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Renegotiating the Copyright Deal in the Shadow of the "Inalienable" Right to Terminate

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RENEGOTIATING THE COPYRIGHT DEAL
IN THE SHADOW OF THE "INALIENABLE" RIGHT TO
TERMINATE

Lydia Pallas Loren *

Abstract

Few people realize that many contracts that purport to transfer “all right, title and interest” in a copyright can be terminated by the author of the copyrighted work after thirty-five years (in some cases), after fifty-six years (in other cases), and sometimes even after seventy-five years. Even if the agreement states that the rights granted are “in perpetuity” or “for the duration of the copyright and any renewals,” that agreement remains subject to the author’s right to terminate the agreement and take back the copyright. Agreements transferring or licensing copyright are even subject to a set of contingent termination rights granted to authors’ widows, widowers, children, grandchildren, or authors’ executors, administrators, personal representatives, or trustees.

Why does federal copyright policy dictate that freedom and sanctity of contract must give way to the rights of authors and their families to negate otherwise valid assignments and licenses? Many believe that Congress based the policy on a paternalistic desire to protect creative individuals lacking business acumen. This Article demonstrates that Congress was much more concerned with the valuation problem inherent in creative works, a valuation problem that is particularly acute prior to the commercial exploitation of a work and that both assignors and assignees face.

With an accurate understanding of the termination rights and policy, this Article then examines the most common strategy now used to attempt to avoid the termination rights: renegotiation of the original agreement. Only in three specific contexts should a renegotiated agreement be insulated from termination rights stemming from the original agreement. In all other contexts, the renegotiated agreement should be subject to those termination rights.

* Professor of Law and Jeffery Bain Faculty Scholar, Lewis & Clark Law School, Portland, Oregon. This Article was the basis of a public lecture, *The Brewing Storm on the Horizon: Terminations of Transfers Under the Copyright Act*, presented March 11, 2010, at the Scholarly Symposia Series at the University of Dayton. I appreciate the opportunity that venue presented to explore this topic. Additionally, the Article has benefited from the feedback and comments I received on early drafts from Professors H. Tomás Gómez-Arostegui and Joseph S. Miller and from many conversations about termination rights with Jeremy Williams. Finally, I would like to thank John Rankin for his tireless research efforts.

INTRODUCTION..... 1330

I. AN OVERVIEW OF TERMINATION RIGHTS..... 1333

 A. *Two Different Types of Termination Rights*..... 1333

 B. *The Mechanics* 1334

 1. Types of Transfers Subject to Terminations and Who May Exercise Those Termination Rights..... 1335

 a. Section 203 Terminations 1335

 b. Section 304 Terminations 1336

 c. Works Made for Hire 1337

 2. Time Frame for Terminations and Notices 1339

 3. Special Case of Derivative Works 1341

 4. Granting New Rights After Terminations..... 1342

II. TERMINATION POLICY..... 1342

 A. *Why Provide Termination Rights?* 1342

 B. *Termination Rights as “New Estates”* 1346

 C. *Utilitarian Purposes, Distributive Justice, and Fairness*..... 1349

III. INSULATING RENEGOTIATED AGREEMENTS FROM TERMINATION RIGHTS..... 1353

 A. *Defining Insulated Renegotiations*..... 1355

 B. *Identifying the Four Different Types of Rights at Issue* 1355

 C. *Exploring the Proposal for Insulated Renegotiations*..... 1357

 1. Authors Renegotiating Author Agreements..... 1357

 2. Renewal Rights Holders Renegotiating Transfers of Renewal Rights 1360

 3. Non-Author Owners of the Termination Rights Renegotiating Author Agreements..... 1362

 D. *Exploring the Case Law*..... 1365

 1. Author Renegotiated Agreements 1365

 2. Renewal Rights Holders’ Renegotiations of Prior Transfers of Renewal Rights..... 1367

 3. Non-Author Owners of the Termination Rights’ Renegotiations of Author Agreements..... 1368

CONCLUSION..... 1371

INTRODUCTION

In the midst of the proposed \$4 billion acquisition of Marvel Entertainment by The Walt Disney Company came a startling revelation:

In a few short years, the copyrights in some of the most important Marvel characters—including those in the X-Men and Fantastic Four series—might no longer belong exclusively to either Marvel Entertainment or Disney.¹ Instead, the family of Jack Kirby, creator of those characters, served notices of termination asserting its right to recapture the copyrights in those characters.

Few people realize that many contracts that purport to transfer “all right, title and interest” in a copyright can be terminated by the author of the copyrighted work after thirty-five years in some cases, after fifty-six years in other cases, and sometimes even after seventy-five years. Even if the agreement states that the rights granted are “in perpetuity” or “for the duration of the copyright and any renewals,” that agreement remains subject to the author’s right to terminate the agreement and take back the copyright. Agreements transferring or licensing copyrights are even subject to a set of contingent termination rights granted to authors’ widows, widowers, children, grandchildren, or authors’ executors, administrators, personal representatives, or trustees.

One might fairly ask: how can the express provisions of a contract be overridden so easily? The simple answer is federal law—specifically §§ 203 and 304 of the 1976 Copyright Act.² These complicated provisions not only create a right for authors to terminate agreements that they enter into freely, but these provisions also state that this right to terminate transfers may be exercised “notwithstanding any agreement to the contrary.”³ This absolute right to terminate an agreement led the Supreme Court to characterize these rights as “inalienable.”⁴

In other words, as a matter of federal law, many copyright transfers and licenses do not mean what they say. Even an assignment or license that expressly provides that it may not be cancelled or terminated can be terminated under the Copyright Act. The potential for surprise is significant. The consequences of these provisions are beginning to catch the public’s eye. And it is about to get worse. The 1976 Copyright Act, effective on January 1, 1978, provided for the thirty-five-year termination right only for agreements signed after the effective date of the Act. An agreement signed in 1978 can be terminated by the author or her family⁵

1. Michael Cieply & Brooks Barnes, *Disney Faces Rights Issues over Marvel*, N.Y. TIMES, Sept. 21, 2009, at B1.

2. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541, 2569, 2572 (codified as amended at 17 U.S.C. §§ 203, 304 (2006)).

3. *Id.* §§ 203(a)(5), 304(c)(5).

4. *Stewart v. Abend*, 495 U.S. 207, 230 (1990).

5. The word “family” is used here as a short-hand reference for the statutorily designated successors in interest to the termination rights. While “families” might imply rights in parents or siblings, the statute is clear concerning which family members are granted rights: widows, widowers, children and grandchildren. Additionally, “families” is a more accurate generalization

beginning in 2013.

These little-talked-about provisions in the Copyright Act have the potential to create countless problems for transferees and significant opportunities for authors and their families. The statutory provisions are complicated, the regulations provide little guidance, and the legislative history is not particularly robust. Thus, understanding both the technical details and the underlying policy that Congress sought to achieve is paramount to weathering the storm that is brewing on the horizon. Part I of this Article explores the basics of these different termination rights.

The question that many ask when first encountering the termination rights is: Why did Congress provide authors of copyrighted works and their families with such powerful and “inalienable” rights to terminate agreements? We often talk of copyright law seeking to achieve a balance between the rights of creators to benefit from their creations and the rights of the public to learn from and build upon the works of others.⁶ But the copyright landscape is populated by more than just authors and the public. The copyright landscape also necessarily includes disseminators of copyrighted works—publishers, record companies, movie studios, and distribution companies. The termination rights seek a balance between the authors and the disseminators.

It is often asserted that the termination rights are based upon the concern for authors who may strike a poor bargain at the outset of the duration of a copyrighted work.⁷ However, as explored in Part II, Congress was more concerned with the inherent valuation problem of determining the worth of a work before the work has been exploited. If the work turns out to be more valuable than the parties anticipated, the termination rights give the author and the author’s family another chance to benefit from the work. Part II of this Article explores this policy choice as well as other policy consequences of the termination rights.

The second question that most people, and definitely most lawyers, ask once they learn of this termination right, is: Are there ways to insulate agreements from being terminated or to otherwise avoid the termination rights of authors and their families? Part III of this Article addresses the primary strategy that seems to be gaining traction: voluntarily terminating prior agreements and renegotiating new ones in their place. This Article

than “heirs” because the federal Copyright Act determines ownership, not the author’s will or any state rules of intestate succession, unless none of the specified family members are living at the relevant time. There are circumstances in which the termination would vest in non-family members. Specifically, if at the relevant time, the author is deceased and there is no living widow/widower, children or grandchildren, the statute specifies that the termination rights belong to the “author’s executor, administrator, personal representative, or trustee . . .” 17 U.S.C. §§ 203(a)(2)(D), 304(c)(2)(D). The most accurate phrase to use is “statutory successors,” which is also used in this Article.

6. See, e.g., NEIL WEINSTOCK NETANEL, COPYRIGHT’S PARADOX 6 (2008).

7. See *infra* Part II.

argues that renegotiated agreements should be insulated from the statutory termination rights only in three circumstances. All other renegotiations should be viewed as “agreements to the contrary” and should not extinguish termination rights. In examining different renegotiations, courts must be aware of the shifting and springing nature of the termination rights that Congress expressly granted to a designated class of beneficiaries.

I. AN OVERVIEW OF TERMINATION RIGHTS

A. *Two Different Types of Termination Rights*

The Copyright Act secures to authors the right to terminate a grant of an interest in a copyright in two different provisions, for two different reasons. These two provisions share many characteristics, but it is important to understand their fundamental difference.

The first termination right, codified in § 304, relates to the two major increases in copyright duration that Congress enacted, one in 1976 and one in 1998. As a result of the increased duration of protection, an author and the author’s family are granted the right to terminate previous agreements to the extent that they relate to the added years of protection. In this sense, the transferee obtains no less than what was expected at the time the agreement was signed.⁸ For example, when an agreement was executed in 1950, all parties were aware of the fifty-six-year duration of copyright set by federal statute.⁹ In 1950, the parties assumed that after fifty-six years, the copyright would expire and anyone would be free to copy the work without needing the authorization of the copyright owner. Each time Congress lengthened the duration of existing copyrights,¹⁰ essentially creating a “new estate,”¹¹ Congress determined that the author of the work should have an opportunity to benefit from the windfall that the lengthened

8. In one important respect, the transferee did not get everything for which the transferee bargained. Before the 1976 Copyright Act, at the end of fifty-six years the transferee would have been free to continue exploiting the work (albeit in competition with anyone else who desired, given the expiration of copyright). After a termination, the transferee must seek authorization from those owning the terminated rights in order to continue exploitation. However, if the termination rights are not exercised, the transferee is the beneficiary of the extended duration of copyright brought about by the 1976 Copyright Act and the Copyright Term Extension Act.

9. Copyright Act of 1909, Pub. L. No. 60-349, § 23, 35 Stat. 1075, 1080.

10. This lengthening occurred twice: once in 1976 when Congress added an extra nineteen years of copyright duration, Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541, 2572 (codified as amended at 17 U.S.C. § 302(a) (2006)), and again in 1998 when Congress provided an additional twenty years of protection with the passage of the Sonny Bono Copyright Term Extension Act. Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, § 102(b), 112 Stat. 2827, 2827 (1998) (codified at 17 U.S.C. § 302(a) (2006)).

11. The House Report acknowledges that nature of the extended duration: “the extended term represents a completely new property right” H.R. REP. NO. 94-1476, at 140 (1976).

duration created.¹² The termination rights in § 304 provide a way for interested authors and their families to capture these “new estates.”¹³ However, if the author or author’s heirs fail to exercise their statutory termination right during the time limits imposed by the statute, the transferee retains the rights transferred pursuant to the terms of the original grant.

Section 203 relates directly to Congress’s decision that the duration of copyright should no longer be measured by an initial term and a renewal term, as it had been since the first copyright act in this country.¹⁴ When Congress adopted the 1976 Copyright Act, it transitioned the duration of copyright from dual terms of protection (a twenty-eight-year initial term and a twenty-eight-year renewal term), to a unitary term based on the life of the author plus fifty years,¹⁵ and later lengthened to seventy years by the Copyright Term Extension Act (CTEA).¹⁶ The previous renewal system had an automatic reversionary principal built into it. If the author was still living at the beginning of the renewal term, the copyright in that renewal term vested in the author.¹⁷ If, however, the author was no longer living, that renewal term vested in statutorily identified successors. The idea was to permit the author, or the author’s family, to recapture a copyright that the author may have transferred before the full value of the work was known. Congress intended the termination right provided in § 203 to be a substitute for the reversionary provision contained in the previous renewal system, protecting “authors against unremunerative transfers.”¹⁸ As explored in more detail in Part II, the legislative history explains Congress’s rationale: “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.”¹⁹

B. *The Mechanics*

Terminations do not happen automatically.²⁰ Authors or their families must exercise their termination rights by complying with the notice requirements contained in the statute, and they must do so within the time frame established. In this way, the terminations of transfers permitted

12. The House Report states that there are “strong reasons for giving the author, who is the fundamental beneficiary of copyright under the Constitution, an opportunity to share in” the extended duration of protection. *Id.*

13. 17 U.S.C. § 304(c)–(d).

14. William Patry, *The Failure of the American Copyright System: Protecting the Idle Rich*, 72 NOTRE DAME L. REV. 907, 915 (1997).

15. 17 U.S.C. § 302(a) (1976).

16. 17 U.S.C. § 302(a) (2006).

17. Copyright Act of 1909, Pub. L. No. 60-349, § 23, 35 Stat. 1075, 1080 (1909).

18. H.R. REP. NO. 94-1476, at 124 (1976).

19. *Id.* The policy rationales for termination rights are explored more fully in Part II.

20. 17 U.S.C. §§ 203(a), 304(c).

under the 1976 Copyright Act are fundamentally different from the reversionary principle of the renewal term system. Renewal was a matter of automatic statutory vesting of the “new estate” of the renewal term so long as the proper renewal registration was filed with the Copyright Office.²¹ Terminations are a time-limited right that must be exercised by the statutorily eligible individuals. Complicated rules exist that govern who may exercise a termination right, when that right must be exercised, and the effect of a termination.²² This section provides an overview of those rules.²³

1. Types of Transfers Subject to Terminations and Who May Exercise Those Termination Rights

a. Section 203 Terminations

The § 203 termination right applies only to transfers made on or after January 1, 1978 and only to transfers made by the author.²⁴ Subsequent transfers do not create new termination rights, nor do transfers of copyright interests entered into by the author’s family.²⁵ Both exclusive and nonexclusive licenses, as well as outright transfers of copyright interest, can be terminated.²⁶ The statute is also clear that this termination provision does not apply to works made for hire,²⁷ nor does it apply to transfers made by will.²⁸

Under § 203, in the case of a grant executed by one author, termination may be exercised by the author, or if the author is dead, by those who own a majority of the author’s termination interest.²⁹ In the case of grants executed by more than one author, a majority of the authors must act together to terminate the grant, with each author’s interest being exercised

21. In 1992, Congress eliminated the need for a renewal filing. Copyright Renewal Act of 1992, Pub. L. No. 102-307, § 102, 106 Stat. 264, 264–65 (1992).

22. In addition to the statutory provisions, the Copyright Office has issued regulations related to the termination provisions. 37 C.F.R. § 201.10 (2009).

23. One of the first published decisions concerning termination rights involved a defective termination notice. *See Burroughs v. Metro-Goldwyn-Mayer, Inc.*, 683 F.2d 610, 620–21, 623 (2d Cir. 1981).

24. 17 U.S.C. § 203(a). January 1, 1978, is the effective date of the 1976 Copyright Act.

25. If an author transfers copyright to transferee A, and transferee A subsequently transfers copyright to transferee B, the author may still terminate the initial transfer, and transferee B’s interest will also be terminated. Transferee A, however, has no right to terminate the transfer made to transferee B.

26. 17 U.S.C. § 203(a).

27. *Id.* See also *infra* Part I.B.1.c.

28. 17 U.S.C. § 203(a). *See Larry Spier, Inc. v. Bourne Co.*, 750 F. Supp. 648, 651 (S.D.N.Y. 1990) (ruling that a grant through will to a testamentary trust is not subject to termination), *rev’d on other grounds*, 953 F.2d 774 (2d Cir. 1992).

29. 17 U.S.C. § 203(a)(1).

as a unit.³⁰

If the author is dead, his or her termination interest is owned first by the widow or widower.³¹ If, in addition to the widow or widower, there are surviving children or grandchildren, then the widow or widower owns one half of the termination interest and the children and grandchildren divide the other half on a per stirpes³² basis. If only children or grandchildren remain, with no widow or widower surviving, then the children or grandchildren divide the termination interest based on the number of children represented on a per stirpes basis. The share of a deceased child represented by grandchildren may be exercised only by the action of the majority of those grandchildren.³³ In the event that there is no widow, widower, children, or grandchildren, the author's executor, administrator, personal representative, or trustee owns the author's entire termination interest.³⁴

b. Section 304 Terminations

Section 304 applies only to transfers made prior to January 1, 1978, and only to transfers that convey an interest in the renewal term.³⁵ Thus, a transfer made in 1975 of "all right title and interest during the initial term of copyright" is not terminable.³⁶ As discussed in more detail in Part II, because the renewal term could vest in the widow or widower of an author,³⁷ it became common practice for publishers to require authors and their spouses to assign their contingent interest in the renewal term at the

30. *Id.*

31. *Id.* § 203(a)(2)(A).

32. *Id.* § 203(a)(2)(B)–(C). Per stirpes, Latin for "by roots or stocks," denotes a method of dividing interests in an estate. Under this method, a class or group of distributees takes the share to which their deceased ancestor would have been entitled. *See* BLACK'S LAW DICTIONARY 1181 (8th ed. 2004). For example, if author *A* had two children, *B* and *C*, now deceased, and *B* had two children and *C* had four children, the termination interest will not be divided equally among the six grandchildren. Instead, two will exercise their parent *B*'s one-half interest, and four will exercise their parent *C*'s one-half interest. The opposite of a per stirpes distribution is a per capita distribution. 26B C.J.S. *Descent and Distribution* §§ 27–28 (2001).

33. 17 U.S.C. § 203(a)(2)(C).

34. *Id.* § 203(a)(2)(D).

35. *Id.* § 304(c)–(d).

36. Instead, such an agreement ended at the end of the initial term of copyright. Because the last works subjected to a dual term of copyright were those first published in 1977, the expiration of the initial term has occurred for all works (1977+28=2005).

37. Copyright Act of 1909, Pub. L. No. 60-349, § 23, 35 Stat. 1075, 1080 (1909). Specifically, the 1909 Act provided that "the widow, widower, or children of the author, if the author be not living, or if such author, widow, widower, or children be not living, then the author's executors, or in the absence of a will, his next of kin shall be entitled to a renewal and extension of the copyright in such work . . ." *Id.* While the statute provided for more statutory beneficiaries than just the widow or widower, the common practice of having others sign transfer agreements did not extend much beyond the author's spouse. *See* STAFF OF H. COMM. ON THE JUDICIARY, 87th CONG., COPYRIGHT LAW REVISION: REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 53 (Comm. Print 1961).

same time that they assigned the initial term.³⁸ Because these termination provisions focus on allowing recapture of the extended renewal term by the statutorily designated successors of the renewal term, transfers that can be terminated include not only pre-1978 transfers made by authors but also pre-1978 transfers made by any of the statutorily designated successors.³⁹ As with the termination provision under § 203, the termination provisions of § 304 apply to exclusive and nonexclusive licenses as well as outright transfers. Similarly, transfers concerning works made for hire are not terminable,⁴⁰ nor are transfers made by will.⁴¹

When the transfer sought to be terminated under § 304 is a grant by the author, as with terminations under § 203, a termination can be exercised by the author.⁴² If the author is deceased, the termination right may be exercised by a majority of those owning termination interests.⁴³ The ownership of termination interests and the majority requirements under the § 304 termination provisions are identical to those under the § 203 termination provisions.⁴⁴ When the transfer sought to be terminated under § 304 is a grant by someone other than the author, termination can be exercised only by the surviving person or persons that executed that grant.⁴⁵ This termination right is not descendible. Thus, a transfer executed by a widow who dies before timely notice of termination can be sent is no longer terminable.

c. Works Made for Hire

None of the termination rights applies to “works made for hire.” This policy choice is consistent with the 1909 Act’s provision that, for certain works, the copyright in the renewal term would not vest in the individual authors but rather in the employer or “proprietor.” Specifically, the 1909 Act provided that the proprietor of a copyright, and not the author, would be entitled to the renewal term:

[I]n the case of any posthumous work or of any periodical, cyclopedic, or other composite work upon which the copyright was originally secured by the proprietor thereof, or

38. See 3 MELVILLE NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 11.07 (rev. ed. 2010).

39. See *supra* note 37 (identifying the statutory beneficiaries of the renewal term under the 1909 Act). Thus, whereas under § 203 termination rights apply only to transfers made by authors, § 304 termination rights apply to a broader category of transfers.

40. 17 U.S.C. § 304(c)–(d). See also *infra* Part I.B.1.c.

41. 17 U.S.C. § 304(c)–(d). See *Larry Spier, Inc. v. Bourne Co.*, 750 F. Supp. 648, 651 (S.D.N.Y. 1990) (ruling that a grant through will to a testamentary trust is not subject to termination), *rev'd on other grounds*, 953 F.2d 774 (2d Cir. 1992).

42. 17 U.S.C. § 304(c)(1).

43. *Id.*

44. Compare *id.* § 304(c)(2)(A)–(D), with *id.* § 203(a)(2)(A)–(D).

45. *Id.* § 304(c)(1).

of any work copyrighted by a corporate body (otherwise than as assignee or licensee of the individual author) or by an employer for whom such work is made for hire, the proprietor of such copyright shall be entitled to a renewal and extension of the copyright in such work for the further term of twenty-eight years⁴⁶

Under the 1976 Copyright Act, there are two ways in which a work can be a work made for hire. First, if the work is created by an employee within the scope of employment, the work is a work made for hire.⁴⁷ Whether someone is an employee and whether the work is within that person's scope of employment is governed by common law agency rules.⁴⁸ No written agreement is required identifying the individual as an employee or the work as a work made for hire, and agreements that purport to identify someone as an employee who does not meet the common law agency test for employment will not suffice to convert the work into a work made for hire for purposes of the Copyright Act.⁴⁹ Second, a work can be a work made for hire if it is within one of nine statutorily specified categories of works,⁵⁰ and the parties agree in a signed written instrument that the work is a work made for hire.⁵¹ These two categories are mutually exclusive,⁵² and they are the only ways in which a work can be a work made for hire.

The interaction between the termination rights and the work made for hire provision led to lengthy and heated negotiations leading up to the 1976 Copyright Act. The Supreme Court recounted these negotiations in its seminal case on the work made for hire doctrine, *Community for Creative Non-Violence v. Reid*.⁵³ The Court noted that the termination rights were

46. Copyright Act of 1909, Pub. L. No. 60-349, § 23, 35 Stat. 1075, 1080 (1909).

47. 17 U.S.C. § 101 (defining "work made for hire").

48. *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 740 (1989).

49. *See, e.g., Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 557–59 (2d Cir. 1995). *See also Schiller & Schmidt, Inc. v. Nordisco Corp.*, 969 F.2d 410, 412 (7th Cir. 1992) (requiring the writing be prepared before the creation of the work).

50. The nine categories of works are:

- (1) a contribution to a collective work,
- (2) a part of a motion picture or other audiovisual work,
- (3) a translation,
- (4) a supplementary work,
- (5) a compilation,
- (6) an instructional text,
- (7) a test,
- (8) answer material for a test, and
- (9) an atlas.

17 U.S.C. § 101 (defining "work made for hire").

51. *Id.*

52. *Cnty. for Creative Non-Violence*, 490 U.S. at 742–43.

53. *Id.* at 743–49.

one of four differences of “profound significance for freelance creators—including artists, writers, photographers, designers, composers, and computer programmers—and for the publishing, advertising, music, and other industries which commission their works.”⁵⁴ The list of the nine categories of commissioned works that may qualify as works made for hire was the result of intense negotiation.⁵⁵

Under the 1976 Copyright Act, if a work qualifies as a work made for hire, it is not subject to any termination rights of the creator of the work.⁵⁶ One way to understand the lack of a termination right is that there is no “transfer” to be terminated. The statute specifies that the “author” of a work made for hire is the hiring party.⁵⁷ Consistent with the constitutional requirement that copyright be secured for “authors,” the 1976 Act initially vests the copyright in the author of the work.⁵⁸ The 1909 Act made a similar use of the definition of “author” in the context of works made for hire.⁵⁹ Thus, in the context of terminations of transfer, the express exclusion of works made for hire is unnecessary to protect the hiring party from subsequent attempts to terminate—there is no agreement transferring a copyright to be terminated. However, another important consequence of the exclusion of works made for hire from the types of agreements that can be terminated is that the “author” of a work made for hire, i.e., the employer or commissioning party, does not have a right to terminate any assignment or license into which it might enter.⁶⁰

2. Time Frame for Terminations and Notices

Calculating the time frame for terminations involves not only determining the period during which the date of termination may fall, but

54. *Id.* at 737.

55. In 1999, an attempt to add “sound recordings” to the list through a “technical amendment,” Intellectual Property and Communications Omnibus Reform Act of 1999, Pub. L. No. 106-113, § 1011(d), 113 Stat. 1501, 1501A-521 to 1501A-544, resulted in significant backlash and subsequent repeal by Congress. Work Made for Hire and Copyright Corrections Act of 2000, Pub. L. No. 106-379, § 2, 114 Stat. 1444, 1444. See generally Mary LaFrance, *Authorship and Termination Rights in Sound Recordings*, 75 S. CAL. L. REV. 375 (2002); David Nimmer & Peter S. Menell, *Sound Recordings, Works for Hire, and the Termination-of-Transfers Time Bomb*, 49 J. COPYRIGHT SOC’Y U.S.A. 387 (2001).

56. 17 U.S.C. §§ 203(a), 304(c).

57. *Id.* § 201(b).

58. *Id.* § 201(a). See also *Warren v. Fox Family Worldwide, Inc.*, 328 F.3d 1136, 1144 (9th Cir. 2003) (discussing the vesting of copyright in the employer or commissioning party under the work made for hire rule and determining that the creator of a work made for hire is not a beneficial owner of copyright).

59. Copyright Act of 1909, Pub. L. No. 60-349, § 23, 35 Stat. 1075, 1080 (1909).

60. Imagine ACME Software company employs software programmers who create a new software program. ACME sells that program to Microsoft. Thirty-five years later, ACME will not be able to terminate that transfer to Microsoft, even though ACME was the “author” of that program. The software, created by employees within the scope of their employment, was a work made for hire and thus the agreement transferring copyright in that work to Microsoft is expressly excluded from the § 203 termination right, even though ACME is the “author.” 17 U.S.C. § 203(a).

also the dates on which notice must be served on the transferee or the transferee's successor in interest.

Terminations under § 203 “may be effected at any time during a period of five years beginning at the end of thirty-five years from the date of execution of the grant.”⁶¹ For example, a grant executed on February 1, 1980, could be terminated anytime between February 1, 2015, and January 31, 2020. The only exception to this rule is where the grant covers the right of publication of the work, in which case the five-year period begins thirty-five years from the date of publication or forty years from the date of execution, whichever is earlier.⁶² For example, a grant executed on March 1, 1978, for a work that was then published on February 1, 1979, could be terminated with an effective termination date anywhere between February 1, 2014, and January 31, 2019.

The termination right granted under § 304(c) concerns the additional nineteen years added to the renewal term by the 1976 Act. Termination can be effected during a five-year period beginning fifty-six years from the date copyright protection was originally secured.⁶³ For example, a pre-1978 agreement by an author transferring copyright in a work first published on September 1, 1960,⁶⁴ could be terminated with an effective termination date anywhere between September 1, 2016, and August 31, 2021. The termination provisions under § 304(d) concern the additional twenty years provided by the CTEA. Termination can be effected during the five-year period that begins at the end of seventy-five years from the date copyright was originally secured.⁶⁵

While the statute provides for these three different five-year termination periods, advance notice of termination must be given to the grantee or the grantee's successor in title.⁶⁶ The notice must state the effective date of termination, which must fall within one of the relevant five-year periods described above, and must be served not less than two or more than ten years prior to that effective date.⁶⁷ Thus, the statute creates a thirteen-year

61. *Id.* § 203(a)(3).

62. *Id.* This differing time period leads to serious ambiguity problems that undoubtedly will result in litigation in the future and currently results in uncertainty in the market. This problem, however, is beyond the scope of this Article.

63. Under the 1909 Copyright Act, the most common way for copyright to be secured was upon publication with proper notice. Copyright Act of 1909, Pub. L. No. 60-349, § 9, 35 Stat. 1077, 1080 (1909). However, some works were eligible to obtain a federal copyright upon registration. *Id.* § 11.

64. At that time, publication would have had to include proper copyright notice or the work would not have achieved federal copyright protection.

65. 17 U.S.C. § 304(d)(2). The termination rights provided in § 304(d) can be used only if the termination right under § 304(c) expired prior to the effective date of the CTEA (Oct. 27, 1998) and if the termination right provided in § 304(c) had not previously been exercised. Therefore, given the interaction with the duration rules of copyright, “[a] termination under section 304(d) is possible only if no termination was made under section 304(c), and federal copyright was originally secured on or between January 1, 1923, and October 26, 1939.” 37 C.F.R. § 201.10 (2009).

66. 17 U.S.C. §§ 203(a)(4), 304(c)(4), 304(d)(1).

67. *Id.* §§ 203(a)(4)(A), 304(c)(4)(A), 304(d)(1).

termination notice window. The statute further provides that a copy of the notice be recorded with the Copyright Office before the effective date of termination as a condition of the termination taking effect.⁶⁸

Thus, in the example of the agreement by an author transferring copyright entered into on February 1, 1980, which could be terminated with an effective termination date anywhere between February 1, 2015 and January 31, 2020, notice could be served on the transferee and recorded with the Copyright Office as early as February 1, 2005, and as late as January 31, 2018. In the example of the pre-1978 agreement by an author transferring copyright in a work first published on September 1, 1960, which could be terminated with an effective termination date anywhere between September 1, 2016, and August 31, 2021, notice could be served on the transferee and recorded with the Copyright Office as early as September 1, 2006, and as late as August 31, 2019.

3. Special Case of Derivative Works

The termination of a grant could be particularly troubling in the context of a grantee who has invested in the creation of a new work based upon the copyrighted work that is the subject of the now-terminated grant. The Copyright Act handles the potential unfairness of termination in this context by providing that derivative works that have been prepared under authority of the grant before the effective date of the grant's termination may continue to be utilized after the termination.⁶⁹ Post-termination exploitation of the previously prepared derivative work remains subject to the terms of the grant.⁷⁰ For example, if the grant required annual royalty payments based on gross sales of the derivative work, the statutory permission to continue exploiting the derivative work post-termination does not extinguish the obligation to make those royalty payments. The exception for derivative works applies only to derivative works prepared prior to the termination date.⁷¹ It does not extend to permit preparation of other derivative works after such termination date.⁷²

68. 37 C.F.R. § 201.10(f)(5) (2009). The fee for filing the notice as of September 2, 2010, is \$105. *Id.* §§ 201.3(c), 201.10(f)(2). This fee may be problematic for some authors who desire to regain control of the copyright in order to permit free access to digital versions of the work.

69. 17 U.S.C. §§ 203(b)(1), 304(c)(6)(A).

70. *Id.*

71. Recall that, at a minimum, two-years notice must be given prior to the termination taking effect. Thus, even a derivative work in progress will have at least two years to be completed. *Id.*

72. The rule concerning derivative works is fully explored in the case involving the classic 1954 Alfred Hitchcock movie *Rear Window* starring Jimmy Stewart, *Stewart v. Abend*, 495 U.S. 207, 230 (1990). That case involved a renewal term that vested in an executor, not in the author who had assigned his contingent rights in the renewal term to the movie producers. As the Court discusses in *Stewart*, the rule concerning derivative works is different for renewal terms than it is for terminations of transfers. *Id.*

4. Granting New Rights After Terminations

Upon the effective date of a properly exercised termination, all rights that were covered by the grant revert to the author or the statutory successors owning the termination right.⁷³ The ownership of those copyright rights vests on the date the notice of termination was served⁷⁴ and vests in the same proportionate shares as the termination right is divided.⁷⁵ Only after the effective date of termination can the owners of those rights enter into valid subsequent assignments or licenses. A new transfer is invalid if it is made before the effective date of termination, even if it purports to become effective only after termination.⁷⁶

There is, however, one important exception. A new valid transfer to the transferees whose rights are being terminated may be made before the termination date, so long as the new transfer is after notice of termination has been served, and the rights slated for reversion have vested.⁷⁷ In this way, the transferee whose rights are being terminated is in a favored position: prior to the termination date, the original grantee is the only party with whom the owners of the rights being terminated can enter into a binding valid agreement.

As discussed in more detail in Part III, the statutory specificity concerning subsequent grants is an important consideration in determining when renegotiated agreements should be insulated from termination rights.

II. TERMINATION POLICY

A. *Why Provide Termination Rights?*

The ability of an author who had previously transferred her copyright to recapture the copyright in her work is rooted in the dual term of copyright protection. The first true copyright act, the Statute of Anne,⁷⁸ granted copyright protection for an initial fourteen-year term, with the ability to extend the copyright for an additional fourteen years.⁷⁹ If a work has lasting commercial value, providing a renewal term that vests in the author

73. 17 U.S.C. §§ 203(b), 304(c)(6).

74. *Id.* §§ 203(b)(2), 304(c)(6)(B).

75. *Id.* §§ 203(b)(2), 304(c)(6)(C). *See supra* notes 28–34 and accompanying text (discussing proportional shares).

76. *Id.* §§ 203(b)(2), 304(c)(6), 304(d). *But see* Bourne Co. v. MPL Commc'ns, Inc., 675 F. Supp. 859, 865 n.11 (S.D.N.Y. 1987) (suggesting a grant to someone other than the original grantee prior to the effective date of termination might be valid, so long as the agreement is not made effective prior to that date).

77. 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D).

78. 1710, 8 Ann., c. 19 (Eng.). This statute became effective in 1710. H. Tomás Gómez-Arostegui, *What History Teaches Us About Copyright Injunctions and the Inadequate-Remedy-at-Law Requirement*, 81 S. CAL. L. REV. 1197, 1218 (2008).

79. 1710, 8 Ann., c. 19 (Eng.).

permits the author to benefit from that value. The first Copyright Act in the United States used this vesting rule for a renewal term of fourteen years that followed an initial term of fourteen years.⁸⁰ The choice to separately vest the renewal term was a choice Congress retained in all U.S. Copyright Acts that used a dual term.

For the first two and a half centuries of copyright protection, copyright protection was not automatic, and neither was the renewal term.⁸¹ In the United States, as late as 1991, an application had to be filed with the Copyright Office in order to maintain copyright protection and vest the renewal term.⁸² Only those works with lasting commercial value were worth the effort and expense of renewing the copyright.⁸³ But the copyright in the renewal term vested in the author and not in any subsequent transferees.

When Congress took up the copyright law revision effort that culminated in the 1909 Copyright Act, Representative Frank Dunklee Currier explained the justification for vesting the renewal term in the author, if living, or a set of statutorily designated beneficiaries. He did so by reference to one of the famous authors at the time, Samuel Clemens, better known as Mark Twain:

Mr. Clemens told me that he sold the copyright for *Innocents Abroad* for a very small sum, and he got very little out of the *Innocents Abroad* until the twenty-eight-year period expired, and then his contract did not cover the renewal period, and in the fourteen years of the renewal period he was able to get out of it all of the profits.⁸⁴

Currier argued that allowing the copyright to revert to the author and his family was an attractive solution for the under-compensated author. The Committee subsequently explained its rationale for the renewal term vesting rules:

80. Copyright Act of 1790, § 1, 1 Stat. 124 (1790).

81. Under the Statute of Anne, an author had to be alive at the end of the fourteen years for the copyright to extend for an additional fourteen years. 1710, 8 Ann., c. 19 (Eng.).

82. In 1992, Congress made that renewal term automatic, although it provided some advantages for filing a renewal application. Copyright Renewal Act of 1992, Pub. L. No. 102-307, § 102, 106 Stat. 264, 264–65 (1992). *See also* JULIE E. COHEN ET AL., *COPYRIGHT IN A GLOBAL INFORMATION ECONOMY* 181–83 (3d ed. 2010).

83. Indeed, statistics on renewals under the 1909 Act show how low the renewal rates were. “Historically, approximately 15% of works were renewed, meaning that 85% of works moved into the public domain . . . after a relatively short term of protection.” Christopher Sprigman, *Reform(aliz)ing Copyright*, 57 *STAN. L. REV.* 485, 519 (2004). This low renewal rate is one indication of the share of copyrighted works that have enduring commercial value. *Id.* at 519–21.

84. *Revision of Copyright Laws: Hearings on Pending Bills to Amend and Consolidate the Acts Respecting Copyright Before the Comms. on Patents*, 60th Cong. 20 (1908) (statement of Rep. Currier).

It not infrequently happens that the author sells his copyright outright to a publisher for a comparatively small sum. If the work proves to be a great success and lives beyond the term of twenty-eight years, [the] committee felt that it should be the exclusive right of the author to take the renewal term, and the law should be framed as is the existing law, so that he could not be deprived of that right.⁸⁵

The 1909 Act granted a twenty-eight year initial term with the possibility of an additional twenty-eight year renewal term. Upon filing the proper materials with the Copyright Office, the renewal term would vest in the author, not any subsequent transferees.⁸⁶ If the author were deceased at the end of the initial term, the statutorily designated beneficiaries were the ones who were eligible to claim the renewal term, not any transferees.⁸⁷

The Supreme Court significantly undermined the benefit to authors and their families of the reversionary aspect of the renewal term by holding that agreements assigning the renewal term were valid, even if executed before the renewal term had vested.⁸⁸ As with other contingent interests, the Court held this contingent interest was assignable in advance. Thus, it became standard practice in the industry not only to have the author assign his or her interest in the “initial and all renewal terms” but also to require the author’s spouse and even children to assign their contingent interest in the renewal term as well.⁸⁹ If the renewal term was meant to give authors the opportunity to renegotiate their compensation, permitting assignments of contingent interests made that benefit largely illusory.

When work began on the current Copyright Act, the 1976 Copyright Act, the Register of Copyrights asserted that “authors are often in a relatively poor bargaining position” and suggested that Congress “permit

85. H.R. REP. NO. 2222, 60th Cong., 2d Sess. 14 (1909).

86. Similar to the 1976 Act, the 1909 Act provided that “works made for hire” would not be subject to a renewal term that vested in the creator of the work. *See supra* note 46 and accompanying text.

87. The 1909 Act provided that if the author was not living at the commencement of the renewal term, the right to the renewal term vested in “the widow, widower, or children of the author, . . . or if such author, widow, widower, or children be not living, then the author’s executors, or in the absence of a will, his next of kin” Copyright Act of 1909, Pub. L. No. 60-349, § 23, 35 Stat. 1075, 1080 (1909).

88. *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643, 656–57 (1943). Justice Felix Frankfurter reasoned that, “If an author cannot make an effective assignment of his renewal, it may be worthless to him when he is most in need.” *Id.* at 657. *See also* *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 185 (1985) (White, J., dissenting).

89. *See, e.g.*, H.R. REP. NO. 94-1476, at 141 (1976) (“[A] great many contingent transfers of future renewal rights have been obtained from widows, widowers, children, and next of kin, and a substantial number of these will be binding.”). “It has become a common practice for publishers and others to take advance assignments of future renewal rights. Thus the reversionary purpose of the renewal provision has been thwarted to a considerable extent.” STAFF OF H. COMM. ON THE JUDICIARY, 87TH CONG., COPYRIGHT LAW REVISION: REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 53 (Comm. Print 1961).

them to renegotiate their transfers that do not give them a reasonable share of the economic returns from their works.”⁹⁰ In describing the intent and purpose behind the termination provision of the 1976 Act, the Supreme Court has stated:

The principal purpose . . . was to provide added benefits to authors. The . . . concept of a termination right itself, w[as] . . . 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.⁹¹

Two different rationales appear in this summary by the Court—that authors may enter into agreements that are “ill-advised,” and that authors may enter into agreements that are “unremunerative.” The extent to which these two rationales for favoring authors and their families over subsequent transferees diverge requires deeper consideration.⁹²

The Register of Copyrights from 1973 to 1980, Barbara Ringer, noted: “It has often been said that the renewal provision was based on ‘the familiar imprudence of authors in commercial matters. . . .’ [But] [t]here is more evidence of a Congressional recognition that author-publisher contracts must frequently be made at a time when the value of the work is unknown or conjectural and the author (regardless of his business ability) is necessarily in a poor bargaining position.”⁹³ Thus, it was more the information-deficit-driven valuation problem than any conceptions of authors as lacking business acumen that led Congress to create and then retain a revisionary interest in copyright law. The legislative history indicates that Congress believed that the termination provisions were 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.”⁹⁴ Congress believed that the termination rights would protect

90. See STAFF OF H. COMM. ON THE JUDICIARY, 87TH CONG., COPYRIGHT LAW REVISION: REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 92 (Comm. Print 1961).

91. *Mills Music*, 469 U.S. at 172–73.

92. See generally R. Anthony Reese, *Reflections on the Intellectual Commons: Two Perspectives on Copyright Duration and Reversion*, 47 STAN. L. REV. 707 (1995) (examining the Copyright Act’s provisions regarding the length of the copyright term and reversion in light of Lockean theories).

93. STUDIES PREPARED FOR THE SUBCOMM. ON PATENTS, TRADEMARKS, AND COPYRIGHTS OF S. COMM. ON THE JUDICIARY, 86TH CONG., STUDY NO. 31 RENEWAL OF COPYRIGHT 125 (Comm. Print 1961) (citation omitted) (authored by Barbara A. Ringer).

94. H.R. REP. NO. 94-1476, at 124 (1976).

“authors against unremunerative transfers.”⁹⁵

The image of authors as poor businessmen continues to affect courts’ understanding of the termination rights. The Second Circuit, for example, indicated that protecting authors from “more sophisticated entities” is a policy concern underlying the termination rights.⁹⁶ However, the more accurate understanding of the policy justification for the termination rights is the valuation problem inherent in estimating the commercial worth of a work before it has been exploited and in judging its commercial longevity. Focusing on this fundamental problem and the decision to permit the author to share in the commercial value of a work that has sustained commercial appeal assists in delineating the boundaries for insulating renegotiated agreements from claims asserting termination rights.

B. Termination Rights as “New Estates”

Understanding the nature of the termination interest also is important when determining whether there are any contexts in which the termination rights can be extinguished. Beginning with the reversion principle enshrined in the renewal term, Congress conceptualized the renewal term as a kind of “new estate” in the copyrighted work.⁹⁷ Congress carried forward that conception of a “new estate” in shaping the termination rights under both §§ 304 and 203. As with the renewal term rules before it, this new estate vests in different individuals depending on who is alive when the termination right can be exercised. Because the window for exercising termination rights is thirteen years long,⁹⁸ and people can die or be born during that lengthy period, the termination rights have both shifting and springing characteristics.⁹⁹

The renewal rights were contingent on who was alive at the time the renewal rights vested.¹⁰⁰ In 1790, the first federal copyright act in the United States granted a renewal term only if the author was still alive at the end of the original term.¹⁰¹ In 1831, Congress determined that if the author died prior to the end of the initial term, “his family stand in more need of the only means of subsistence ordinarily left to them.”¹⁰² Thus, it permitted

95. *Id.*

96. *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 292 (2d Cir. 2002) (examining an attempted termination pursuant to 17 U.S.C. § 304(c)).

97. *See Reese*, *supra* note 92, at 727 (identifying the termination right as a “new estate”).

98. 17 U.S.C. §§ 203(a)(4)(A), 304(c)(4)(A) (following the notice provisions in the statute, an author effectively has thirteen years in which to serve notice to effect termination).

99. These characteristics are similar to concepts in real property. In copyright law, however, the characteristics are created by the statutory provisions. 17 U.S.C. §§ 203(b), 304(c)(6).

100. Until 1992, the renewal rights were also contingent upon filing a renewal registration with the Copyright Office.

101. Act of May 31, 1790, ch. 15, § 1, 1 Stat. 124, 124 (repealed 1802) (providing renewal term was for the benefit of the author and the author’s “executors, administrators or assigns”).

102. 7 REG. DEB. app. at cxix. (1831).

an author's "widow and child, or children" to claim the renewal term.¹⁰³ If the author pre-deceased the time for vesting of the renewal term, the statute specified the owners of that new estate: the widow and the children.

The 1909 Act added to the list of statutorily designated beneficiaries beyond the author's children: if no spouse or children of the author were still living, the renewal term would vest in "the author's executors, or in the absence of a will, his next of kin"¹⁰⁴ Thus, the author could choose the initial recipients of the renewal term through his will only if the author left no surviving spouse or children. If a spouse or children remained, the author's will was of no consequence. If, on the other hand, the author lived until the time for vesting, and the renewal vested in the author, in his will the author could leave the remaining years of protection in his copyright to whomever he chose.

This concept of a "new estate" remains in the termination provisions of the current act.¹⁰⁵ As with the renewal rights, the termination rights are contingent on who is alive at the time the notice is sent.¹⁰⁶ The termination rights are granted, first, to the author.¹⁰⁷ If the author is not living, then the author's widow or widower, children, and grandchildren are granted a termination right.¹⁰⁸ Only if the author does not have any widow or widower, children, or grandchildren living at the time that termination is permissible would the author's will play any role in determining ownership of the termination right.¹⁰⁹ Thus, the statute contains a fundamental policy choice to favor a class of statutory designees,¹¹⁰ regardless of the wishes of the author. What determines whether the author's wishes prevail is whether or not the author is alive for the entire duration of the termination notice window.

Some have criticized the termination provisions as interfering with an author's freedom to dispose of her estate.¹¹¹ However, as with the renewal

103. Act of Feb. 3, 1831, ch.16, § 2, 4 Stat. 436, 436.

104. Copyright Act of 1909, Pub. L. No. 60-349, § 23, 35 Stat. 1075, 1080 (1909).

105. The Second Circuit has noted that, "[T]he termination right is an entirely new and wholly separate right than the renewal right." *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 287 (2d Cir. 2002).

106. First, to vest the rights, a notice must be sent to the transferee and a copy of that notice filed with the Copyright Office. 17 U.S.C. §§ 203(a)(4)(A), 304(a)(3)(A), 304(c)(4)(A) (2006).

107. *Id.* §§ 203(a)(1), 304(c)(1), 304(d)(1).

108. *Id.* §§ 203(a)(2)(A)–(B), 304(c)(2)(A)–(B), 304(d)(1).

109. *See supra* notes 31–34. *See also* 17 U.S.C. §§ 203(a)(2)(D), 304(c)(2)(D), 304(d)(1).

110. The descendability of any rights in copyright has been criticized. Deven R. Desai, *Copyright's Hidden Assumption: A Critical Analysis of the Foundations of Descendible Copyright 1* (T. Jefferson Sch. of L., Research Paper No. 1353746, 2009), available at <http://ssrn.com/abstract=1353746> ("Heirs have been props to advance an agenda of furthering term extensions, advancing rent-seeking opportunities, and allowing authors to exert power against publishers.").

111. *See* Lee-ford Tritt, *Liberating Estates Law from the Constraints of Copyright*, 38 RUTGERS L.J. 109, 167–82 (2006).

right before it, the termination right is more properly characterized as a new estate, not part of the initial copyright right. As a new estate, a termination right does not interfere with any ownership rights of the author.¹¹² Only if the author survives and serves a notice of termination has that right vested in the author.¹¹³ Indeed, if the author dies after serving a notice of termination, the copyright rights that are slated for reversion are part of the author's estate because they have vested. In that circumstance, the author's will does determine who owns the rights that revert upon termination.

The termination rights can also spring or shift. The rights can spring based on the death of an individual with a higher priority interest, such as the author. Upon the author's death, the right springs to a new successor or successors. The rights can also shift. As discussed above,¹¹⁴ when a termination right is owned by more than one person,¹¹⁵ it takes individuals owning a majority of the termination interest to effect a termination. The statute provides the rules that govern the percentage of ownership for these rights, using a per stirpes basis for the grandchildren's ownership shares and requiring that each child's share may only be exercised by a majority of the children of a deceased child.¹¹⁶

Imagine a situation in which the author has died, leaving a widow and one child who has three children. At the beginning of the thirteen-year termination window, the child is interested in terminating a transfer and the widow is not. As they each own a one-half interest, no termination can occur. However, if the widow dies at any time during those thirteen years, the child will own the entire termination right. Now imagine a reversal in the positions: at the beginning of the window, the widow desires to terminate and the child does not. Subsequently the child dies. At that point the child's 50% share passes to the grandchildren, but the share must be exercised by majority. Thus, if two of the grandchildren join in the widow's desire to terminate, the termination right can be exercised.

As discussed in Part III, the division of the new estate of the termination right into shares, the length of the termination notice window, and the shifting interests in the group of statutory beneficiaries are important aspects of establishing the boundaries for the contexts in which renegotiating agreements should extinguish the termination rights.

112. Of course, that right may affect the valuation of the author's copyright rights. *See* discussion *infra* Part II.C.

113. 17 U.S.C. §§ 203(b)(2), 304(c)(6)(B), 304(d)(1).

114. *See supra* notes 28–34 and accompanying text.

115. This could happen in at least two situations, each involving an author who has died: (1) the author is dead but a widow or widower and at least one child or grandchild is still living, or (2) the author is dead and two or more children or grandchildren are still living. Neither scenario addresses the situation of a copyrighted work with more than one author.

116. 17 U.S.C. §§ 203(a)(2)(A)–(C), 304(c)(2)(A)–(C), 304(d)(1).

C. Utilitarian Purposes, Distributive Justice, and Fairness

Utilitarian purposes underlie much of the policy in copyright law. Fundamentally, copyright protection in the United States is designed to provide an incentive for authors to create and disseminate new works of authorship to achieve progress in knowledge and learning. Indeed, this utilitarian purpose is a constitutional requirement for copyright law. The termination rights can be justified on utilitarian grounds. Specifically, an author will be more likely to enter into assignments and licenses if she is protected from significant underestimations of the value of her work. The termination right permits the author and the author's family to re-examine any transfer thirty-five years later¹¹⁷ and determine if the deal struck resulted in appropriate compensation or otherwise was a satisfactory arrangement. Thus, termination rights help fulfill the utilitarian goal of dissemination of creative works.

Termination rights may also serve to consolidate rights and permit exploitation in new markets. This is particularly true when the copyright in a work as been divided up among different transferees. Terminating those agreements permits the owner or owners of the reverted rights to once again consolidate those rights and then enter into new agreements for future exploitation of the work. This can be particularly important as the means for exploitation change, for example, due to new technologies and new business models.¹¹⁸ Earlier transferees may not be as interested in embracing those new technologies or new business models. Terminations permit the author and the author's family to enter into new agreements with new parties who might be better positioned to employ technological advances. In part, this rationale as a potential justification is an estimate as to who is more likely to embrace new technologies—original authors or distributors.¹¹⁹

Utilitarianism is not, however, the only concern shaping copyright policy. Looking at the termination rights through the lenses of fairness and distributive justice helps round out an understanding of the policy consequences they create.

From a distributive justice standpoint, copyright begins with the premise that the creative genius behind a work should be granted the rights

117. This discussion concerns only the § 203 termination right because it is the termination right that, going forward, affects author behavior. The § 304 termination rights all involve previously created works and previously concluded transfer agreements.

118. In many European countries, it is not possible for authors to transfer rights to exploit a work by technologies that do not exist at the time of the contract. Patry, *supra* note 14, at 928 & n.93 (citing Polish copyright law as an example).

119. While this estimate may prove inaccurate in some instances, there are examples of resistance to new technologies that have led authors to seek new business alliances. *See, e.g.,* Random House, Inc. v. Rosetta Books LLC, 150 F. Supp. 2d 613, 614 (S.D.N.Y. 2001), *aff'd*, 283 F.3d 490 (2d Cir. 2002).

that attach to that work.¹²⁰ Recognizing the important role that distributors play in the copyright landscape, copyrights have always been transferable. As a transferable right, the author is permitted to benefit financially from those in a position to commercially exploit the work. However, there has always been a general hostility in copyright law to big “fat cats” getting rich off of the creative labors of artists who are paid a mere “pittance” for their works. Indeed, a story often used to pull at the heart strings and make readers understand the distributive justice of the termination right goes something like this:

In the early 1930s, writer Jerome Siegel and artist Joseph Shuster created a comic-book character that came to acquire worldwide renown and spawned a host of commercial spin-offs. . . . [Their character—originally known as “The Superman”—began as a villain, but] quickly evolved into an archetypal hero (with a distinctive costume and a back-story involving extraterrestrial origins), shed the “The” from his name, and took up crime-fighting. In March 1938, Siegel and Shuster executed an agreement “assign[ing] to Detective Comics ‘all [the] good will attached . . . and exclusive right[s]’ to Superman ‘to have and hold forever.’” Siegel and Shuster received \$130 in exchange. Superman made his debut that spring in *Action Comics #1*, and a franchise was born. Superman made millions of dollars for Detective Comics and its successors, but despite a series of negotiations (and lawsuits) between the parties, Siegel and Shuster saw very little of this money.¹²¹

Granting authors and their families a termination right helps ameliorate the potential for stories like this one to end in destitution for the author and his family. Termination rights help to make copyright seem more “author-centric.”¹²²

Considerations of distributive justice in the context of § 304 termination rights must also account for another “player” in the copyright landscape—the public. Under utilitarian rationales, the public is meant to

120. The copyright act provides that the copyright initially vests in the author of the work. 17 U.S.C. § 201(a).

121. Timothy K. Armstrong, *Shrinking the Commons: Termination of Copyright Licenses and Transfers for the Benefit of the Public*, 47 HARV. J. ON LEGIS. 359, 399 (2010) (footnotes omitted). See also Peter S. Menell & David Nimmer, *Pooh-Poohing Copyright Law’s “Inalienable” Termination Rights*, 3 n.9 (UC Berkeley Public Law Research Paper No. 1525516, 2009), available at <http://ssrn.com/abstract=1525516>. This story is the subject of a recent case involving an attempt to terminate a transfer. See *Siegel v. Warner Bros. Entm’t, Inc.*, 542 F. Supp. 2d 1098, 1102 (C.D. Cal. 2008).

122. The rhetoric may not match the reality. At least one notable commentator has declared the termination right to be “virtually meaningless.” Patry, *supra* note 14, at 922.

be the ultimate beneficiary of copyright. The termination rights under § 304 can be viewed as decisions by Congress to permit authors and their families to gain the benefit of the lengthened term. But the lengthening of the copyright term came at a price—a price paid by the public. The question Congress answered in granting the termination right in § 304(c) and (d) was: between the author and a subsequent transferee, who should get the benefits of the lengthened term? Congress determined that the transferee should benefit from the lengthened term *unless* the author or the statutorily designated class of beneficiaries exercised the termination right. Lost in that decision was the effect on the public.¹²³

The choice to grant authors and their families a termination right attributes to the author the primary responsibility for the work's commercial value and success¹²⁴ and is in keeping with an author-centered view of creative works. However, publishers and other transferees can play a significant role in promoting and marketing the work, and sometimes even in shaping the creative work itself.¹²⁵ Not surprisingly, distributors and other transferees objected strenuously to the termination proposals.¹²⁶ As enacted, the termination provisions recognize that potential contribution in three separate ways. First, the exception for works made for hire, discussed above, applies to termination rights as it had previously applied to the renewal terms.¹²⁷ Second, the exception that permits post-termination exploitation of derivative works¹²⁸ is a clear recognition of the contribution the creators of the derivative work make to the economic success of that work, rather than the primacy of the underlying work on which the derivative work might be based. Finally, the law recognizes the

123. Desai, *supra* note 110, at 17–18.

124. Indeed, the Committee Report for the 1909 Act is express in acknowledging this rationale: “In the comparatively few cases where the work survives the original term the author ought to be given an adequate renewal term. In the exceptional case of a brilliant work of literature, art, or musical composition it continues to have a value for a long period, but this value is dependent upon the merit of the composition.” H.R. REP. NO. 60-2222, at 14 (1909).

125. Transferees continue to seek restrictions on termination rights. *See, e.g., Copyright Term, Film Labeling, and Film Preservation Legislation: Hearings on H.R. 989, H.R. 1248, and H.R. 1734 Before the Subcomm. on Courts and Intellectual Property of the H. Comm. on the Judiciary, 104th Cong. 74–77 (1995)* (testimony of Edward P. Murphy, President and CEO, National Music Publishers’ Association).

126. The termination proposals along with revisions to mechanisms for renewal “were described by the Register [of Copyrights] as ‘the most explosive and difficult issue[s]’” in the revision process. 3 WILLIAM F. PATRY, *PATRY ON COPYRIGHT* § 7:32 (perm. ed., rev. vol. 2010).

127. Of course another strong rationale for such exception is the need for a consolidation of rights in one copyright owner. This rationale forms the basis for the work made for hire doctrine in the current Copyright Act that effectively exempts from the termination rules not only works created by employees within the scope of their employment but also certain types of works including contributions to collective works, motion pictures, and compilations. 17 U.S.C. § 101 (2006) (defining “work made for hire”).

128. *See* discussion *supra* Part I.B.3.

potential contribution of the initial transferee to the commercial success of the work by placing the transferee in a favored position, permitting only the transferee of the rights slated for reversion to enter into a new binding agreement prior to the effective date of termination.

While some may cry foul at the unfair surprise of a federally granted right to terminate otherwise binding contractual arrangements, the termination provisions are crafted in a way that makes these arguments unavailing. The § 304 termination rights apply to an expansion in the duration of the copyright term, an expansion that was unanticipated at the time many of the relevant agreements were entered into.¹²⁹ The § 203 termination right applies only to agreements entered into after the effective date of the Copyright Act. Thus, the Act puts everyone on notice of the author's termination rights. In effect, the statutory termination right should be calculated into the valuation of any arrangement involving author assignments or licenses.¹³⁰ While the termination is not automatic, the contingent possibility of a termination should affect the valuation of the asset, i.e., the copyright, being bargained over.

Certainly, the complicated division of the rights and vesting rules will require, in many instances, knowledgeable counsel, thus making it likely that only the copyright in works with significant commercial value will be the subject of termination rights.¹³¹ Some argue that the specific steps required to exercise a termination right make it extremely difficult for authors and their families to actually terminate an agreement and even attribute that to the powerful lobby industries that opposed the termination rights. However, freedom of contract and sanctity of contract should not be easily overridden. Clear rules with established protocols for termination are an appropriate trade-off.¹³²

The reality is that the termination rights will be exercised only for very successful works with commercial staying power. However, all copyright

129. In some ways, this is not true. The 1976 Copyright Act took many years to negotiate. During that time, Congress passed various interim extensions of copyright. Pub. L. No. 87-668, 76 Stat. 555 (1962); Pub. L. No. 89-142, 79 Stat. 581 (1965); Pub. L. No. 90-416, 82 Stat. 397 (1968); Pub. L. No. 91-147, 83 Stat. 360 (1969); Pub. L. No. 91-555, 84 Stat. 1441 (1970); Pub. L. No. 92-170, 85 Stat. 490 (1971); Pub. L. No. 92-566, 86 Stat. 1181 (1972); and Pub. L. No. 93-573, 88 Stat. 1873 (1974). These extensions were an indication that Congress was, in fact, going to lengthen the term of copyright.

130. See Stewart E. Sterk, *Rhetoric and Reality in Copyright Law*, 94 MICH. L. REV. 1197, 1219-20 (1996).

131. See Patry, *supra* note 14, at 932-33.

132. Some scholars worry that the termination rights "constitute an impediment to the effective grant of rights for the benefit of the public under widely used 'open content' licensing arrangements, such as the GNU General Public License . . . for software or the Creative Commons family of licenses for other sorts of expressive works." Armstrong, *supra* note 121, at 359. *But see* Lydia Pallas Loren, *Building a Reliable Semicommons of Creative Works: Enforcement of Creative Commons Licenses and Limited Abandonment of Copyright*, 14 GEO. MASON L. REV. 271, 275 (2007).

transfers are subject to termination rights. If the bargained for price for the transfers includes a discount for the possibility of termination, then unsuccessful authors may be suffering at the cost of extremely successful ones. The successful authors will be able to capture the value that was discounted, but the unsuccessful ones will not. All transfers are discounted, because the transferee knows it might be obtaining only a thirty-five year right, not a "life of the copyright" right. But only the successful ones are able to benefit from the provision that results in the discounting. Perhaps as a matter of distributive justice, it is appropriate that successful authors benefit, but their valuable termination right may affect the value estimates of authors' copyrights.¹³³ This valuation problem is at the root of the termination right, properly understood.

There is another aspect of "fairness" that should be considered. Overriding the general principle of freedom of contract, the Copyright Act makes transfers of "all right, title and interest," and licenses that purport to be perpetual, or at least to last for the entire term of copyright, nonetheless terminable by the author or the statutorily defined successors in certain circumstances.

III. INSULATING RENEGOTIATED AGREEMENTS FROM TERMINATION RIGHTS

The claim that these termination rights cannot be avoided has already led to a handful of cases that begin to explore the problems that these provisions create. Several recent cases have involved an original agreement, a subsequent renegotiation of the arrangement, and then an attempt to terminate the original agreement by a majority of the statutory beneficiaries of the termination interest.

Congress intended the right to terminate transfers thirty-five years after they are executed to be a replacement for the reversionary interest created by the renewal term system. As discussed above, the Supreme Court had significantly undermined the benefit of that reversionary interest to authors and their heirs by holding that agreements assigning the renewal term were valid, even if executed before the renewal term had vested. Congress sought to ensure that the termination right would not become illusory.¹³⁴ Thus, in the 1976 Act, Congress included a provision in both §§ 203 and 304 stating: "Termination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to

133. The economics of discounting to present value the potential value of an unknown work are discussed extensively in the decisions of the various Justices in *Eldred v. Ashcroft*, 537 U.S. 186 (2003).

134. The House Report indicates the awareness of the situation under the dual-term system: "However, the bill seeks to avoid the situation that has arisen under the present renewal provision, in which third parties have bought up contingent future interests as a form of speculation." H.R. REP. NO. 94-1476, at 127 (1976).

make any future grant.”¹³⁵

At the same time, Congress contemplated voluntary renegotiations of existing contracts, indicating that, “Section 203 would not prevent the parties to a transfer or license from voluntarily agreeing at any time to terminate an existing grant and negotiating a new one, thereby causing another 35-year period to start running.”¹³⁶ Additionally, the legislative history also states that “nothing in this section or legislation is intended to change the existing state of the law of contracts concerning the circumstances in which an author may cancel or terminate a license, transfer, or assignment.”¹³⁷

Courts have been struggling with the language of the statute, trying to determine what constitutes an “agreement to the contrary.”¹³⁸ Recognizing the ambiguity in this phrase, courts have looked to the legislative history, including the legislative history that indicates Congress intended some voluntary renegotiations to be permissible. However, courts continue to fumble for a coherent way to understand what constitutes an “agreement to the contrary.”

Two scholars have proposed a test for determining when an agreement is an agreement to the contrary. Professors Peter S. Menell and David Nimmer argue: “[C]ourts should set aside: (i) any agreement, among two or more parties, which (ii) results in the practical inability to terminate the grant of copyright interest in a given work, (iii) under circumstances in which, but for the agreement, the ability to terminate would otherwise exist.”¹³⁹ This formulation would not insulate any renegotiated agreements from termination rights.¹⁴⁰

This Article takes a different approach. Recognizing the importance of the legislative history indicating congressional intent that at least some voluntary renegotiations of agreements should be valid, this Article seeks to delineate the contexts in which a renegotiated agreement should be insulated from claims seeking to terminate the original agreement.¹⁴¹ Clear and understandable rules are needed to facilitate ongoing dissemination

135. 17 U.S.C. §§ 304(c)(5), 203(a)(5) (2006).

136. H.R. REP. NO. 94-1476, at 127.

137. *Id.* at 128.

138. *See, e.g.,* Steinbeck v. McIntosh & Otis, Inc., 433 F. Supp. 2d 395, 402 n.23 (S.D.N.Y. 2006), *rev'd sub nom.* Penguin Group (USA) Inc. v. Steinbeck, 537 F.3d 193 (2d Cir. 2008), *cert. denied*, 129 S. Ct. 2383 (2009).

139. Menell & Nimmer, *supra* note 121, at 22–23.

140. Menell and Nimmer do explore the possibility of an author and transferee agreeing to terminate an agreement and entering into a new agreement as the one instance in which a renegotiated agreement would be insulated. *Id.* at 35–37. *See infra* Part III.C for a discussion of this scenario.

141. At least one court has concluded that when an agreement is voluntarily renegotiated, nothing of the original agreement remains to be terminated. Penguin Group (USA) Inc. v. Steinbeck, 537 F.3d 193, 203–04 (2d Cir. 2008), *cert. denied*, 129 S. Ct. 2383 (2009). This oversimplified approach ignores the language of the statute and the nature of the termination rights.

and exploitation of existing copyrighted works. Parties want to know what they can and cannot do, what agreements will be enforced, and what strategies can be utilized before investing in new projects based on copyrighted works that might be subject to termination rights in the not-too-distant future.

A. Defining Insulated Renegotiations

After 1977, can agreements that are subject to termination rights be renegotiated and thereby avoid the potential termination of the original agreement? Consistent with the statute and the legislative purpose and intent, courts should permit such post-1977 renegotiations to avoid the termination rights in only three circumstances:

- (1) both the original agreement and the renegotiated agreement are entered into by the author;
- (2) both the original pre-1978 agreement and the renegotiated post-1977 agreement are entered into by the same statutory beneficiary or beneficiaries of the renewal rights; or
- (3) the renegotiated agreement is entered into by individuals owning a majority interest in the termination right for the original agreement, and as of the date the renegotiated agreement is signed, the terminated rights have vested or could vest through the sending of proper notice.

In all situations, the post-1977 renegotiated agreement must be clear on its face that it is terminating or replacing the prior agreement, referencing that agreement specifically. Additionally, in the second and third contexts, the renegotiated agreement should expressly acknowledge the termination right possessed by those executing the agreement.

Renegotiated agreements entered into in these three contexts should be insulated from termination rights. All other renegotiated agreements should be viewed as “agreements to the contrary” and should be voidable by those eligible to exercise the termination right stemming from the original agreement.

B. Identifying the Four Different Types of Rights at Issue

To understand why the three contexts above are the only renegotiated agreements that should be insulated from termination rights, one must focus on the fundamental valuation problem that termination rights are meant to address. One must also take account of the four different types of rights that are potentially affected: copyright rights, contingent interests in

termination rights, vested terminated rights, and contractual rights.

First, there are *copyright rights*. These are granted by the statute to the author or authors of works created on or after January 1, 1978.¹⁴² Contingent copyright rights in the renewal term of copyright were also granted to authors and to a statutorily defined set of successors for works first published with proper copyright notice prior to January 1, 1978. These renewal rights were contingent. For the author, the statute required that she live until the date the renewal term vested.¹⁴³ For the heirs, the statute required that the author die before the vesting of the renewal term.¹⁴⁴ Beginning in 1992, no action was required on the part of any of the individuals who owned contingent interests in the renewal term in order for those rights to vest.

Next, there are the *contingent interests in termination rights*. All termination rights are contingent because they depend on who is alive during the window for exercising these rights. As discussed above, the window lasts for thirteen years. At any point during those thirteen years, the termination rights can be exercised in the statutorily designated individuals. Contingent termination rights can mature into *vested copyright rights*.¹⁴⁵ In order for those copyright rights to vest, a notice of termination must be served on the transferee. If no notice is ever served, no terminated rights ever vest.¹⁴⁶ If notice is served, and a copy filed with the Copyright Office, the copyright rights are vested as of that date. Other individuals who might have a contingent interest will not subsequently gain rights, even if the required contingency occurs within the window. Take the easy example of the spouse of the author. If the author terminates the agreement, the spouse's contingent termination interest is extinguished—

142. 17 U.S.C. § 201(a) (2006). The term of art used in the copyright act is “fixed.” *Id.* § 102(a).

143. *Stewart v. Abend*, 495 U.S. 207, 219–20 (1990). While there was some dispute under the 1909 Act as to exactly when the renewal term vested, *Miller Music Corp. v. Charles N. Daniels, Inc.*, 362 U.S. 373, 374 (1960); *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643, 645 (1943), under the 1976 Act, renewal terms “vested” upon the expiration of the initial twenty-eight-year term. Following congressional adoption of automatic renewals in 1992, the renewal term could vest earlier if the optional renewal filing was made with the Copyright Office. In that case, the copyright in the renewal term vests upon the date of such filing. 17 U.S.C. § 304(a).

144. The last of these renewal terms vested in 2005 (1977+28=2005).

145. The copyright rights that are vested are the rights assigned or licensed in the agreement being terminated. These rights revert on the effective date of termination but the ownership interest in these copyright rights vests upon notice of termination.

146. The House Report notes that “although affirmative action is needed to effect a termination, the right to take this action cannot be waived in advance or contracted away.” H.R. REP. NO. 94-1476, at 125 (1976). Thus, an agreement between the author and the transferee that the author will not terminate the agreement would be “an agreement to the contrary,” and the termination rights may still be exercised. Nimmer and Menell posit this scenario and others. Menell & Nimmer, *supra* note 121, 24–30.

even if the author dies the next day, the spouse will have no rights.¹⁴⁷

Finally, there are the *contractual rights* of the transferee. Those contractual rights are subject to the contingent interests in the termination right granted by the Copyright Act. As the statute makes clear, “[u]nless and until termination is effected under this section, the grant, if it does not provide otherwise, continues in effect for the term of copyright provided by this title.”¹⁴⁸

C. *Exploring the Proposal for Insulated Renegotiations*

With these four rights clearly identified, the three scenarios for insulated renegotiated agreements can be explored. To understand the shifting interests, consider a common hypothetical of a novel written by a sole author many years ago. Shortly after writing the novel, the copyright rights of the author, and in the case of pre-1978 works, the contingent renewal copyright rights of the statutory beneficiaries, were assigned to a publisher. Many years later, the publisher is approached by a major motion picture studio that would like to invest in the creation of a movie based on the novel and would like to secure the rights to make such a movie. The studio is concerned that the termination right might affect not only its ability to create the movie but also its ability to create sequels or other follow-on products.¹⁴⁹ The publisher and movie studio are interested in trying to insulate a renegotiated agreement from termination. Varying the dates of the original assignment to the publisher in this common hypothetical changes whether the relevant termination rights are pursuant to § 203 (assignments on or after January 1, 1978) or § 304 (assignments before January 1, 1978).

1. Authors Renegotiating Author Agreements

Proposed Renegotiation Context #1: Both the original agreement and the renegotiated agreement are entered into by the author.

If the author assigned the copyright to the publisher after 1977 and the publisher is interested in renegotiating the assignment in order to insulate it from termination rights, the relevant termination rights are pursuant to § 203. If the renegotiated agreement is insulated from those termination rights, the owners of the contingent interests in the termination rights have been divested of their contingent rights. At the time of the renegotiation, even the author’s interest in the termination rights are contingent—contingent upon living until the termination window opens. Some might

147. In this scenario, the spouse is at the whim of the author’s will or intestate succession.

148. 17 U.S.C. §§ 203(b)(6), 304(c)(6)(f), 304(d)(1).

149. Recall that termination rights do not affect the ability to exploit derivative works that are made prior to the effective date of termination. *See supra* Part I.B.3.

argue that is the nature of contingent rights. But the reason termination rights are characterized as contingent is because of who is alive during the termination window, not whether the agreement remains in effect.

Should the renegotiated agreement be viewed as “an agreement to the contrary”? Doing so would permit the owners of the contingent termination rights to terminate the original assignment and ignore the subsequent agreement. The statute provides that a further grant “of any right covered by a terminated grant is valid only if it is made after the effective date of the termination.”¹⁵⁰ However, both the legislative history and the purpose of the termination rights support the argument that author-renegotiated agreements should be insulated from the contingent termination rights. An author-renegotiated agreement gives rise to a new set of contingent termination rights that may vest, if at all, thirty-five years after the date of the renegotiated agreement.

In the legislative history of the 1976 Copyright Act, Congress indicated that an author could renegotiate an agreement before the expiration of the thirty-five years: “Section 203 would not prevent the parties to a transfer or license from voluntarily agreeing at any time to terminate an existing grant and negotiating a new one, thereby causing another 35-year period to start running.”¹⁵¹ All of the referenced renegotiations would be after 1978 and would begin a new thirty-five year termination period. It is, therefore, clear that this statement in the legislative history is referring to agreements entered into and then renegotiated by *authors*, not any of the statutory beneficiaries.¹⁵² Additionally, the legislative history also states that “nothing in this section or legislation is intended to change the existing state of the law of contracts concerning the circumstances in which an author may cancel or terminate a license, transfer, or assignment.”¹⁵³ A voluntary rescission or termination of a contract entered into by the parties to that contract is recognized as valid.¹⁵⁴

Permitting a voluntary renegotiation by the author, outside the context of a formal termination, also is in keeping with the congressional purpose

150. 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D).

151. H.R. REP. NO. 94-1476, at 127.

152. To be eligible for termination rights under § 203, the agreement must be made by the author and must be dated on or after January 1, 1978. 17 U.S.C. § 203(a). *See also supra* Part I.B.1.a.

153. H.R. REP. NO. 94-1476, at 128.

154. At least one prominent commentator has opined that some of these voluntary renegotiations may face validity problems under the contract doctrine known as the “pre-existing duty” rule. 3 NIMMER & NIMMER, *supra* note 38, § 11.07 (citing 1A ARTHUR LINTON CORBIN, CORBIN ON CONTRACTS, § 186 (1963), and noting that several jurisdictions have abrogated that rule by statute). However, the rules to be applied in this context are likely to be federal common law rules, not the rules of any particular state. *See Cmty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 740 (1989) (discussing the need to use federal common law in the context of copyright to achieve national uniformity).

to permit authors to renegotiate the arrangement at a time when better information concerning the value of the work is available. If instead, the renegotiated agreement was subject to cancelation through a termination notice based on the date of the original agreement, the possible termination would significantly reduce the incentive for the transferee to renegotiate with the author at a time when better information concerning the value of the work is available.

If the original agreement assigning the work to the publisher occurred prior to 1978, the relevant termination rights would be those under § 304 of the Copyright Act and would arise fifty-six or seventy-five years after publication of the work.¹⁵⁵ If the author is still living, the author should be able to renegotiate the deal and enter into a new agreement that is insulated from prior contingent termination rights. This new agreement is entered into knowing the full duration of copyright protection and, thus, has a new estimate of its value. Additionally, because it is entered into after 1977 and is by an author, this new agreement begins a new thirty-five year termination clock.

Depending on the dates, if the author is still living and the termination notice window is open, the author could vest her contingent termination rights by sending notice.¹⁵⁶ But even if the author is not eligible to vest her contingent termination rights, Congress intended to benefit primarily the author and only to benefit the statutory successors if the author was deceased. The author will, at some point, die. Because under this scenario the author will enter the renegotiated agreement after 1978, that new agreement will begin a thirty-five year termination clock under § 203, providing the statutory beneficiaries with new contingent termination rights.¹⁵⁷

While the legislative history quoted above was written in the context of § 203 termination, the purposes behind the termination rights and the logic of congressional support for renegotiation by authors under § 203 support a similar conclusion in this context. Whether the relevant termination rights are those under § 203 or under § 304, the situation would be different if, in 2011, the author is deceased. In that context, the ability to enter into an insulated renegotiated agreement must wait until the opening of the

155. 17 U.S.C. § 304(c)–(d). *See supra* Part I.B.2.

156. In 2011, this would be the case if the work were published between 1952 and 1965. Mathematically: $1965+56=2021$, the beginning of termination period, decreased ten years for maximum potential notice, and the first possible notice date is 2011. $1952+56=2008$, beginning of termination period, plus 5=2013, the end of the termination period, decreased two years for minimum potential notice, and the last possible notice date is 2011.

157. Note that this would be the case only if the new grant is made by the author, as post-1977 agreements that can be terminated are only those made by authors. Grants made by statutory successors after 1977 are not terminable, even if they concern rights in the renewal or extension terms. If one considers the policy, it is appropriate—after 1977, everyone is aware of how long the copyright will last, and there is no “new estate.”

thirteen-year termination notice window.¹⁵⁸

There should be some limits on what the parties can agree to in that renegotiation. Because characterizing a work as a work made for hire eliminates any termination rights, both those of the author and of all statutorily designated beneficiaries, courts should be extremely careful in reviewing renegotiated agreements that seek to re-characterize the work as a work made for hire.¹⁵⁹ Consider an example: an agreement between a sculptor and a commissioning party that the copyright in a bronze sculpture created years earlier was created as a work made for hire. Sculpture is not one of the types of works that can be a work made for hire.¹⁶⁰ Thus, the agreement between the sculptor and the commissioning party, if enforced, would negate the sculptor's termination rights, even though it does not mention termination rights explicitly. This agreement characterizing the work as a work made for hire should be considered "an agreement to the contrary." The courts have been adept at prohibiting artful contractual characterizations of works that do not qualify for work made for hire status, and they should continue to do so.

2. Renewal Rights Holders Renegotiating Transfers of Renewal Rights

Proposed Renegotiation Context #2: Both the original pre-1978 agreement and the renegotiated post-1977 agreement are entered into by the same statutory beneficiary or beneficiaries of the renewal rights.

The ability to enter into valid assignments of contingent rights in the renewal term led to transferees obtaining assignments not only from authors but also from the statutorily designated owners of the contingent copyright rights in the renewal term, i.e., widows or widowers, children, and grandchildren.¹⁶¹ Both the 1976 Copyright Act and the CTEA¹⁶² granted a limited contingent termination right for those agreements. This contingent termination right is granted only for agreements that predate the effective date of the 1976 Copyright Act (January 1, 1978) and is granted only to the statutory beneficiary that entered into the original agreement. The termination right is contingent upon that person surviving until the opening of the termination window. The contingent termination right ends upon the death of that individual; there are no provisions for descendability.

158. See discussion *infra* Part III.C.3.

159. See discussion *supra* Part I.B.1.c.

160. 17 U.S.C. § 101 (defining "work made for hire").

161. See *supra* note 87 and accompanying text.

162. Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, § 103, 112 Stat. 2827, 2829 (1998) (codified at 17 U.S.C. §§ 203(a)(2), 304(c)(2) (2006)).

If the original agreement with the publisher was entered into by a statutory beneficiary of the renewal term, that beneficiary should be entitled to renegotiate the terms of that agreement at any time. The only contingent interest being affected belongs to the same individual, thus that individual should be permitted to renegotiate his or her rights at a later point in time when better information concerning the value of the work is available.¹⁶³ Courts should view the renegotiated agreement as expressly extinguishing the previous contingent termination right if it is clear on the face of the agreement that the renegotiated agreement is intended to replace the earlier one. Additionally, for the renegotiated agreement to be insulated from the termination right, the renegotiated agreement should indicate that the post-1978 agreement is entered into in full awareness of the contingent termination right.

Unlike renegotiated agreements entered into by authors, because these renegotiations will occur after January 1, 1978, the extinguished contingent termination rights are not replaced with new contingent termination rights.¹⁶⁴ In this way, post-1977 renegotiated agreements entered into by statutory beneficiaries of the renewal term are no different than post-1977 original agreements entered into by those same individuals. Allowing these renegotiations to eliminate the uncertainty of the termination right would benefit the specific individuals Congress intended to favor with both the contingent renewal rights and the contingent termination rights.

Some might argue that renegotiated agreements should be insulated from the termination rights only if they occur after the termination notice window opens and after the proper steps are taken to vest the reverting copyright rights. The risk of insulating earlier renegotiations from the termination rights is that the individual remains in a position where the value of the work during the full renewal term still may not be well known. However, recall that the nature of these contingent termination rights concerns the unanticipated lengthening of the renewal term. If an owner of a contingent interest in the renewal term assigned that interest prior to 1978, at that time the interest was a twenty-eight year renewal term. After 1978, all parties are aware of the additional nineteen years added by the 1976 Copyright Act. Any renegotiated agreement after 1978 would incorporate the value of those additional years.¹⁶⁵

163. Perhaps there should be some hostility toward renegotiated agreements entered into with little passage of time. *See, e.g.*, *Classic Media, Inc. v. Mewborn*, 532 F.3d 978, 980 (9th Cir. 2008) (concerning a second agreement entered into in March 1978 that makes no reference to the termination rights).

164. The post-1977 agreements that can be terminated are only those made by authors. Grants made by statutory successors after 1977 are not terminable, even if they concern rights in the renewal or extension terms.

165. Although it must be noted that the policy purpose for the termination rights, the inability to accurately gauge the value of a work, is even worse now that duration of the renewal term has been lengthened. *See Patry, supra* note 14, at 927–28.

3. Non-Author Owners of the Termination Rights Renegotiating Author Agreements

Proposed Renegotiation Context #3: The renegotiated agreement is entered into by individuals owning a majority interest in the termination right for the original agreement, and as of the date the renegotiated agreement is signed, the terminated rights have been vested or could be vested through the sending of proper notice.

The most difficult renegotiation questions arise when the author is deceased.¹⁶⁶ Imagine an author who assigned her copyright to a publisher in return for annual royalties. Subsequently, the author dies, leaving a widower and two children. The author's will designates a favored charity to receive the annual royalties. Returning to the hypothetical set out at the beginning of this section, when the publisher is approached by the motion picture studio, the publisher owns the copyright but also is aware that there are contingent termination rights. Is there any way that a renegotiation could occur that would be insulated from termination rights?

With whom would the publisher renegotiate the agreement? One of "the parties" to the original agreement, the author, is no longer living. Thus, the publisher cannot rely on the legislative history indicating Congress intended to permit "the parties" to voluntarily renegotiate agreements. The publisher might consider renegotiating with the charity, as its royalty stream may be affected. However, the charity possesses only a beneficial interest in the copyright, specifically an interest in the royalty stream.¹⁶⁷ The charity may also possess a contingent termination interest if named in the author's will.¹⁶⁸ While the charity and the publisher are free to renegotiate the terms of the agreement by, for example, changing the royalty rate or structure, that agreement should not be insulated from the termination right. Permitting the charity to enter into a renegotiated

166. Note that in the context of pre-1978 agreements that transfer an interest in the renewal term by individuals other than the author, the § 304 termination rights are personal. Once that individual dies, there are no termination rights remaining. Thus, this final context for renegotiation arises only when it is an author agreement and the author has died. This is true under either § 304 or § 203 terminations.

167. The legislative history indicates that a beneficial owner includes "an author who had parted with legal title to the copyright in exchange for percentage royalties based on sales or license fees." H.R. REP. NO. 94-1476, at 159 (1976).

168. The interest is contingent because of the remaining widower and children. If prior to the end of the thirteen-year notice period, both the widow and the children were to die, the charity could then exercise the termination right. If there was no widow or child (or grandchild) and the author's will designated the charity as the executor, administrator, personal representative, or trustee, *see* 17 U.S.C. § 203(2)(D) (2006), the charity would possess the termination right from the beginning of the thirteen-year notice window. Under that scenario, the charity would be the appropriate party to enter into an insulated renegotiated agreement.

agreement that would be insulated from the termination right would inappropriately extinguish the contingent termination rights of the widow and children. The widow and children are the individuals that Congress expressly sought to benefit by granting a termination right.

A final possibility for renegotiation remains—renegotiating with the widow and children. The statute provides that a further grant “of any right covered by a terminated grant is valid only if it is made after the effective date of the termination.”¹⁶⁹ An exception is made for a further grant to the original grantee or the original grantee’s successor in interest, so long as such further grant is made “after the notice of termination has been served.”¹⁷⁰ In explaining the new § 203 termination right, the legislative history provides:

Section 203 would not prevent the parties to a transfer or license from voluntarily agreeing at any time to terminate an existing grant and negotiating a new one, thereby causing another 35-year period to start running. However, the bill seeks to avoid the situation that has arisen under the present renewal provision, in which third parties have bought up contingent future interests as a form of speculation. Section 203(b)(4) would make a further grant of rights that revert under a terminated grant valid “only if it is made after the effective date of the termination.” An exception, in the nature of a right of “first refusal,”^[171] would permit the original grantee or a successor of such grantee to negotiate a new agreement with the persons effecting the termination at any time after the notice of termination has been served.¹⁷²

Thus, following the policy of the statute, if the renegotiated agreement is signed by those individuals owning a majority interest in the termination right as of the date the renegotiated agreement is signed, and the renegotiated agreement is signed within the thirteen year notice window, that agreement should be insulated from the termination rights. The execution of the renegotiated agreement should be viewed as equivalent to terminating the underlying agreement, vesting ownership in the terminated copyright rights in those statutorily entitled to those rights. To the extent that the agreement is entered into with only those possessing a majority

169. 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D).

170. *Id.*

171. “[S]cholars agree that the congressional description of the competitive advantage enjoyed by the initial grantee as a right of first refusal is not accurate.” *Bourne Co. v. MPL Commc’ns, Inc.*, 675 F. Supp. 859, 866 (S.D.N.Y. 1987). While the original transferee is in a more favored position, it is not a right of first refusal because the owner of the vested terminated copyright rights is in no way obligated to offer a deal to that original transferee. Instead, he or she can wait until after the effective date of termination and enter into an agreement with a different transferee.

172. H.R. REP. NO. 94-1476, at 127.

interest in the termination right, and not a 100% interest, those who own the additional interests would have a claim against their co-owners for an accounting, similar to the situation faced by any joint owners of copyright interests.¹⁷³

A final question for this context remains: should the parties be required to undertake the formality of sending a termination notice and recording the notice with the Copyright Office? If that procedure is followed, the statute is clear that the rights are terminated,¹⁷⁴ and the reverting rights are vested in those eligible to exercise the termination right. The statute also expressly validates a renegotiated transfer with the original transferee. If the parties renegotiate the arrangements without adhering to the letter of the statute, a court could interpret the statute strictly and refuse to insulate the renegotiated agreement from the termination rights flowing from the original agreement. However, so long as the renegotiated agreement expressly acknowledges the termination rights possessed by those executing the agreement, courts should not insist upon strict adherence to the formal notifications specified in the statute. Under such circumstances, strict adherence would be an empty formality and would merely create a potential for mischief and insert ambiguity concerning enforceability of the renegotiated agreement.¹⁷⁵

Because a renegotiated agreement of this third type should only be insulated from the termination rights if entered into within the thirteen-year notice window, there may be a significant time lag before an insulated renegotiated agreement may be executed. However, that is the nature of the beast created by Congress. When the author is deceased, limiting the context for renegotiations to only the period in which terminating rights can be vested, i.e., the thirteen year notice window, appropriately accounts for the shifting and springing nature of the termination interests. Only when the contingent right could be exercised, thus extinguishing the contingent rights that others may possess, should a renegotiated agreement be insulated from future claims of termination rights.

Returning to the hypothetical, the timing requirement imposed for insulating renegotiated agreements when the author is dead may affect the studio's decision to proceed with creating the movie. If a renegotiated agreement cannot be insulated from the termination rights because the thirteen year termination notice window has not yet begun, the movie

173. See 3 NIMMER & NIMMER, *supra* note 38, § 6.12.

174. While the rights are terminated, and the terminated copyright rights are vested in those who possessed the termination right, the effective date of termination will still be at least two years (but no more than ten years) in the future. See *supra* Part I.B.2.

175. The potential for mischief is clear. Imagine the widow who enters into a renegotiated agreement at the beginning of the thirteen-year notice window and, two years later decides that she would be better served with a new agreement. If courts permitted her to terminate the agreement, she would be the beneficiary of her own failure to comply with the statutory requirements of notice and recordation.

studio may decide to delay investment in the movie. That delay may mean that the movie never gets created if, for example, tastes change and once the notice window opens the movie studio no longer sees a market for a movie based on the copyrighted work. Whether the studio backs away from investing in the creation of the movie requires a calculation of the potential returns to be gained. If the thirteen year notice window is not yet open, the studio can still obtain from the publisher (the original transferee in the hypothetical) the copyright rights, and those rights cannot be terminated for at least ten years.¹⁷⁶ Additionally, even if the rights are subsequently terminated by the statutory successors to the termination rights, the movie studio will be permitted to continue exploiting the movie and any derivative works created prior to the termination date.¹⁷⁷ The creation of sequels to the movie after the effective date of termination would require renegotiation with those who now own the terminated rights. Calculating the market appeal for a movie after ten years, let alone the market of potential sequels ten years out, makes the situations in which the delay for insulated renegotiated agreements necessitated by the statute not as serious a concern. Finally, in the scenario in which the termination window has not yet opened, one potential strategy is to enter into renegotiated agreements that are sufficiently remunerative making termination, while legally permissible, nonetheless unappealing to those who could terminate the agreement.

D. *Exploring the Caselaw*

The courts have struggled with contractual renegotiations when faced with termination right claimants. The struggle comes, in part, from the failure to understand the fundamental policy that animates the termination rights and the different interests affected by renegotiations. The framework set forth here, by contrast, provides clarity and certainty to the continuing validity of renegotiated agreements and to the viability of termination claims. Examining the recent case law with this framework, we can see where the courts have gone astray.

1. Author Renegotiated Agreements

There are no cases involving post-1978 renegotiations by authors. The only case potentially involving a renegotiation entered into by the author is *Marvel Characters, Inc. v. Simon*.¹⁷⁸ In that case, the parties had previously disputed whether the author, Joseph H. Simon, had entered into an oral agreement in 1940 or 1941 to assign the copyright in the Captain America

176. This ten-year period is guaranteed because the termination notice window has not yet opened.

177. *See supra* Part I.B.3.

178. 310 F.3d 280 (2d Cir. 2002).

comic books Simon created. That previous dispute began as the initial twenty-eight year term of copyright was drawing to a close, with Simon asserting his rights in the copyright for the renewal term. The previous dispute ended in 1969 with a written settlement agreement, signed by Simon, identifying the work as a work made for hire. After passage of the 1976 Act, and fifty-six years after the first publication of the work, Simon sent notices of termination pursuant to § 304(c). In the litigation that ensued,¹⁷⁹ the Second Circuit concluded that the settlement agreement did not extinguish Simon's termination rights under § 304 because it was an "agreement to the contrary."¹⁸⁰ Explaining its rationale, the court stated:

Any other construction of § 304(c) would thwart the clear legislative purpose and intent of the statute. If an agreement between an author and publisher that a work was created for hire were outside the purview of § 304(c)(5), the termination provision would be rendered a nullity; litigation-savvy publishers would be able to utilize their superior bargaining position to compel authors to agree that a work was created for hire in order to get their works published.¹⁸¹

Certainly, the court's rationale seems entirely consistent with the command of the statute and with the clear intent that Congress expressed—the desire to prevent the termination rights being rendered illusory through artful agreements. Compelling authors to agree that works are works made for hire when the works were created long before the agreement can appropriately be viewed as an attempt to avoid the termination. As the court acknowledged, this ruling is also consistent with the work made for hire doctrine outside of the termination context. Simon had agreed in the settlement that he created the work as an "employee." However, courts have been clear that the parties cannot designate someone an "employee" if the actual relationship between the parties is not an employment relationship.¹⁸² The Second Circuit requires that an agreement designating a work as a work made for hire, entered into after creation of a work, must at a minimum be memorializing the parties' prior understanding.¹⁸³ In other words, the parties cannot recharacterize the nature of the arrangement after the work has been created.

179. Marvel Characters sought a declaratory judgment and Simon counterclaimed. The Second Circuit reversed the district court's grant of summary judgment to Marvel Characters. *Id.* at 282.

180. *Id.* at 290–92.

181. *Id.* at 290–91.

182. *Id.* (citing *Donaldson Pub. Co. v. Bregman, Vocco & Conn, Inc.*, 375 F.2d 639, 640–42 (2d Cir.1967) and *Murray v. Gelderman*, 566 F.2d 1307, 1310–11 (5th Cir.1978)).

183. *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 558–59 (2d Cir. 1995); *Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27, 36 (2d Cir. 1982). The Seventh Circuit has adopted a rule that requires the writing be prepared before the creation of the work. *Schiller & Schmidt, Inc. v. Nordisco Corp.*, 969 F.2d 410, 413 (7th Cir. 1992).

The result under the proposal presented in this Article would be the same as the result reached by the Second Circuit. One way to view the facts of the case is that the settlement agreement was a renegotiation of the earlier oral agreement. Viewed this way, it would fall within the first category of proposed renegotiated agreements—authors renegotiating an author agreement. However, even under the standards proposed above, the settlement agreement would not be insulated from termination rights. First, the settlement agreement was entered into prior to 1978, thus the author had not yet been granted termination rights.¹⁸⁴ As specified in the proposal, the renegotiated agreement must occur after 1977. Additionally, by renegotiating the arrangement to specify that the work was a work made for hire, the renegotiated agreement exceeds the bounds of permissible renegotiations set out above.¹⁸⁵

2. Renewal Rights Holders' Renegotiation of Prior Transfers of Renewal Rights

The one reported decision involving a pre-1978 agreement by the owner of an interest in the renewal term involves the famous children's novel, *Lassie Come Home*, first published in 1938.¹⁸⁶ In 1940, Eric Knight, the author of the work, and his wife entered into an agreement that granted rights to make a television series. The author died in 1943, prior to the vesting of the renewal term. Instead, the renewal term vested in Knight's widow and three daughters, Winifred, Betty, and Jennie. Because the widow only owned a 50% interest in the renewal term, Lassie Television Inc. (LTI) also sought assignments from the three daughters. In 1976, Winifred Knight Mewborn signed an agreement with LTI. In March 1978, Jennie and Betty both signed agreements with LTI. Winifred also signed another agreement in March 1978 that was identical to the agreement her sisters had signed, except that Winifred's agreement indicated that the rights granted in the March 1978 agreement were "in addition to the rights" granted to LTI under the 1976 agreement.¹⁸⁷ In 1996, Winifred Mewborn served a notice of termination, seeking to terminate the rights granted in the 1976 assignment. The parties took their dispute to court with Mewborn seeking an accounting for her share of royalties from certain exploitations of the work post-termination. The Ninth Circuit concluded that the 1978 agreement was an "agreement to the contrary" that could not extinguish the termination rights in the 1976 Agreement.¹⁸⁸ The court

184. The Second Circuit noted this problem with the timing of the settlement agreement in rejecting Marvel Characters' equitable estoppel argument. *Marvel*, 310 F.3d at 292–93 (citing *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 173 (1985)).

185. See discussion *supra* Part III.C.1.

186. *Classic Media, Inc. v. Mewborn*, 532 F.3d 978, 980 (9th Cir. 2008).

187. *Id.* at 981.

188. *Id.* at 986.

noted that in 1978 Mewborn's interest in the termination rights were merely contingent and could not have vested until, at the earliest, 1984.¹⁸⁹ The court also affirmed the district court's conclusion that the 1976 assignment "was not substituted or revoked by the 1978 Assignment."¹⁹⁰

Under the proposal set forth in this Article, the 1978 assignment would not qualify as a renegotiation of the prior grant. Thus, the result would be the same. In order to extinguish the termination rights that owners of interests in the renewal term are granted under § 304(c) or (d), the renegotiated agreement must clearly indicate that it replaces the earlier transfer. In *Mewborn*, that was not the case. Additionally, for the renegotiated agreement to be insulated from termination rights springing from the earlier agreement, the renegotiated agreement should indicate that the post-1978 assignment is entered into in full awareness of the contingent termination rights. The 1978 agreement also lacked this acknowledgment.

3. Non-Author Owners of the Termination Rights' Renegotiations of Author Agreements

Two recent cases involve renegotiated agreements with non-author owners of interests in the termination rights. Some have asserted that these two cases have created a split among the circuits.¹⁹¹

In the 1920s, A. A. Milne created several children's books about the now-familiar character Winnie-the-Pooh.¹⁹² These works were first published between 1924 and 1928. In 1930, Milne transferred various rights in his copyrights to Stephen Slesinger who later assigned those rights to Stephen Slesinger, Inc. (SSI). The author lived until the beginning of the renewal terms for the works, and thus the renewal rights vested in Milne. Milne passed away in 1956. His will "bequeathed all beneficial interests in the Pooh works to a trust for the benefit of his widow during her lifetime ('Milne Trust'), and, after her death, to other beneficiaries ('Pooh Properties Trust'), which included his son, Christopher [Robin Milne], and Christopher's daughter, Clare [Milne]."¹⁹³ Subsequently, SSI entered into licensing arrangements with Disney. In 1971, the author's widow passed away. In 1983, Disney, SSI, the Pooh Properties Trust, and Christopher Robin Milne entered into a new agreement. Christopher Robin Milne subsequently passed away as well. In 2002, Clare Milne served a notice of termination on SSI asserting November 5, 2004, as the effective date for termination of the 1930 grant, and filed suit to establish the validity of the termination.¹⁹⁴

The Ninth Circuit held that Clare Milne's termination was invalid

189. *Id.* at 987.

190. *Id.* at 986.

191. Menell & Nimmer, *supra* note 121, at 17.

192. *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1039 (9th Cir. 2005).

193. *Id.*

194. *Id.* at 1041. This notice was pursuant to § 304(d) as it applied to the five-year period that begins seventy-five years from the date that copyright protection first began.

because there was no agreement left to terminate. The 1930 agreement had been “terminated by the beneficiaries of the Pooh Properties Trust upon the execution of the 1983 agreement.”¹⁹⁵ The court concluded that “there was no pre-1978 grant of rights to SSI in existence when Congress enacted the CTEA in 1998.”¹⁹⁶ Further, the Ninth Circuit rejected Clare Milne’s arguments that the 1983 agreement was an “agreement to the contrary.” Important in the court’s opinion was the fact that in 1983, under § 304(c), although Christopher Robin Milne “could have served a termination notice, he elected instead to use his leverage to obtain a better deal for the Pooh Properties Trust.”¹⁹⁷ Citing the Act’s legislative history, the court reasoned that Congress “did not intend for the statute to ‘prevent the parties to a transfer or license from voluntarily agreeing at any time to terminate an existing grant and negotiating a new one.’”¹⁹⁸ The court noted that the terms of the 1983 agreement were far more favorable to the heirs and that the granddaughter had benefited from this new agreement.

Applying the proposal in this Article, the Ninth Circuit was correct to insulate the 1983 agreement from claims of termination of the original 1930 agreement. However, the court was incorrect in concluding that the Pooh Properties Trust, as merely the beneficial owner of copyright,¹⁹⁹ had the rights necessary to terminate the 1930 agreement. While trustees of the Pooh Properties Trust signed the agreement, so did Christopher Robin Milne. In 1983, the window for the § 304(c) termination right was open for the works at issue because the works had been published in 1924 and in 1928.²⁰⁰ In 1983, Christopher Robin Milne was the sole owner of the termination right and was eligible to exercise his termination rights and vest ownership of the reverting copyrights. The termination possibility loomed large in the parties’ negotiations—so large, in fact, that SSI sought the counsel of the renowned copyright expert Melville Nimmer to opine on whether a new agreement would be subject to termination rights.²⁰¹ In the end, the agreement did make specific reference to the termination rights.²⁰²

195. *Id.* at 1042.

196. *Id.* at 1042–43.

197. *Id.* at 1045.

198. *Id.* (quoting H.R. REP. NO. 94-1476, at 127 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5743).

199. Specifically, Pooh Properties Trust merely received the royalties payable pursuant to the 1930 agreement. The Pooh Property Trust was an owner of only a contingent interest in the termination right, contingent on both Christopher Robin Milne and Clare Milne dying before the thirteen-year termination window closed.

200. Five-year termination period: 1980–1985 (1924+56=1980) and 1984–1989 (1928+56=1984), resulting in notice windows of 1970–1983 and 1974–1987, respectively.

201. Defendant’s brief before the Ninth Circuit references this fact. Brief for Defendant-Appellee at 11–12, *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036 (9th Cir. 2005) (No. 04-57189), 2005 WL 1789948.

202. Menell & Nimmer, *supra* note 121 (recounting the language of the agreement and arguing it constitutes a “textbook example” of an agreement to the contrary).

The second case involving a renegotiated agreement after the author's death involves the work of John Steinbeck.²⁰³ In 1938, Steinbeck executed an agreement with Viking Press concerning some of his best-known works. Pursuant to an option clause,²⁰⁴ the agreement was extended in 1939 to cover four later works as well. Viking subsequently assigned its rights to Penguin Group (USA) Inc. During his life, Steinbeck renewed the copyright in his works, and when he died in 1968, he bequeathed his interest in his copyrights to his widow, Elaine Steinbeck. Under his will, his two sons by a previous marriage, Thomas and John IV, were not given any rights in his works. In 1994, Elaine Steinbeck entered into a new agreement with Penguin. Elaine died in 2003. In 2004, Thomas Steinbeck, along with the sole surviving child of John Steinbeck IV, served a notice on Penguin seeking to terminate the 1938 agreement.²⁰⁵ In the litigation that followed, the Second Circuit concluded that the 1994 agreement, by its terms, terminated and replaced the earlier 1938 agreement. Such voluntary termination, the court noted, was completely valid under applicable New York law. The Second Circuit rejected the argument that the 1994 agreement was an agreement to the contrary, in part because in 1994 the § 304(d) termination rights did not even exist.²⁰⁶ The court concluded its opinion:

In this case, Elaine Steinbeck had the opportunity in 1994 to renegotiate the terms of the 1938 Agreement to her benefit, for at least some of the works covered by the agreement were eligible, or about to be eligible, for termination. By taking advantage of this opportunity, she exhausted the single opportunity provided by statute to Steinbeck's statutory heirs to revisit the terms of her late husband's original grants of licenses to his copyrights. It is no violation of the Copyright Act to execute a renegotiated contract where the Act gives the original copyright owner's statutory heirs the opportunity and incentive to do so.²⁰⁷

This decision has the potential to significantly undermine the termination rights. Applying the proposed contexts for insulated renegotiations, it is clear that the 1994 agreement should not have been insulated from termination claims. In 1994, the copyright interest that

203. *Penguin Group (USA) Inc. v. Steinbeck*, 537 F.3d 193, 196 (2d Cir. 2008), *cert. denied*, 129 S. Ct. 2383 (2009).

204. *Id.*

205. *Id.* at 197. As noted by the court, this termination would have been pursuant to § 304(d). *Id.* at 196.

206. Recall that the § 304(d) termination rights were added in 1998 with the passage of the Copyright Term Extension Act. *See supra* Part I.A.

207. *Steinbeck*, 537 F.3d at 204 (citing *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1046 (9th Cir. 2005), *cert. denied*, 548 U.S. 904 (2006)).

Elaine Steinbeck possessed was the result of a bequest in the author's will and was merely the beneficial interest of receiving royalties under the 1938 agreement.²⁰⁸ John Steinbeck could just as easily have left his copyright interests to his first wife, or his second wife. He chose instead to leave them to his third wife, Elaine. Elaine also possessed a contingent interest in the termination rights. In 1994, however, because there were living children of the author, she only possessed a 50% interest in those termination rights. Additionally, even if a majority of the owners of the termination interest had desired to renegotiate the agreement, it is unclear whether the termination rights for all of the different works were ripe for vesting. The Second Circuit's decision to permit Elaine Steinbeck to enter into an agreement that extinguished the contingent termination interests is inconsistent with the statute and Congressional intent. If John Steinbeck had instead left his beneficial interest in copyrights to an unrelated third party and that unrelated third party had entered into a new agreement, perhaps it would have been easier for the Second Circuit to see the problematic precedent it was creating.

Following the proposed contexts for insulated renegotiations, Penguin would have needed to wait for the termination notice window to open and would have had to renegotiate the agreement with those owning a majority interest in the termination rights. Only in this way would the shifting contingent interests in the termination right be protected.

CONCLUSION

The fundamental purpose of the termination rights is clear: Congress desired to provide authors and their families with an ability to obtain additional compensation when an initial transfer of copyright interests turned out to have undervalued the copyright. The vehicle through which Congress chose to provide this additional compensation, the right to terminate agreements, requires careful study of the provisions in the statute. In limited circumstances, voluntarily terminating an agreement and renegotiating it can avoid the termination right, but only if certain conditions are met. Adhering to bright-line rules concerning renegotiations will provide certainty to the market while, at the same time, protecting the individuals that Congress intended to benefit with the termination right.

208. The District Court recognized this situation. *Steinbeck v. McIntosh & Otis, Inc.*, 433 F. Supp. 2d 395, 401–02 (S.D.N.Y. 2006), *rev'd sub nom.* *Penguin Group (USA) Inc. v. Steinbeck*, 537 F.3d 193 (2d Cir. 2008), *cert. denied*, 129 S. Ct. 2383 (2009).

