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You thought you bought it, but you only rented it: involuntary termination of copyright ownership

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You thought you bought it, but you only rented it: involuntary termination of copyright ownership

Do you have a business that relies on assets that are copyrighted in the United States? If so, a nasty surprise may be coming your way. Your ownership of copyrighted works purchased or commissioned from external writers or artists (generally referred to as authors) can be unilaterally terminated, without your permission, by the author or the author's heirs — and there is very little you can do to stop it. Such a termination can deprive your business of valuable assets upon which large investments have been made. This is the result of certain little-known provisions and revisions of the Copyright Act 1976, which originally took effect on January 1 1978. While many leaders in the publishing and entertainment industries, for whom copyrights are their stock in trade, are aware of these laws, they are relatively unknown to most businesses — and even IP attorneys — outside those industries. The provisions may seem rather technical, but their impact can be powerful. The problem may not be widespread now, but it is certain to grow over the next few years. This chapter explains the potential problems that business leaders may face and suggests some strategies to help protect your assets.

History of the termination provisions

Copyrights in the United States have a long duration, several times that of patents. For works created and printed or recorded after January 1 1978 by a single author, the protection lasts for the life of the author plus 70 years. Works created by more than one author are protected for a term equal to the life of the last surviving author plus 70 years. For these post-1978 works, copyright protection exists regardless of whether registration is made with the Copyright Office.

A different situation occurs with works that were registered with the Copyright Office on or before December 31 1977. Those works originally had a term of 28 years from registration, renewable for an additional 28 years. That renewal term was extended by the Copyright Act and subsequent revisions to it. If the required renewal was made (28 years after the original registration of the work), such a work is now protected for a term of 95 years from first publication or registration of copyright, whichever is earlier. It is already obvious that determining the length of time of copyright protection for any given work can be a complex exercise requiring investigation into a number of factors. The important thing to remember, however, is that regardless of the actual end date, copyright protection usually extends for a long time.

Given this lengthy duration, in drafting the Copyright Act Congress was concerned that many creators of copyrightable works needed protection from having made bad bargains earlier in their careers, selling or licensing away rights that extended for many years after those works had become far more valuable. The common story involved song or scriptwriters selling their rights to a studio for a modest amount, only to learn later that the work had become unexpectedly popular, and thus valuable. Therefore, Congress included in the Copyright Act and subsequent amendments thereto a series of complex provisions allowing authors, musicians, artists and other creators to terminate grants, including assignments and licences, of copyright rights that they may have made to publishers, recording companies and other businesses. These rules were designed to allow these creators, under certain circumstances, to recapture the rights that they may have signed away. Works for hire are not subject to this unilateral termination, because the author of such works is considered to be the company owning the work. 'Works for hire' are defined as works that are:

- created by regular, full-time employees in the course of their assigned duties; or
- created by outsiders under a written contract that defines the ownership.

This second category applies to only nine specific types of work, the most common of which are instructional texts and motion pictures or other types

of audiovisual work. If the work does not fall into one of these categories (eg, software), no agreement can make it a work for hire.

The issue of unilateral termination arises in Sections 203 and 304 of the Copyright Act. Section 203 applies to post-1978 works that were assigned or exclusively licensed by the author, and provides that the author or specified heirs can unilaterally terminate any such transfers during the five-year period between 35 years and 40 years after the date of that transfer. Section 304, which was added later, applies to pre-1978 works and enables the author or statutorily specified heirs to terminate such transfers during either of two five-year windows, one beginning 56 years after registration and the other beginning 75 years after registration. However, any transfer of pre-1978 works made after January 1 1978 by anyone other than the author cannot be terminated.

Who may be affected?

Many businesses will not be affected by these arcane provisions. In practice, few businesses have works subject to copyrights that remain valuable long enough for these issues to become a concern. For those that do, however, any important copyrighted properties are potentially at risk. Such properties include not only the obvious publishing (printed) and entertainment industry (music and audiovisual) assets, but also other assets such as the shape of consumer products (eg, lamps, toys), fabric and clothing designs, operating manuals (eg, for running franchises, operating machinery) and iconic images appearing in advertising and television commercials (eg, the Energizer bunny, the Pillsbury doughboy). While there may have been many revisions to such works over the years, perhaps all done in-house, those revisions may have evolved from the original work created by an external author and thus may be considered to be derivative works of the original. The Copyright Act provides that termination of the transfer of the basic, underlying work allows the now-former owner of the work to continue to use those derivative works, but prohibits that former owner from creating any further derivative works that may stem from the original. So, although you may be able to continue using your existing derivative works, no future revisions to these works may be made once termination has occurred without a new licence or agreement from the author.

Impact

The specific problem presented by these provisions of the Copyright Act is that the author or the author's heirs may recapture large portions of the life of the copyright and exclude the transferee (your company) from any further use just by serving specific notice on the transferee and filing appropriate documents with the Copyright Office. Most significantly, if the authors or heirs take those steps, there is nothing that the transferee can do to prevent the recapture. Indeed, any agreement that the author may enter into with the transferee to prevent such a recapture contractually is specifically prohibited by the statute, making any such agreement unenforceable. The statute provides that such termination may occur "notwithstanding an agreement to the contrary", and this language has been interpreted broadly by the courts. In addition, such recapture of the copyright is not equivalent to rescinding the original contract, in that the author or heirs are not required to return any consideration previously paid, but are simply authorised to recapture the copyright. In other words, they keep the money and you lose the copyright.

The significance and potentially damaging consequences of the copyright termination proceedings are illustrated in the recent court decisions involving termination of the 1938 assignment of the copyright in the Superman character to DC Comics Inc, now owned by Time Warner Entertainment Inc. The widow and daughter of Jerome Siegel, one of the two creators of the original character and storyline, have successfully recaptured Siegel's interests, leaving Time Warner with only the interest of the co-author Joseph Schuster, whose heirs have now also notified Time Warner of their intent to recapture their remaining interest. Time Warner must now negotiate with the two families to obtain terms under which it can continue to develop both comic books and films using the character and derivations of the storyline. Due to the Copyright Act's provisions, Time Warner holds few bargaining chips other than its past history of successful marketing of the comic books, films and related goods. The message of this case is that even very sophisticated businesses, with the best copyright lawyers available, can suffer major losses from statutory termination.

What is at risk?

Businesses should note that while such termination is a real issue, the potential problems and risks are, to some extent, limited and require particular steps by the author or heirs to invoke. Specifically, the only rights subject to termination are US copyrights owned by an individual author or authors, and do not include true works for hire or foreign copyrights. An agreement between the parties that such a work is to be considered a work for hire is not determinative, unless the work fully qualifies as a true work for hire under the statute. Because determination of 'work for hire' status is one of

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the trickiest areas of copyright law, businesses should consult experienced copyright counsel to determine the status of any copyrights that may be subject to termination.

On a brighter note, the Copyright Act also provides that termination of a copyright transfer does not affect trademark rights that may apply to the copyrighted work (eg, a company’s logo), as the trademark rights relate to identification of the origin of products or services and not to the image itself. As noted above, termination of rights in an original work can serve to prevent the now-former owner from creating additional derivative works, but does not prevent that former owner from continuing to use derivative works (eg, logos) that were legitimately created during its ownership of the copyright. Further, the steps required for the author or authors to effect termination can become complex, especially where co-authors are involved. Perhaps as a result of these complexities and the current unknown nature of the availability of copyright termination, the Copyright Office has stated that only about 4 per cent of the eligible copyright transfers of pre-1978 copyrights have been terminated so far. Transfers of post-1978 copyrights will not be eligible for termination until 2013, 35 years after the 1978 effective date of the Copyright Act.

In addition to the limitations on what can be terminated, there are specific limitations regarding who can effect the terminations. Most obviously, an author who is living at the time that a work becomes eligible for termination can invoke Section 203 or 304. However, in many cases the original authors may have died before the date arrives. Therefore, the Copyright Act identifies and limits those who may assert the termination rights in the author’s stead, specifically naming a widow or widower, children and grandchildren; if none of these exist, then it names the executors and administrators of the author’s estate. If the author has assigned the termination rights to another person not in the statutorily specified order of descent, and the author dies before the renewal period begins, the persons in the statutory order will take the right of termination rather than the purported transferee of those rights. However, the laws also provide that any transfer made post-1978 by anyone other than the author (eg, by a widow or child of a decedent author) cannot be subject to the termination provisions and will continue on until the expiration of the copyright.

Another protection for the transferee of the copyright is the complex procedure required to effect termination. Not only must the owner of the termination rights — whether the author or the statutory heirs — file a specific form with the Copyright Office prior to the termination date, but the owner of the termination rights must provide official notice to the transferee or exclusive licensee not less than two years before the expiration of the five-year window, and not more than 10 years before the beginning of the five-year window. Such a notice must clearly identify the copyrighted property that is being recaptured and the date on which such recapture is to take place. If the owner of the termination rights takes such action either too early or too late, that party may inadvertently forfeit the termination rights, resulting in ownership remaining with the transferee.

What can you do?

An important concern for businesses is to determine what steps can be taken in advance to minimise the exposure of a transferee to such involuntary termination. The first step is to determine which of the company assets may be at risk of such termination, either now or in the future. The list of major copyright

assets may be apparent, but a fact often overlooked is that any writing or image created, especially post-1978, is subject to the copyright laws. An experienced copyright attorney should advise you about the costs and benefits of a copyright audit, either by itself or as part of an overall IP audit. This audit can search out and determine ownership and potential risk of statutory termination of key assets. With this information a business can develop a strategy either to create an entirely new replacement work or to negotiate with the author, if living, or the statutory heirs, considering both the respective costs and benefits of each course of action.

The first consideration in evaluating any existing agreements with the author is that the Copyright Act specifically provides that any agreements in contravention of these termination rights are prohibited and void. A useful strategy is first to negotiate with the author or heirs well before the beginning of the relevant termination window to determine whether there are terms that may be mutually acceptable to both parties to extend the assignment or licence and avoid recapture. If such negotiations are unsuccessful, the second option is to begin development of replacement works that are clearly not derived from the originally assigned work or its derivatives. The law regarding termination and recapture of copyrights is relatively new, and the courts are still working to balance the rights of authors or heirs with those of transferees. Over time, the courts may fashion interpretations of the Copyright Act to soften some of the harsh impacts upon transferees.

This area of unilateral termination of copyright transfers, while important, can become highly technical. Additionally, such termination is not an issue that good lawyering can reliably fix after the fact. For this reason, any business that may have such issues with older copyrights should not delay discussing them with knowledgeable copyright counsel. Counsel may undertake an audit to determine what risk is present and to determine whether a copyright tracking system is needed for the future. The results of the audit can provide you either with peace of mind as to the status of the copyrighted assets or with sufficient lead time to develop and implement strategies to minimise or eliminate potential harm to the business, if such action is needed.

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