

Termination of Music Copyright Transfers: The Renegotiation Reality

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The termination right creates a method for authors to recapture valuable copyrights in both musical compositions (songwriting) and sound recordings (recordings of performances of compositions).¹ Congress created the termination right to safeguard authors against “unremunerative transfers . . . resulting in part from the impossibility of determining a work’s value until it has been exploited.”² The termination right is absolute and inalienable.³ It empowers recording artists and songwriters to regain control of their works and either renegotiate agreements on more equitable terms or enter into new agreements.



For example, when a promising young musician granted copyright interests to a record or publishing company in 1978, the actual value of the yet unexploited or to-be-created works were unknown, and the author had limited leverage in negotiations. In later years, the true value of works became clear. There are many stories of unknown—sometimes teenaged—artists who signed deals under terms that limited record and publishing companies' financial risk while maximizing their reward for the duration of copyright (which now extends 70 years from the life of the author). The termination right mitigates this inequitable outcome by giving artists an opportunity to renegotiate their earliest agreements.

This article begins with a review of the statutory provisions governing the termination right. It then discusses limitations to the termination right in the context of recent judicial decisions. It concludes that as more works age into termination, the right will serve an important role in recapturing transferred value. Although the authors seek to accurately distill developments in this area of law, they are primarily artist advocates with a point of view that is evident in and between the lines.

Music Copyrights and Termination of Transfers

The U.S. Copyright Act permits authors—or, if deceased, their surviving spouses, children, or grandchildren (or their executors, administrators, personal representatives, or trustees)—to terminate grants of transfer or licenses “notwithstanding any agreement to the contrary.”⁴ Grants executed prior to January 1, 1978, are governed under 17 U.S.C. § 304. Grants executed on or after January 1, 1978, are governed under 17 U.S.C. § 203.

Grants Executed prior to January 1, 1978

Section 304 of the Copyright Act governs “the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, executed before January 1, 1978.”⁵ Notice of termination “may be effected at any time during a period of five years beginning at the end of fifty-six years from the date the copyright was originally secured, or beginning on January 1, 1978, whichever is later.”⁶ Termination is “effected by serving an advance notice in writing upon the grantee or the grantee’s successor in title.”⁷ The notice must state the effective date of the termination, which will fall within the five-year period specified above or, in the case of copyrights that have expired on or before the effective date of the Sonny Bono Copyright Term Extension Act,⁸ within the five-year period specified in that amendment with the notice served not less than or more than 10 years before the effective date of termination under that amendment.⁹ A copy of the notice must be recorded in the Copyright Office before the effective date of termination as a condition to its taking effect.¹⁰ Termination of the transfer “may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant.”¹¹

Because of the foregoing, the effective date of the termination of a transfer of copyright originally secured, for example, on January 1, 1960, is January 1, 2016. Notice for such a transfer must be served on or before January 1, 2014, to take advantage of the 56-year reversion term. If not filed before January 1, 2014, a five-year cure period allows for a termination to be served and filed on or before January 1, 2019, with a latest effective date of termination of January 1, 2021.

Grants Executed on or after January 1, 1978

Section 203 of the Copyright Act governs “the exclusive or nonexclusive grant of a transfer or license of copyright or of any right under a copyright, executed by the author on or after January 1, 1978.”¹² Notices of termination may be served no earlier than 25 years after the execution of the grant or, if the grant covers the right of publication, no earlier than 30 years after the execution of the grant or 25 years after publication under the grant, whichever comes first.¹³ Termination of a grant cannot be effective until 35 years after the execution of the grant or, if the grant covers the right of publication, no earlier than 40 years after the execution of the grant or 35 years after publication under the grant, whichever comes first.¹⁴ Notice of termination under § 203 must state the effective date of termination, and the notice shall be served not less than two or more than 10 years before the effective date of termination.¹⁵ A copy of the notice must be recorded in the Copyright Office before the effective date of termination as a condition to its taking effect.¹⁶ Termination of the transfer may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or a future grant.¹⁷

Because of the foregoing, the effective date of the termination of a transfer executed, for example, on January 1, 1979, is January 1, 2014. The window in which an author (or his or her statutory successors) may serve a notice of termination of transfer is between January 1, 2004 (or 10 years before the effective date of termination) and January 1, 2012 (or two years before the effective date of termination). The five-year cure period allows for a termination to be served and filed on or before January 1, 2017, with a latest effective date of termination of January 1, 2019.

Limitations

Works Made for Hire

Works made for hire are expressly excluded from the termination right.¹⁸ As such, record companies generally and music publishing companies occasionally raise the “work made for hire” defense (such as it is). The Copyright Act defines a work made for hire as:

- (1) a work prepared by an employee within the scope of his or her employment; or
- (2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.¹⁹

The challenging party may avail itself of either or both statutory avenues to establish that a work is made for hire.

Employer-Employee

In *Community for Creative Non-Violence v. Reid*,²⁰ the Supreme Court addressed the employer-employee relationship vis-à-vis the work made for hire doctrine. The Court looked to the common law principles of agency and synthesized a 12-factor test.²¹ Factors include:

[1] the skill required; [2] the source of the instrumentalities and tools; [3] the location of the work; [4] the duration of the relationship between the parties; [5] whether the hiring party has the right to assign additional projects to the hired party; [6] the extent of the hired party's discretion over when and how long to work; [7] the method of payment; [8] the hired party's role in hiring and paying assistants; [9] whether the work is part of the regular business of the hiring party; [10] whether the hiring party is in business; [11] the provision of employee benefits; and [12] the tax treatment of the hired party.²²

No one factor is dispositive.²³ Nor is the talismanic incantation of "work made for hire" decisive.²⁴ The inquiry is fact-specific and must be applied on a case-by-case basis.²⁵ Central to the inquiry is "the hiring party's right to control the manner and means by which the product is accomplished."²⁶ The federal circuits have provided substantial judicial gloss in the years following *Reid*.²⁷

Record labels often claim that recording artists are employees and their creative works are prepared within the scope of their employment. This position is suspect under *Reid*. For example, recording artists exercise a high degree of skill and expertise in the creation of their works. The most valued musical instrument is the human voice, a tool not provided by a record company. Much, if not all, of the costs incurred by recording companies are recoupable advances that artists must repay. Artists often select musicians, producers, and other creative talents involved in the recording process. Finally, many recording agreements contain language expressly disclaiming an employer-employee relationship.²⁸

Independent Contractor

The Copyright Act affords a second means of establishing that a work is made for hire. An independent contractor's creative expression is a work made for hire if: (1) the work was specially ordered or commissioned, (2) it falls within one of the nine categories enumerated in the Copyright Act,²⁹ and (3) the parties entered into a qualifying written agreement.³⁰ It is doubtful that record companies can satisfy this test. First, record companies rarely specially order or commission works.

Second, albums are not an enumerated class of works under the Copyright Act's definition of works made for hire. In an attempt to fight on, record companies point to *Bryant v. Media Right Productions, Inc.*³¹ *Bryant* states in dicta that materials sold as part of a compilation, such as songs on an album, ordinarily are not deemed separate works for the purpose of determining statutory damages.³² The Second Circuit, however, snapped this slender reed in *EMI Christian Music Group, Inc. v. MP3tunes, LLC*.³³ The Second Circuit held: "[W]hen a copyright holder or publisher issues material on an independent basis, the law permits a statutory damages award for each individual work. In other words, our 'focus[] [is] on whether the plaintiff—the copyright holder—issued its works separately, or together as a unit."³⁴ Under *EMI*, the vast majority of albums cannot be classified as compilations.

Third, the existence of a qualifying agreement must be determined on a case-by-case basis.

Vesting

The termination right vests upon effective notice to successors in interest.³⁵ If the author gives timely notice but dies prior to the effective termination date, the author's estate takes the reversion interest.³⁶ If the termination right fails to vest during the author's life, it falls to the author's "statutory successors."³⁷ If the termination right is not exercised, it is lost.

In *Artists Rights Enforcement Corp. v. Estate of King*,³⁸ the Southern District of New York held invalid an agreement to transfer copyrights entered into before the author's termination right vested. On July 31, 2014, Benjamin Earl King p.k.a. Ben E. King executed a sale agreement with Artists Rights Enforcement Corp. (AREC) to sell his coauthor interest in "Stand By Me" and "There Goes My Baby."³⁹ In August and September of 2014, King served termination notice on Sony/ATV Tunes, LLC. King passed away on April 30, 2015. AREC filed suit seeking a declaratory judgment that "the [sale agreement] continue in full force and effect."⁴⁰ King's family motioned to dismiss. The court found for the King family on the grounds that "the promise of future rights contained in the Sale Agreement predated the effective dates of the Termination Notices."⁴¹ Accordingly, the contract was held "invalid on its face."⁴² Simply put, you cannot sell what has not vested.

Choice of Law

It is an open debate whether a foreign choice of law provision will extinguish the termination right. In *Stillwater Ltd. v. Basilotta*,⁴³ the Central District of California was presented with a contract containing a U.K. choice of law provision. The court declined to resolve the choice of law issue given the case's posture.⁴⁴ Nevertheless, it acknowledged the choice of law provision was of importance.

A reverse scenario arose in *Ennio Morricone Music Inc. v. Bixio Music Group Ltd.*⁴⁵ In *Ennio*, the Southern District of New York applied Italian copyright law to determine whether works created in Italy and granted to a U.S. company enjoyed termination rights. Acknowledging that Italian copyright law did not recognize the work made for hire doctrine, the court imported the Italian concept of "commissioned works" as a legal proxy.⁴⁶ The court found that the compositions were commissioned and thus not amenable to termination.⁴⁷

Renegotiating Pre-January 1, 1978, Grants Post-December 31, 1977

Whether the termination right is extinguished when a pre-January 1, 1978, grant is renegotiated post-December 31, 1977, is an evolving area of law. Section 304(c)(5) states that "[t]ermination of the grant may be effected notwithstanding any agreement to the contrary."⁴⁸ Commentators argue that the language "notwithstanding any agreement to the contrary" disallows post-1977 renegotiations to extinguish termination rights.⁴⁹ Courts have been less forgiving.⁵⁰ Case law generally holds that § 304(c) termination rights are extinguished when a post-1977 agreement effectively revokes a pre-1978 grant.⁵¹ State contract law principles determine whether the pre-1978 grant was effectively revoked.⁵²

The Sixth Circuit deviated from this treatment in *Brumley v. Albert E. Brumley & Sons*.⁵³ In *Brumley*, the Sixth Circuit held “unofficial” termination agreements do not extinguish authors’ termination rights.⁵⁴ The court gave weight to the fact that the agreement at issue: (1) did not contain an effective termination date, (2) was not recorded with the Copyright Office, and (3) did not explicitly discuss termination.⁵⁵ *Brumley* does not foreclose the possibility that parties can contract around § 304(c), rather it articulates reasonable standards that comport with the letter and spirit of the termination right.

Practical Realities

Though there are disputes over the interpretation and application of §§ 304 and 203, they were promulgated for a reason: to lessen the inequitable consequences of an imperfect and evolving music marketplace. At a minimum, authors with good claims should be in a position to engage in renegotiations with record and publishing companies to improve the terms of their contracts. Such renegotiations may include improved royalty rates, an advance of significant money that may or may not be secured (recoupable) against royalties, an actual reversion in exchange for an exclusive license, a regrant of copyright in exchange for improved terms, etc. The process is creative and unique to each artist’s circumstances. The parties’ respective leverage will also depend on the precise language in the contract governing the grant of rights.

The incentives for music creators to avail themselves of this empowerment hinges on practical considerations. The cost of litigation may be worthwhile to artists with valuable copyright interests. These artists also have the greatest leverage in a renegotiation scenario. Companies do not want to lose productive copyrights and usually will prefer a successful renegotiation of an existing contract to expensive and unpredictable litigation. Artists know that well-funded companies have a lot to lose by an unfavorable judicial decision and will fund their position accordingly. Artists of lesser means may not want to waste money in risky litigation where they will be financially outgunned.

The result of a successfully reverted copyright is not the end of the matter. To preserve the exploitation value of the copyrights, someone must promote, administer, and shepherd these rights. Otherwise, they diminish in value. Most artists and their immediate advisers, such as managers, accountants, agents, lawyers, and family, are not equipped for this task. This is precisely why record and publishing companies exist. Unless the artist is extremely upset with the company, moving his or her catalog to yet another company after an expensive legal proceeding in order to make a deal that the existing company might otherwise agree to removes the incentive to fight. For the most popular catalogs, there are only a few so-called “major” label recording and publishing companies with a worldwide reach and the strength to exploit them. If an artist is already signed to such a company, or even an established smaller independent label, the disruption is just not worth it.

As the baby boomer generation of artists continue to pass on, the termination right has become a valuable consideration for estate planning. In the interest of leaving the benefit of productive assets to heirs, an artist may be content keeping the copyright with an established company that sends checks to the heirs or trustee rather than to leave fragmented copyright interests to heirs whether in a structured estate plan or as an unfortunate result of dying intestate.

Conclusion

The reality is that recorded music consumption has evolved from an own-it to a rent-it model. Though revenues from music streaming subscription services (e.g., Spotify, Pandora, etc.) are escalating, it is far from the revenues earned by artists and companies in the heyday of the sale of physical products (i.e., vinyl, cassettes, and CDs). So-called “heritage” or “legacy” artists have experienced precipitous declines in revenues as audiences have already purchased their music over the years and in differing physical configurations.

Ultimately, most music creators just want fair financial treatment and continued support for their works. Termination jurisprudence, often circumscribed by the particular facts of a case, have not resolved many of the most pressing issues. The Copyright Act itself is becoming outdated in the face of the digital music revolution. Nevertheless, the framework it has established for copyright terminations encourages negotiated settlements. As windows for termination continue to open for iconic music works, it is likely that more artists will pursue termination cases against record and publishing companies.

Endnotes

1. *See* *Penguin Grp. (USA) Inc. v. Steinbeck*, 537 F.3d 193, 204 (2d Cir. 2008) (“[A]uthors or their statutory heirs holding termination rights are . . . left with an opportunity to threaten (or to make good on a threat) to exercise termination rights and extract more favorable terms from early grants of an author’s copyright.”).
2. *Ray Charles Found. v. Robinson*, 795 F.3d 1109, 1112 (9th Cir. 2015) (citing H.R. REP. NO. 94-1476, at 124 (1976)).
3. *See* *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 290 (2d Cir. 2002) (citing *Stewart v. Abend*, 495 U.S. 207, 230 (1990)) (“[T]he clear Congressional purpose behind § 304(c) was to prevent authors from waiving their termination right by contract.”).
4. 17 U.S.C. §§ 203, 304.
5. *Id.* § 304(c)–(d).
6. *Id.* § 304(c)(3).
7. *Id.* § 304(c)(4).
8. Pub. L. No. 105-298, 112 Stat. 2827 (1998).
9. *Id.* Sonny Bono was a popular American singer, songwriter, and producer most known for his collaborations with Cher. He later became a U.S. congressman and led the legislative initiative that extended the protection term for U.S. copyrights from 50 to 70 years.
10. 17 U.S.C. § 304(c)(4).

11. *Id.* § 304(c)(5).

12. *Id.* § 203(a).

13. *Id.* § 203(a)(3)–(4).

14. *Id.* § 203(a)(3).

15. *Id.* § 203(a)(4).

16. *Id.*

17. *Id.* § 203(a)(5).

18. *Id.* §§ 203(a), 304(c)–(d).

19. *Id.* § 101.

20. 490 U.S. 730, 751–52 (1989).

21. *Id.*

22. *Id.* (footnotes omitted).

23. *Id.*

24. *See* *Nationwide Mut. Ins. Co. v. Darden*, 503 U.S. 318, 324 (1992) (“Since the common-law test contains ‘no shorthand formula or magic phrase that can be applied to find the answer, . . . all of the incidents of the relationship must be assessed and weighed with no one factor being decisive.’”).

25. *Id.*

26. *Reid*, 490 U.S. at 751.

27. *See, e.g., MacLean Assocs., Inc. v. Wm. M. Mercer-Meidinger-Hasen, Inc.*, 952 F.2d 769, 778 (3d Cir. 1991) (concluding that the fact that the plaintiff represented himself as an employee of the defendant to a third party was completely irrelevant to the determinative issue of actual employee status); *Aymes v. Bonelli*, 980 F.2d 857, 861 (2d Cir. 1992) (giving weight to five “highly probative” factors); *Hi-Tech Video Prods., Inc. v. Capital Cities/ABC, Inc.*, 58 F.3d 1093, 1099 (6th Cir. 1995) (adopting *Aymes*); *Berger Transfer & Storage v. Central States*, 85 F.3d 1374, 1379 (8th Cir. 1996) (considering “all of the incidents of the relationship”); *Saenger Org., Inc. v. Nationwide Ins. Licensing Assocs., Inc.*, 119 F.3d 55, 61 (1st Cir. 1997) (“The understanding of the parties as to the nature of their relationship is also probative[.]”); *Quintanilla v. Tex. Television Inc.*, 139 F.3d 494, 497 (5th Cir. 1998) (“[T]he hiring

party's right to control the manner and means by which the product is accomplished' is just one of numerous factors to consider[.]”).

28. Bob Donnelly, *Everything You Need to Know about Copyright Reversions*, 1 ST. JOHN'S ENT. ARTS & SPORTS L.J. 1, 4 (2012).

29. The enumerated categories are: (1) collective works, (2) motion pictures or other audiovisual works, (3) translations, (4) supplementary works, (5) compilations, (6) instructional texts, (7) tests, (8) material for tests, and (9) atlases. 17 U.S.C. § 101.

30. *Id.*

31. 603 F.3d 135, 141 (2d Cir. 2010).

32. *Id.*

33. 844 F.3d 79, 101 (2d Cir. 2016).

34. *Id.* (alterations in original) (citation omitted) (citing *Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.*, 996 F.2d 1366, 1381 (2d Cir. 1993)).

35. 17 U.S.C. §§ 203(a)(3)–(4), 304(c)(3)–(4).

36. *Id.*

37. The statute states, in relevant part:

Where an author is dead, his or her termination interest is owned, and may be exercised, as follows:

(A) The widow or widower owns the author's entire termination interest unless there are any surviving children or grandchildren of the author, in which case the widow or widower owns one-half of the author's interest.

(B) The author's surviving children, and the surviving children of any dead child of the author, own the author's entire termination interest unless there is a widow or widower, in which case the ownership of one-half of the author's interest is divided among them.

(C) The rights of the author's children and grandchildren are in all cases divided among them and exercised on a per stirpes basis according to the number of such author's children represented; the share of the children of a dead child in a termination interest can be exercised only by the action of a majority of them.

(D) In the event that the author's widow or widower, children, and grandchildren are not living, the author's executor, administrator, personal representative, or trustee shall own the author's entire termination interest.

Id. § 203(a)(2).

38. 224 F. Supp. 3d 231, 235 (S.D.N.Y. 2016).

39. *Id.* at 233.

40. *Id.* at 234.

41. *Id.* at 236.

42. *Id.*

43. No. 2:16-cv-1895, 2017 WL 2906056, at *1 (C.D. Cal. Mar. 17, 2017).

44. *Id.* at *5.

45. No. 16-cv-8475, 2017 WL 5990130, at *1 (S.D.N.Y. Oct. 6, 2017).

46. *Id.* at *4 (citing *Itar-Tass Russian News Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 90 (2d Cir. 1998)).

47. *Id.*

48. 17 U.S.C. § 304(c)(5).

49. *See, e.g.*, DAVID NIMMER, *NIMMER ON COPYRIGHT* § 11.07 (2015).

50. *See, e.g.*, *Penguin Grp. (USA) Inc. v. Steinbeck*, 537 F.3d 193, 202 (2d Cir. 2008) ("We do not read the phrase 'agreement to the contrary' so broadly that it would include any agreement that has the effect of eliminating a termination right."); *DC Comics v. Pac. Pictures Corp.*, 545 F. App'x 678 (9th Cir. 2013); *Milne ex rel. Coyne v. Stephen Slesinger, Inc.*, 430 F.3d 1036 (9th Cir. 2005).

51. *See* David M. Given, *US Copyright Termination: Re-Monetization's Final Frontier*, 11 J. INTELL. PROP. L. & PRAC. 826, 830 (2016).

52. *See id.*

53. 822 F.3d 926, 926 (6th Cir. 2016).

54. *Id.*

55. *Id.*

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