

Into the honey trap?

☛ **Ninth Circuit delivers its own notice of termination**

Edwin Komen and Matthew Clanton of Sheppard Mullin Richter & Hampton report on a recent case which has important implications on the termination provisions of US copyright law

In summary

- ☛ The termination provisions of the Copyright Act allow authors and certain named statutory successors a one-time right to unilaterally terminate copyright transfers and grants within a narrowly specified window
- ☛ The US Ninth Circuit Court of Appeals recently made a ruling over merchandising rights relating to Winnie the Pooh that may have effectively negated the termination privilege
- ☛ Claire Milne, granddaughter of Winnie the Pooh creator A.A. Milne, filed a petition for certiorari seeking to appeal the ruling. On 26th June 2006 the Supreme Court denied certiorari, leaving lawyers to ponder how to advise clients on this issue

Winnie the Pooh is the famous bear from children's stories created by A. A. Milne in the 1920's who often found himself stuck stealing honey from bee hives. The Pooh Bear now finds himself stuck in ongoing litigation over valuable merchandising rights originally transferred by Milne in 1930. The United States Ninth Circuit Court of Appeals recently waded into these contentious waters with a ruling that, depending on your point of view, either explains or restructures the termination provisions of the Copyright Act, thus preventing Milne's granddaughter from recapturing these rights. By ruling that a rescission and simultaneous re-grant of these rights by the author's son Christopher Milne in 1983 satisfies and extinguishes the termination requirements crafted by Congress, the Ninth Circuit may have effectively terminated the termination privilege.

By way of background, the notice of termination provisions are found in Sections 304(c) and 304(d) of the Copyright Act. They were included in the Copyright Act of 1976, effective 1st January 1978, when the U.S. Congress extended pre-1978 copyrights from 56 years (28 year original term and 28 year renewal term) to 75 years in total. As a matter of fairness, Congress wanted to provide authors and their heirs a means of recapturing previously assigned rights for this extended 19 year term (Section 304(c)). When further extending copyrights to 95 years in 1998, Congress provided a similar means of recapturing assigned rights for such additional 20 year term (304(d)) where such termination right has not been previously exercised under 304(c). A similar termination right was granted for author made grants executed on or after 1st January 1978 under Section 203.

The termination provisions allow authors and certain named statutory

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successors a one-time right to unilaterally terminate copyright transfers and grants within a narrowly specified window.¹ While the author or his/her such heirs are under no obligation to exercise the right, the Copyright Act expressly states that such right may be exercised notwithstanding “any agreement to the contrary.” Cases construing this language – namely “any agreement to the contrary” – are surprisingly few and far between. Until the end of 2005, only the Second Circuit had reviewed the issue – ruling that an attempt to re-characterise a disputed work, after the fact, as a “work for hire” (and thus exempt from the termination right provisions) was an “agreement to the contrary” that did not nullify the author’s termination right.²

In December 2005, the Ninth Circuit weighed in on the issue in *Milne v. Stephen Slesinger, Inc.*³, a case involving the renewal copyrights to various rights in the famous Winnie the Pooh works by A.A. Milne. The court held that a “re-grant” of certain copyrights to the work outside of the precise timing requirements of the termination right did not qualify as “any agreement to the contrary” and therefore nullified Milne’s successor’s termination right. The court interpreted the Act in a slightly different but significant manner – holding that the termination right is only immune from two specific categories of agreements – an agreement to make a will and an agreement to make any future grant. Thus, under the Ninth Circuit’s view, an author or successor may contract around the termination right indirectly by rescinding a prior grant, which would have been eligible for termination, and entering into a “re-grant” of rights whose date falls outside the specified statutory period.

The Ninth Circuit’s ruling would seemingly constitute a split with the Second Circuit. Unfortunately, we may not have a judicial reconciliation of these decisions in the near future. Milne’s successor, granddaughter Claire Milne, had filed a petition for certiorari to the U.S. Supreme Court seeking to appeal the ruling. On 26th June 2006, however, the Supreme Court denied certiorari, thus leaving lawyers to ponder how to advise their clients on this important issue. Do they follow the Second Circuit’s approach that arguably disallows all agreements that purport to contract out of the termination issue? Or do they

rely on the Ninth Circuit’s view and advise their clients with confidence that such agreements to rescind and regrant are perfectly binding?

The grant date/renewal

term/termination right interface

Generally speaking, the fundamental aspects of the termination right and how it works come down to five core concepts: (i) date of grant in the work; (ii) nature of the

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work/rights in question; (iii) effective date of termination and timing of the notice; (iv) content of the notice; and (v) timing of re-grant restrictions. Of all of these items, timing is most critical and most unforgiving if not followed to the letter. It is necessary to apply these principals to ascertain whether one is dealing with a qualified grant (one that may be terminated) and a qualified party (only certain classes of heirs and grantors may terminate).

As indicated above, Section 203 applies to copyright grants in works executed by the author on or after 1st January 1978. Section 304(c) applies to grants executed by the author or his statutory heirs (widow/widower, children, executor, next-of-kin) before 1st January 1978, where copyright to the work subsists in either its first or renewal term on 1st January 1978. Section 304(d) is a “savings” clause that restores

an otherwise expired termination right consistent with the provisions of the Sonny Bono Copyright Term Extension Act. It essentially restores the termination right for any copyright subsisting in its renewal term on or before 27th October 1998 where the termination right has already expired prior to such effective date of the Sonny Bono Act. As long as the author or owner of the termination right has not previously exercised such right, the Sonny Bono termination right, if properly effectuated, applies to the last 20 years of the relevant copyright term.

For grants covered by Section 203(a), termination must generally be effectuated at any time within a five year window beginning at the end of the initial 35 year period from the date of execution of the grant. Grants covered by Section 304(c) are covered a bit differently, specifying that the rights terminated are not original term copyrights but rather copyright renewal rights. This is for good reason, as such grants necessarily involve pre-1976 Act works that follow the former renewal term regime. Under Section 304(c), termination must generally be effectuated at any time within a five year window beginning at the end of the 56 year period from the date that the copyright was originally secured, or beginning 1st January 1978, whichever is later. Finally, grants covered by the “savings” clause of 304(d) must generally be effectuated at any time during a period of five years beginning at the end of 75 years from the date copyright was originally secured.

In addition to the termination windows above, a formal, written notice of termination, describing the terminated grant, must be served on the grantee, must state the effective date of termination – a date within the five year termination window, and must be served on the grantee not less than two or more than 10 years before the effective termination date. Prior to the effective date of termination, the terminating party must also record the notice of termination in the Copyright Office. Failure to serve and record a notice of termination within the deadlines imposed by the Act renders the termination ineffective.

A delicate balance

The structure of Sections 203(a), 304(c) and 304(d) of the Copyright Act reflects a



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delicate balancing act between competing public policy concerns. Congress created the termination right to allow authors and their families to recapture certain rights in their works, thereby improving the bargaining position of authors by giving them a second chance to negotiate licensing arrangements after the value of a work has been tested during an initial term. As stated above, that term is 35 years from the date of execution of grants entered on or after 1st January 1 1978, 56 years from the date that a pre-1st January 1978 copyright in a work was originally secured, and in the case of an otherwise expired work extended by the Sonny Bono Copyright Term Extension Act, the last 20 years of the extended copyright term.

At the same time, Congress imposed strict limits on the termination right, recognising that an unfettered right would undermine important objectives of the copyright law. Tilting the playing field too much in favour of authors would potentially provide a powerful disincentive for grantees and transferees to invest the resources and capital necessary to bring copyrighted works to market. Accordingly, restrictions are built into the Act to soften the termination right. Such restrictions include the stringent notice requirements discussed above and express statutory exclusions for certain works. For instance, the termination right does not apply to works made for hire, does not apply to works that are transferred by will, and does not terminate a derivative work copyright holder from continuing to exploit derivative works produced prior to termination. Moreover, the termination right does not affect rights arising under any other Federal, State or foreign laws.⁹ In short, the termination rights, on their face, only affect grants of a copyright interest and not such other rights as trademarks or rights of publicity. Any number of foreign laws, however, include their own reversionary rights which would be enforceable in such countries.

Accordingly, Sections 203(a) and 304(c) reflect a delicate balance. This high-wire balancing act is particularly perilous in Sections 203(a)(2)(5) and 304(c)(5), where the inalienable, non-assignable nature of the termination right directly conflicts with the competing need to maintain a level of commercial certainty in contracts and their enforcement. Under such termination

provisions, “termination... may be effected notwithstanding any agreement to the contrary, including any agreement to make a will or to make any future grant.”⁵ Read literally, these sections appear to preclude authors or their successors from entering into any agreement that purports to assign away, circumvent, or restrict the author/successor’s ability to exercise his or her termination right. Congress, in this narrow instance, seemingly made a deliberate choice favoring the

The 1976 Act is not the first time that Congress attempted to protect the interests of authors and their surviving families. A similar right was provided in the Copyright Act of 1909, which allowed authors and their families to renew a copyright for an additional 28 year term beyond the initial 28 year term

inalienable, one-time termination right over normally inviolate principles of contract law.

Indeed, the 1976 Act is not the first time that Congress attempted to protect the interests of authors and their surviving families. A similar right was provided in the Copyright Act of 1909, which allowed authors and their families to renew a copyright for an additional 28 year term beyond the initial 28 year term. Congress did so to allow authors and their families to recapture their renewal rights thereby placing them on a more equal bargaining position to renegotiate grant terms for the renewal period (see *Stewart v. Abend*, 495 U.S. 207, 219 (1990)). This effort, however, had been later undermined by the Supreme Court in *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643 (1943), where the Court held that an author’s advanced assignment of a future renewal copyright term, viewed as a renewal “expectancy”, was enforceable if the author survived into the

renewal term. Sections 203(a)(2)(5) and 304(c)(5) of the Copyright Act, and their preservation of the termination right “notwithstanding any agreement to the contrary,” signified Congress’ clear intent to avoid the same Fred Fisher regime from affecting the termination rights which might otherwise be nullified by contract.

Although Sections 203 and 304(c) have been in force over the past 28 years (and 304(d) for the past eight years), few court decisions have addressed the termination right,⁶ and all of them have either been within the jurisdiction of the Ninth or Second Circuit Courts of Appeal. Fewer still have explored the issue of whether or to what extent the termination right can be avoided, directly or indirectly, by contract. Up until December 2005, only the Second Circuit and lower courts within its jurisdiction addressed the issue and all were fairly uniform

in holding that the termination right cannot be limited or rendered ineffective by agreements purporting to assign away, grant or restrict the termination right before the statutory window (see, e.g., *Marvel Characters, Inc. v. Simon*, 310 F.3d 280 (2d Cir. 2002), finding that parties’ attempt to avoid termination right by characterising work as “work for hire” in a settlement agreement after-the-fact was “agreement to contrary” which did not foreclose the author’s termination right; *Larry Spier, Inc. v. Bourne Co.*, 953 F.2d 744 (2d Cir. 1992), holding that the author’s wife and children could terminate an assignment and recapture renewal copyrights even if such termination resulted in termination of royalty stream bequeathed to such author’s mistress by testamentary trust; *Music Sales Corp. v. Morris*, 73 F. Supp. 2d 364 (S.D.N.Y. 1999), holding that “[n]either the author nor the statutory heirs may contract away their termination right, and any contract provision that purports to assign that right is void).

The Ninth Circuit’s recent *Milne v. Stephen Slesinger, Inc.* decision interprets the provisions of 203(d) and 304(c) as applying only to agreements that fall within two distinct “categories” – an agreement to make a will and an agreement to make any future grant. In so doing, the Court appears to have taken a similar tack as that of the *Fred Fisher* case. Grantees seeking to dispose of the termination right need only convince the author or successor, preferably including a statutory heir, to revoke a prior grant that is otherwise subject to termination and replace it with a new one that is not (430 F.3d at 1046 (noting that “Congress... anticipated that parties may contract, as an

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alternative to statutory termination, to revoke a prior grant by replacing it with a new one”). This interpretation, however, may disrupt the delicate balance that Congress created, rendering the termination right a “nullity.” It also appeared to diverge from the views of the Second Circuit, resulting in a split among the two circuits as to the interpretation of these important statutory provisions.

Looking ahead

It seems reasonably clear that the Ninth and Second Circuits, if not technically split, at least hold divergent views on what kinds of agreements qualify as “any agreements to the contrary” under Sections 203(a) and 304(c)(5) of the Copyright Act. This difference is, perhaps, best illustrated by a very recent Southern District of New York decision in *Steinbeck and Blake v. McIntosh & Otis, Inc. et al.*, Case No. 04-CV-5497 (June 8, 2006) discussing this very issue but, oddly enough, neither citing nor distinguishing the Milne case. The Court ruled that certain termination notices served on Penguin Group USA concerning pre-1978 grants of copyrights to John Steinbeck’s early works (including the novel and play *Of Mice and Men*) were effective, notwithstanding a 1994 agreement that granted identical rights in such works to Penguin. Ruling that the agreement was “void as an agreement to the contrary,” the Court held that Steinbeck’s surviving son and surviving granddaughter could terminate the pre-1978 grant (*Id.* at Op. pg. 7). The court commented that “the statute declares void any contract the effect of which is in contravention of or which negates either of [the] termination rights [of Sections 203(a) or 304(c)] and that the right “is intended to be broadly applied to invalidate such unlawful contracts and liberally protect termination rights” (*Id.* at Op. pg. 4).

Despite the fact that the circumstances of the *Milne* decision are very similar to those in *Steinbeck*, the Southern District of New York, following what it believed was controlling Second Circuit case law, namely the *Marvel* case, came to a completely different result. Since the Supreme Court failed to grant review of *Milne*, however, we will have to wait and see if the Second Circuit eventually more clearly enunciates its disagreement, if any, with the Ninth Circuit on this issue, thus potentially setting the stage for further Supreme Court interpretation of the statutory language concerning, “any agreement to the contrary”.

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The need for a possible Supreme Court decision would seemingly increase with time. There has been very little case law on the issue and we are inching closer to a period where greater disputes of this nature may arise. As per Section 203(a) (the termination provision for post-1st January 1978 grants), the “window” for termination is 35 years from the date that the grant has been executed and notice of such termination must be given no earlier than 10 years and no later than two years prior to the effective termination date. Assuming that a grant had been entered into after 1st January 1978, termination under Section 203 potentially begins in 2013 allowing notices of termination to be served as early as 2003. In fact such notices of termination have begun to surface and will likely increase in frequency as the termination right for post-1978 grants comes into play.

It is safe to say that the current uncertainty over the contours of the

termination right will now likely continue. In the meantime, contractual certainty will be difficult to achieve in this newly murky realm absent much clearer guidance on when an agreement is not an “agreement to the contrary” which would, thus, effectively void the termination right. The only reasonable advice one can render is to be sensitive to the issues and, depending on your client’s position, tailor any transaction in accordance with the specific parameters set forth by the decisions in either the Second or Ninth Circuit – including appropriate provisions for choice of law, jurisdiction and venue – and then hope that any dispute that should result is resolved under the law of the desired forum. One thing is clear, however: those who ignore the termination right and its complicated mechanics do so at their own peril, and may find themselves stuck in the same honey hive as Winnie the Pooh. ☹

Notes

- 1 17 U.S.C. § 203, 304(c) and 304(d)
- 2 *Marvel Characters, Inc. v. Simon*, 310 F.3d 280 (2d Cir. 2002) (settlement agreement purporting to characterise disputed work as “work made for hire,” in absence of definitive judicial finding, was an “agreement to the contrary” that did not foreclose author’s statutory termination right)
- 3 *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036 (9th Cir. 2005)
- 4 17 U.S.C. § 203(b) and 304(c)(6)(D)
- 5 17 U.S.C. § 203(a)(2)(5) and §304(c)(5)
- 6 This lack of judicial guidance may be due to the timing of the termination right itself and the narrow window that applies to when the 304(c) termination right governing pre-1978 copyrighted works can be noticed up and effectuated. This timing requirement, which goes hand in hand with renewal terms (at least with pre-1978 copyrighted works) have not heretofore resulted in many disputes concerning the issue. That may change as we near the significant date of 2013, when the termination right to post-1978 grants come into play under Section 203.

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Edwin Komen (near right), is a partner in the entertainment, media and communications group at Sheppard Mullin Richter & Hampton, and **Matthew Clanton** (far right), is an associate of the group, which specialises in all aspects of copyright, trademark and unfair competition law. They have particular experience representing and advising major motion picture studios and other entertainment clients in all facets of United States and foreign copyright law, including copyright clearance, acquisition, and litigation.



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