewal term on January 1, 1978, other than a copyright in a work made for hire, the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, executed before January 1, 1978, by any of the persons designated by subsection (a)(1)(C) of this section, otherwise than by will, is subject to termination under the following conditions:

\*\*\*\*

- 5) Termination of the grant may be effected *notwithstanding any agreement to the contrary*, including an agreement to make a will or to make any future grant.<sup>30</sup>

Judge McLaughlin noted that, generally speaking, the 1969 settlement agreement is an "agreement to the contrary," but found it necessary to go beyond the text of the statute to ascertain the statute's meaning.<sup>31</sup>

The 1909 Copyright Act provided for an initial 28-year term of copyright protection and a 28-year renewal term, which Congress intended to revert back to the author, despite a prior grant or assignment of the initial copyright term. This legislative attempt to return a work to its author after the true value of the work had been established by exploitation in the initial term was thwarted, however, by the Supreme Court's decision in *Fred Fisher Music Co. v. M. Witmark & Sons*.<sup>32</sup> In *Fisher*, which concerned the musical composition, "When Irish Eyes Are Smiling," the Supreme Court held that an author could contract away his right to the renewal

term before the right vested at the end of the initial term.<sup>33</sup> With that decision, publishers had a blueprint for circumventing the author's reversionary right. Because of their superior economic bargaining power, publishers were able to compel authors routinely to assign their renewal rights at the same time as they assigned their rights to the initial term.

Congress and the interest groups who participated in the process of copyright revision to enact the 1976 Copyright Act were well aware of this historical back drop when they negotiated the new termination right. As the Second Circuit noted, the Supreme Court made plain the intent and purpose behind the termination provision of the 1976 Act in *Mills Music v. Snyder*:

The principal purpose of the amendments in §304 was to provide added benefits to authors. The . . . concept of a termination right itself, was 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.<sup>34</sup>

The Second Circuit also acknowledged that Congress intended to protect authors from unequal bargaining positions.<sup>35</sup> Therefore, Congress made the termination right inalienable—authors must be able to exercise this right "notwithstanding any agreement to the contrary."<sup>36</sup> It follows, the Second Circuit reasoned, that "an agreement made after a work's creation stipulating that the work was created as a work for hire constitutes an 'agreement to the contrary' which can be disavowed pursuant to the statute."<sup>37</sup> Had the Second Circuit ruled otherwise, the legislative intent and purpose of the statute would have been thwarted and, as was the case with *Fred Fisher*, savvy publishers would have had a blueprint for eliminating the termination right.

With this construction of the termination provision, the Second Circuit held that the 1969 settlement agreement was an "agreement to the contrary" and that, therefore, *Simon* was not bound by the statement in the settlement agreement that he created Captain America as an employee for hire. The Second Circuit reversed and remanded, concluding that it was for a jury to determine whether *Simon* was the author of Captain America with the right to terminate the grant of copyright to Marvel.

It remains to be seen how this decision will impact authors and their publishers. One observer, Kay Murray, General Counsel of the Authors' Guild, an *amicus* in the *Simon* case,<sup>38</sup> notes that the

decision preserves one of the few rights accorded to authors under the Copyright Act: "This has been a hard won acknowledgement of the original creator and his 'inalienable' termination right, as determined by the Supreme Court.<sup>39</sup> If the Court of Appeals had not interpreted the [copyright] statute correctly, the decision would have adversely affected creators of popular works for years to come."

As for Simon, he lives on to fight another day so that, as one wag put it, "Cap can come home to Dad."

---

---

## Endnotes

1. The first true comic book, Action Comics, featuring Superman, appeared in mid-1938.
2. See *Marvel Characters, Inc. v. Joseph H. Simon*, 310 F.3d 280, 2002 U.S. App. LEXIS 23146, 64 U.S. P.Q.2d 1891 (2d Cir. 2002).
3. Termination may be effected within a 5-year window following the 56th anniversary of the original date of copyright so long as notice of termination of at least 2 years and no more than 10 years is given to the original grantee or its successors.
4. See 17 U.S.C. §304.
5. The circumstances surrounding the creation of Captain America are set out in detail in Simon's book, *The Comic Book Makers* (Crestwood 1990). They also inspired the Pulitzer Prize-winning novel, *The Adventures of Kavalier and Clay*, by Michael Chabon.
6. Kirby created the *Incredible Hulk*, *X-Men*, *Silver Surfer* and many other memorable comic book heroes.
7. See 17 U.S.C. § 24, repealed by Copyright Act of 1976, 17 U.S.C. §§ 101 *et seq.*
8. See *Declaration of Joseph H. Simon, Exhibit 7: Settlement Agreement between Joseph H. Simon and Martin and Jean Goodman at 2, Marvel Characters, Inc. v. Simon*, 2002 U.S. Dist. LEXIS 3260 (2002) (No. 00 Civ. 1393).
9. See *Declaration of Joseph H. Simon, Exhibit 7: Settlement Agreement between Joseph H. Simon and Martin and Jean Goodman at 7, Marvel Characters, Inc. v. Simon*, 2002 U.S. Dist. LEXIS 3260 (2002) (No. 00 Civ. 1393).
10. Congress added 20 additional years to the renewal term in the *Sonny Bono Copyright Term Extension Act of 1998*, Pub. L. No. 105-298, 112 Stat. 2827 (1998). Congress also provided for a new termination opportunity—if termination has not been effected at the end of 56 years, it may be effected within the 5-year window commencing on the 75th anniversary of the date of the original copyright with the same notice requirements.
11. See 17 U.S.C. §§304(b) and 304(c).
12. See *Marvel Characters, Inc. v. Simon*, No. 00 Civ. 1393, 2002 U.S. Dist. LEXIS 3260, 2002 WL 313865, 62 U.S.P.Q.2d 1650 (2002).
13. See *Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 3260, at \*2. The effective date of termination was December 7, 2001, the 60th anniversary of Pearl Harbor.
14. See *Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 3260, at \*12.
15. See 17 U.S.C. § 304(c)(5).
16. See *Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 32611, at \* 14.
17. See *Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 3260, at \*20.
18. See *id.*
19. See *Marvel Characters, Inc.*, 2002 U.S. Dist. LEXIS 3260, at \*29.
20. See 310 F.3d at 286.
21. See *id.*
22. See 310 F.3d at 287 (referencing *Nemaizer v. Baker*, 793 F.2d 58, 60-61 (2d Cir. 1986)).
23. See 310 F.3d at 287 (citing *Lawlor v. Nat'l Screen Serv. Corp.*, 349 U.S. 322, 328 (1955)).
24. See *id.*; see, e.g., *Leather v. Eyck*, 180 F.3d 420, 425 (2d Cir. 1999); *Burgos v. Hopkins*, 14 F.3d 787, 790 (2d Cir. 1994); *Davidson v. Capuano*, 792 F.2d 275, 278 (2d Cir. 1986).
25. 310 F.3d at 289 (citing *Lawlor*, 349 U.S. at 327); see also *Motrade v. Rizkozaan, Inc.*, 1998 U.S. Dist. LEXIS 2864, No. 95 Civ. 6545, 1998 WL 108013, at \*5 (S.D.N.Y. March 11, 1998) ("To have a preclusive effect on specific issues or facts. however, a voluntary dismissal also must be accompanied by specific findings sufficient for a subsequent court to conclude that certain matters were actually decided.").
26. See 310 F.3d at 288. The Appellate Court agreed with the district court's analysis and application of *Yoon v. Fordham Univ. Faculty Admin. Retirement Plan*, 263 F.3d 196, 202 (2d Cir. 2001), to the case at hand. Plaintiff Yoon had previously litigated and defaulted on his state court claim that he was entitled to his teaching salary. Thereafter, Yoon filed a suit in federal court claiming entitlement to pension benefits under ERISA. The Second Circuit found that Yoon could raise the question of salary in order to establish the contractual basis to his pension entitlements. Here, Simon can raise this issue of authorship to claim his termination right; Simon, however, is precluded from claiming any benefits from the initial and renewal terms.
27. See 310 F.3d at 292.
28. See *id.*
29. See 310 F.3d 290-91 finding support in *Nimmer on Copyright*

The parties to a grant may not agree that a work shall be deemed one made "for hire" in order to avoid the termination provisions if a "for hire" relationship. . .does not in fact exist between them. Such an avoidance device would be contrary to the statutory provision that "termination of the grant may be effected notwithstanding any agreement to the contrary." . . It is the relationship that in fact exists between the parties, and not their description of that relationship, that is determinative.

3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* 11.02[Af [2] (2000 ed.) (footnote omitted).

30. 17 U.S.C. §§304(c) and 304(c)(5) (emphasis added).

31. See 310 F.3d at 290.

32. *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643 (1943).

33. See 318 U.S. at 657-59.

34. *Mills Music v. Snyder*, 469 U.S. 153, 172-73 (1985) (footnote omitted).

35. See H.R. Rep. No. 94-1476, at 124 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5740 ("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."); see also *Mills Music v. Snyder*, 469 U.S. 153, 173 n.39 (1985).

36. See 310 F.3d at 290; accord *Stewart v. Abend*, 495 U.S. 207, 230 (1990) (stating "The 1976 Copyright Act provides. . . an inalienable termination right").

37. 310 F.3d at 290.

38. See *Memorandum Of Amici Curiae*, The Authors Guild, Inc., The American Society of Journalists and Authors, The National Writers Union, Novelist Inc., The Science Fiction and Fantasy Writers Association. The Society of Children's Book Writers and Illustrators and the Text and Academic Authors Association In Support of Defendant Joseph H. Simon ("Memorandum of *Amici Curiae*") at 9, *Marvel Characters Inc. v. Simon*, 2002 U.S. Dist. LEXIS 3260 (2002) (No. 00 Civ. 1393).

39. See *New York Times Co. v. Tasini*, 533 U.S. 483, 496 n.3, 497 (2001); see also *Stewart v. Abend*, 495 U.S. 207, 230 (1990).