IAN MCCLURE

Termination Rights: A Second Bite at the Apple

In 1938, co-creators Jerome Siegel and Joe Shuster sold the exclusive rights to the Superman character for $130 to Detective Comics. In 2006, Warner Brothers Entertainment released the blockbuster movie, "Superman Returns," and grossed over $550 million. Aside from modest voluntary payments by the comics giant and its corporate sibling, Warner Brothers, Siegel and Shuster haven't received a mentionable fraction of the fortune that the Superman brand has garnered. This situation changed in March 2008 in a district courtroom in Riverside, Calif., where the fair and honorable Judge Stephen Larson allowed Siegel's estate to terminate any and all grants of copyright before 1978 and retain those rights for the duration of the copyright's life.[1] 17 U.S.C. § 304(c), which affords termination rights to authors, has been largely unused since its implementation—mostly because its applicability is time-sensitive. Two recent federal court victories for authors—that of Siegel and Shuster and the estate of Eric Knight, who wrote the novel *Lassie Come Home*[2]—have heightened the awareness of these rights and instilled fear in corporations that hold large copyright catalogs. In order to be successful, however, zealous attorneys for the Siegels and Shusters of the world must sneak through a small window of time filled with numerous potential defenses.

Protecting Unremunerative Transfers

Most intellectual property is difficult to value before products embodying the rights are sold on the market. Accurately pricing an exclusive license to use intellectual property is arbitrary at best. Importantly, in the context of copyrights, artists, musicians, authors, and other creators are usually in an unequal bargaining position when such transactions are made. The creators of the work frequently lack the tools needed to adequately exploit their creation or even envision the extent of potential commercialization their creation harvests. Therefore, when it created the termination right, Congress recognized as its justification "safeguarding authors against unremunerative transfers … because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work's prior value until it has been exploited."[3] The termination provision that was added to the 1976 act, was Congress' response to the U.S. Supreme Court's decision in *Fred Fisher Music v. N. Witmark & Sons*,[4] which allowed authors to contract away their renewal rights before they vested. Originally, under the Copyright Act of 1909, the now-defunct 28-year renewal term was meant to be the point of re-evaluation for the author—a chance to revalue those rights and correctly renegotiate the license. Section 304(c) of the 1976 act now codifies a "second bite at the apple" for authors and affords termination rights that cannot be contractually waived forever. Under the act, authors and their heirs or executors may terminate rights granted before 1978, including those granted by license, regardless of the terms of such agreements. Although not the subject of this article § 203 of the act—similar to § 304—affords termination rights to copyrights granted after 1978. The actual rights retained, however, may not encompass all the rights flowing from exploitation of the copyright, as discussed below.

The Window of Opportunity

Successfully triggering § 304 termination rights is not easily accomplished. Indeed, doing so requires "traversing the many impediments"[5] set forth in the statute's limited applicability and in the Register of Copyrights' complex procedural requirements. Pursuant to § 304(c), only authors of copyrights "secured" before 1978 and thereafter transferred or licensed to a third party prior to Jan. 1, 1978, may exercise termination rights. Furthermore, these rights must be exercised at any time during a five-year period, beginning at the end of 56 years from the date the copyright was originally secured. For the purposes of this section, a copyright is secured when it is first published with notice or, in the case of unpublished works, the date of registration. Thus, the five-year termination period is calculated from the exact date of publication, not from the end of the publication year, as is appropriate for determining copyright terms under the act. A date within this period must be chosen, and that will be the "effective date" of the termination. Therefore, if a song is first published on Oct. 12, 1950, the first potential effective date of termination would be Oct. 12, 2006; if Oct. 12, 2011, passes without proper termination, the grant remains valid.

A second timing concern is notice. Under the act, a termination notice with specifically required content must be sent to the grantee within a precise time frame: no less than two or more than 10 years prior to the chosen "effective date." Thus, the latest such notice may be sent is the last day of the 59th year of securing the copyright. As of Jan. 1, 2009, copyrights first secured prior to Jan. 1, 1950, may no longer be terminated under § 304(c).[6] For example, with regard to the aforementioned song first published on Oct. 12, 1950, notice may be sent as early as Oct. 12, 1996, or as late as Oct. 12, 2009.

Calculating this window of opportunity is crucial to successful termination of rights. According to Judge Larson in the *Siegel* case, "the five year time window is an unbendable rule with an inescapable effect, not subject to harmless error analysis."[7] Furthermore, the window must be chosen carefully after scrutinizing the facts. Any works published outside of 61 years prior to the effective date—if only by one day—will not be subject to termination, even if those works were incorporated in grants that included other works that *are* within the effective reach of the termination notice.

Finally, the termination notice must comply with specific form, content, and manner of service requirements. The Register of Copyrights has promulgated certain regulations that, among other things, require the notice to "reasonably" identify "each work" and "the grant" to which it applies.[8] Thus, if a copyright was incorporated in several grants and one of those grants is not referenced in the notice, then the grantee's rights thereunder remain unaffected by the termination. Although "grant" is not defined under the act, the term has been interpreted to mean any transfer of rights, including any license or conveyance of a copyright or any right that is part of a copyright. A transfer effectuated by court order may even be subject to termination rights. With regard to a notice's content, however, harmless error will not render the notice invalid.

Limitation on Rights Recaptured

Unlike the case with renewal rights under the 1909 act, in the new statute Congress limited the rights recaptured by authors in exercising termination rights. Specifically, only rights arising under Title 17 of the U.S. Code, or domestic rights, are retained. Any rights gained by the grantee under other sources of law—including foreign laws—would remain with the grantee. Therefore, the rights to exploit the copyrighted work abroad, which would be governed by foreign laws, are not disturbed. Also left intact are any and all rights gained and arising under other federal law, including the Lanham Act. Any trademarks created to help exploit a copyright, such as a book cover or a phrase coined to symbolize a song or a picture, will remain with the grantee. In the *Siegel* case, the defendants were allowed to keep and continue to use certain trademarks, despite the fact that the marks incorporated portions of the copyrighted material.

Potential Defenses

The grantee is not without defenses to a notice of termination. First, the grantee may prove that the work was actually a work-for-hire. Under the 1976 act, § 304(c) specifically negates application of termination rights to works-for-hire, because the copyright in such works was never the author's to grant—the author's employer is legally presumed to be the author of the work in question. In this light, the terminating party must show that the work was not created under the control or direction of the grantee, but it becomes especially difficult to do so if the grantee was also the grantor's employer.

The grantee may challenge the actual date of the original copyright and thereby put it outside the reach of the termination notice; in fact, the grantee may challenge whether the work was properly copyrighted at all before the right was granted. In addition to the numerous procedural steps that the grantee may challenge, a grantee may also prove that a number of actions brought about a regranting of rights after 1977. In effect, regranting rights after Jan. 1, 1978, works to supersede the termination rights provided by § 304(c). This was the case in a decision made by the Second Circuit in 2008; in this case, the estate of John Steinbeck, author of the novel *Of Mice and Men*, among other works, failed to terminate a grant of copyright to the publisher, Penguin Group, because the court determined that an agreement reached by the parties in 1994 superseded the termination.

A Run on Copyrights?

The recent successes of the Siegel and Knight estates may lead corporate leaders to start backpedaling. Marc Toberoff, the attorney representing the estates in both cases, is becoming one of the most feared men in Hollywood and beyond. Nevertheless, a "run on copyrights" is not likely because of the many impediments to successful termination. Many forward-looking copyright owners have already renegotiated for a post-1977 regrant of rights. Still, some windows of opportunity to terminate grants of copyright have yet to open. As mentioned above, although not the subject of this article, post-1977 grants of copyright may also be terminated during a five-year period under § 203 of the act beginning 35 years after the original grant. Therefore, beginning in the year 2013, these windows will start to open. It is important not to let these opportunities pass without at least apprising authors that they may have certain rights. After the initial recognition, a close evaluation of the many impediments must be made before taking action. **TFL**

Ian McClure is an associate with the law firm of Wyatt, Tarrant, & Combs LLP in their Louisville office, where he is a member of the Corporate & Securities Service Team and also practices intellectual property law.

Endnotes

[1]*Siegel v. Warner Bros. Entertainment Inc.*, 542 F. Supp. 2d 1098, 1099 (C.D. Calif., 2008).

[2]*Classic Media Inc. v. Mewborn*, 08 C.D.O.S. 8813 (9th Cir. 2008).

[3]*See* H.R.Rep. No. 1476, 94th Cong., 2d Sess. 124.

[4]318 U.S. 643 (1943).

[5]*Siegel v. Warner Bros. Entertainment Inc.*, *supra*, note 1.

[6]Note that, because of the Sonny Bono Act of 1998, authors may have another opportunity to do so at a later date, but those rules are outside of the discussion of this column.

[7]*Siegel v. Warner Bros. Entertainment Inc.*, *supra*, note 1, at 1130.

[8]37 C.F.R. § 201.10(b)(1)(iv).