



# “I’ll Be Back”: Termination rights under Section 203 of the Copyright Act

Hogan Lovells attorney **Dori Ann Hanswirth** looks at the impact termination rights will have on the music industry in the coming years

**Starting next year, authors of copyrighted works and their heirs can terminate copyright assignments previously granted under the Copyright Act of 1976. Section 203 of the Act gives authors the right to terminate previous transfers of copyright interest during “a period of five years beginning at the end of thirty-five years from the date of execution of the grant”. All an author must do to preserve her rights is provide a notice “not less than two or more than ten years before” the date she wants to recapture her copyright interests.**

So, who will come forward to recapture rights once given away? Seven of Ray Charles’ 12 children, the heirs of the co-author of “Santa Claus Is Comin’ to Town,” and the guy who played the Navy officer and cop from the Village People are already involved in lawsuits with current copyright owners. The top record albums from 1978, like Bruce Springsteen’s “Darkness on the Edge of Town” and Van Halen’s eponymous album are coming up for termination in a few months. Bob Dylan has already filed termination notices, and he is not alone. So have Charlie Daniels, Kris Kristofferson, Loretta Lynn, and Tom Waits. For a record industry that has been suffering for years, this must be an unwelcome turn of events. But it should not have come as a surprise.

Termination rights are not new; Section 304 of the Act permits termination rights for works assigned during the effective dates of the Copyright Act of 1909. Section 203 is similar to Section 304, but not identical. Section 203’s termination rights are limited to grants executed by the author; they do not apply to grants made solely by the author’s statutory heirs. Further, the Section 203 termination right does not apply to a grant of rights in a work made for hire or to a grant made under will. The territorial reach of the US Copyright Act may not extend to rights

granted outside of the States, nor may it apply to grants executed outside of the States.

Although termination rights are likely of no interest to authors of works that were never valuable or whose value has run its course, copyright interests previously assigned in works that are still valuable can shift back to the creators of those works and their families. This may present a conundrum for any business involved in licensing or otherwise exploiting copyrights that were assigned to it after 1 January 1978. However, as described below, Section 203’s termination provision gives the grantee some leverage in the course of any ensuing negotiations.

## Section 203 precedent to date

Courts have yet to provide much guidance here. In fact, there is only one published decision interpreting Section 203. In *Scorpio Music S.A. v. Victor Willis*, No. 11-cv-1557 BTM (RBB) (S.D. Cal. May 7, 2012), Victor Willis, the former lead singer of the Village People, served Scorpio Music with a notice of termination for 33 musical compositions, including the hit songs “YMCA” and “In the Navy”. Scorpio filed suit to try to establish that Willis has no rights to the compositions.

Scorpio’s main argument was that, for a termination to be valid under 17 USC §203(a) (1), a majority of all authors who transferred their copyright interests in a joint work (whether as part of the same transaction or not) must join in the termination. Willis’ notice of termination was therefore invalid, according to Scorpio, because Willis was the only author who served such a notice; the other members of the Village People did not join him.<sup>1</sup>

The court determined that since Willis was the only person who executed the grants of his copyright interest in the compositions, he alone had the ability to terminate those grants. The court based its decision on the

plain meaning of 17 USC § 203, which states that “in the case of a grant executed by one author, termination of the grant may be effected by that author”. Also, because Section 203 intends to remedy the unequal bargaining power of authors, the court determined that it would be contrary to the purpose of the Act to make it more difficult for an author to terminate an independent grant. For these reasons, the court dismissed Scorpio’s complaint.<sup>2</sup>

Other Section 203 cases are currently working their way through courts and may yield guiding opinions in the future. One involves the works of the late Ray Charles. Prior to his 2004 death, Charles’ 12 children signed agreements establishing that they would each receive a \$500,000 irrevocable trust and waive any further claims to Charles’ estate. They got their trust money, but in March 2010, seven of the children served copyright termination notices on the assignees of more than 50 musical compositions authored in whole or in part by Charles. The effective date of the earliest copyright termination is 1 April 2012.

The Ray Charles Foundation responded by filing a lawsuit, alleging that the children breached their agreements and sought an injunction preventing them from exercising any termination rights. The Foundation seems to have made every argument it could think of to avoid dealing with the termination notices. It says that the songs are works for hire; it claims that a 1980 renegotiation precludes any further termination rights; it even says the termination notices are not valid because they contain the wrong dates and that they have received too many termination notices for all of them to be valid. The case was filed on 28 March 2012. The children had until 29 June to respond.

In the meantime, a case currently pending in the United States District Court for the

Southern District of Florida appears to be on the cusp of a substantive ruling addressing the difference (if any) between an *author's* right to terminate the transfers, and an *heir's* right to do so. *Coots Baldwin et al v. EMI Feist Catalog, Inc.*, No. 11-cv-81354, 2011 WL 6359013 (S.D. Fla. Dec. 16, 2011). This case concerns the ubiquitous Christmas tune "Santa Claus is Comin' to Town," composed by J Fred Coots and Haven Gillespie in 1934. According to the lawsuit, Coots and Gillespie assigned all of their rights in the song to Leo Feist. In the decades that followed, Coots assigned his rights in the song for the renewal term of the copyright to Feist (1951), renewed the copyright in the song (1961), filed a notice of termination (1981), and assigned rights to Feist's successor in title (1981). Coots died in 1985. In April 2004, a termination notice pursuant to 17 USC § 304 was recorded in the United States Copyright Office. In March 2007, Coots' statutory heirs sent Feist's successor in title (EMI Feist Catalog) a notice of termination pursuant to 17 USC § 203.

The plaintiffs, members of the Coots family, filed suit against EMI, seeking to establish that their April 2007 notice of termination is valid and effective as of 15 December 2016. Alternatively, the plaintiffs are asking the court to declare a notice of termination served on 13 March 2012 – an apparent contingency plan in case the April 2007 notice was defective – to be valid and enforceable.

The defendants moved to dismiss the case, arguing that the 2007 and 2012 termination notices are invalid because Section 203 only permits termination of an author's grant, not that of heirs. The tricky fact here is that the 1981 grant was executed by both authors *and* heirs. The plaintiffs have argued that the termination provision applies to any grant by "the author" and is not nullified if others, such as heirs, also sign the grant. The motion was fully briefed on 15 June 2012, and is now pending.

The wheels of justice move slowly. Judges are overloaded with all kinds of cases, and copyright cases are rare outside of New York, California, and Tennessee (the home of country music). Some courts just don't like to tackle technical copyright law questions. Each of the above cases is likely to be determined based on their particular facts, and they may not provide guidance for future situations. The cases may even settle prior to any decisions on the merits. Meanwhile, more termination notices are being filed every day. Copyright owners should not ignore them, because they won't go away. The Copyright Act gives owners a period of time to negotiate with authors and their heirs, and owners should take advantage of that window of opportunity. Owners need to

convince terminators that the owners are still in the best position to get maximum value for the exploitation of copyrighted works. Owners may also be able to persuade terminators that fighting a court battle will not be worth it.

Case law under Section 304 suggests that termination rights are not always inalienable in the face of renegotiation. Second and Ninth Circuit cases interpreting Section 304 hold that, in cases where parties renegotiated an assignment and the outcome is similar to what would have been had the author terminated the grant and renegotiated a new one, a court may find that there has been a *de facto* exercise of the termination right. Consequently, the court will honour the subsequent agreement, and either extinguish the termination right or restart the 35-year termination clock.<sup>3</sup>

Other factors can work in the grantee's favour during renegotiation. For example, because termination only applies in the United States, a record label that owns the rights to a song with significant worldwide sales may be able to negotiate more effectively with the grantor by leveraging its ability to affect overseas sales. Time is also in the favour of grantees since §203(b)(4) provides that between the notice of termination and the date of effective termination, only the original grantee may negotiate a new grant.

Terminators should also understand that Section 203 on its face does not prohibit the grantee from creating derivative works after receiving of a termination notice: Section 203(b)(1) states that "[a] derivative work prepared under authority of the grant before its termination may continue to be utilised under the terms of the grant after its termination". Thus, if properly anticipated, grantees could design derivative works to compete with future re-licensing by the artist to another grantee.

Last, but certainly not least, the fact that Section 203 excludes works for hire from termination rights protection will no doubt inspire grantees to make creative arguments concerning the work for hire doctrine; particularly as the United States Court of Appeals for the Ninth Circuit has recently looked past typical "formal" indicia of employment status (eg, tax treatment) to hold that a more informal relationship can give rise to an employment relationship. See *JustMed, Inc v Byce*, 600 F.3d 1118, 1125 (9th Cir. 2010). Courts look to the common law of agency to determine whether someone is an "employee". See *Community for Creative Non-Violence v Reid*, 490 U.S. 730 (1989). This is a multi-factor balancing test that looks to all elements of the parties' relationship. In the context of sound recordings, this can be a particularly close call. While record labels

will argue that all the members of the band were employees, artists will point to the financial realities of the parties' relationship – eg, artists are not usually salaried, but instead receive royalties, minus the costs of production – to argue that the parties were not in an employment relationship.

## Summary

As Section 203's termination rights provision comes of age and case law develops, termination rights challenges will no doubt continue to rise. Counsel for grantees should be prepared to deal with these challenges – but savvy counsel will understand the ways in which the exclusive and international negotiation rights can be used to obtain an agreement on reasonable terms. Copyright grants are not forever.

## Footnotes

1. Scorpio at first claimed that the compositions were works for hire and thus not eligible for termination rights, but it withdrew this claim.
2. The court granted leave to file an amended complaint concerning the Willis' share of these works of joint authorship (and thus the share that Willis is entitled to recapture through termination). Scorpio did so on 5 June 2012.
3. In *Penguin Group (USA) Inc v Steinbeck*, 537 F.3d 193 (2d Cir. 2008), the United States Court of Appeals for the Second Circuit found that John Steinbeck's heir had contracted away the termination right to earlier assignments of the copyright by negotiating with and entering into a new agreement with Penguin Group. In *Milne v Stephan Slesinger Inc*, 430 F.3d 1036 (9th Cir. 2005), the United States Court of Appeals for the Ninth Circuit established that a grantor may terminate a grant and enter into a new one, thus restarting the 35-year termination rights clock.

## Author



Dori Ann Hanswirth is a partner in the New York office of Hogan Lovells US LLP, where she handles a wide range of civil litigation matters in federal and state courts and focuses on matters affecting the media, with particular attention to copyright, trademark, false advertising, defamation, right of publicity, freedom of information, and invasion of privacy law.