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Recapturing Ownership Through Copyright Terminations

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"Seventy years after Eric Knight first penned his tale of the devoted Lassie who struggled to come home, at least some of the fruits of his labors will benefit his daughter."

So said the U.S. Court of Appeals for the Ninth Circuit in *Classic Media Inc. v. Mewbom* on July 11, 2008, when it held that Eric Knight's daughter had duly terminated the motion picture, television and other rights that had been granted in the "beloved children's story 'Lassie Come Home'" which her father first published in 1938.¹ In so holding, the Ninth Circuit significantly narrowed its precedent-setting 2005 copyright termination opinion relating to "Winnie the Pooh."² Moreover, just a month after *Classic Media*, in an opinion relating to various novels and other works written by John Steinbeck, the U.S. Court of Appeals for the Second Circuit diverged from the Ninth Circuit's narrower approach.³

Copyright grantees need to understand this trio of cases in evaluating whether their rights are subject to termination and, if so, what action to take in devising strategies for effectively dealing with that exposure.

To protect authors from "unremunerative transfers" of rights (i.e., bad deals) to parties that Congress perceived to have greater negotiating leverage, the Copyright Act allows authors (and their statutory heirs if the author is deceased) to terminate past transfers of copyright interests and recapture the ownership of and control over the affected works for the remainder of the copyright term. The termination right applies even when the original grant of rights was "in perpetuity" and regardless of how much was originally paid to the author. Moreover, to protect authors from attempts to have them waive or otherwise relinquish their termination rights, the Copyright Act provides that "termination of the grant may be effected notwithstanding any agreement to the contrary."⁴

A grantee whose rights are terminated may continue to exploit the derivative works that were prepared under the authority of the original grant before it was terminated. But

once the termination becomes effective, the grantee may not prepare any new derivative works based on the original work. Instead, following termination, the author or his or her statutory heirs recapture the right to make remakes, sequels, prequels, merchandise and other derivative uses of the underlying work.

Other than works created under a "work for hire" arrangement, this termination right affects all copyrighted works in the United States. As a result, the chain of title in countless books, movies, television programs and video games may include a grant of rights that is subject to termination (a/k/a "a terminable grant"). Indeed, in addition to "Lassie," "Winnie the Pooh" and various Steinbeck novels, other works that have notably been subject to termination opinions include comic book characters "Captain America"⁵ and "Superman."⁶

Parallel Provisions

There are many nuances and some conundrums surrounding who can terminate, what can be terminated, and when the termination can occur, but as a general overview, the Copyright Act has two parallel provisions governing terminations—Section 203 and Section 304.

First, §203 provides that grants by the author entered into on or after Jan. 1, 1978 (the effective date of the 1976 Copyright Act) are subject to termination during a five-year window that begins 35 years after the execution of the grant or, if the grant included the right of publication (like a book publishing agreement), the earlier of (i) 35 years after publication pursuant to the grant or (ii) 40 years after execution of the grant. Notice of the termination must be given to the grantee whose rights are being terminated. Such notice can be given up to 10 years before the termination window opens, but the grantee must be given at least two years notice of the effective date of termination, and such effective date must fall within the five-year window.

For example, if the author of a book granted motion picture rights to a producer on Jan. 1, 1978, the five-year termination window would open 35 years later on Jan. 1, 2013, and would close on Jan. 1, 2018, and the author would be entitled to send his or her termination notice to the producer as early as Jan. 1, 2003, with the termination effective Jan. 1, 2013, and as late as two years before the window closes (Jan. 1, 2011 deadline). The §203 termination right has not yet lapsed on any copyrighted works.

Second, and more pertinent to our discussion, §304 governs the termination of a grant of rights by the author or his or her heirs executed prior to 1978.⁷ Such grants

are subject to a five-year termination window that begins either (a) 56 years after copyright was originally secured, or (b) if that termination right had already expired by the effective date of the Sonny Bono Copyright Term Extension Act (Oct. 27, 1998) (CTEA), 75 years after copyright was originally secured. As is the case under §203, notice of the termination must be given to the grantee whose rights are being terminated under §304. Such notice can be given up to 10 years before the termination window opens, but the grantee must be given at least two years notice of the effective date of termination, and such effective date must fall within the five-year window.

For example, if copyright was originally secured in a book in 1924, and the author of the book granted motion picture rights to a producer in 1930, the first termination window for that grant under §304 would have opened in 1980, 56 years after copyright was originally secured, and closed in 1985. Under those facts, the author or his or her statutory heirs would have been entitled to terminate during the first window by sending a termination notice to the producer (or the producer's successor in interest) as early as 1970, with termination effective in 1980, and as late as two years before the window closed (a 1983 deadline).

Continuing the same example, because that first termination window had already passed by the effective date of the CTEA (Oct. 27, 1998), the second termination window for that grant would have opened in 1999, 75 years after copyright was originally secured, and closed in 2004. To terminate during the second window, the author or his or her statutory heirs would have been entitled to send a termination notice to the producer (or the producer's successor in interest) as early as 1989, with the termination effective in 1999, and as late as two years before the window closed (a 2002 deadline).

The Pooh Works

Those were essentially the pertinent dates in *Milne ex rel. Coyne v. Stephen Slesinger Inc.*, 430 F.3d 1036 (9th Cir. 2005), the Ninth Circuit's precedent-setting 2005 copyright termination opinion relating to "Winnie the Pooh." In that case, Alan Alexander Milne wrote a series of "Winnie the Pooh" children's books (collectively, the "Pooh works") and registered them in the U.S. Copyright Office between 1924 and 1928. In 1930, Milne granted to Stephen Slesinger exclusive merchandising and other rights based on the Pooh works "for and during the respective periods of copyright and of any renewal thereof to be had under the Copyright Act."⁸ Milne duly renewed the copyrights

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in the Pooh works, and then passed away.

Mr. Slesinger created Stephen Slesinger Inc. (SSI), transferred his rights in the Pooh works to SSI, and then SSI granted those rights exclusively to Walt Disney Productions in 1961. Sometime before 1971, Disney also entered into its own separate deal with Milne's widow and the Milne Trust, which held Milne's beneficial interest in the Pooh works, whereby Disney acquired exclusive motion picture, foreign merchandising and other rights in the Pooh works in exchange for royalties.

Thereafter, the 1976 Copyright Act became law and introduced the termination right, with the first termination window for the first of the Pooh works opening in 1980, 56 years after copyright was originally secured, and closing in 1985. But Milne's son, Christopher Robin Milne, who was Milne's only statutory heir at the time, did not exercise the termination right during that first window. Rather, in the midst of that first five-year termination window, Christopher renegotiated the existing deals with SSI and Disney, and entered into a new agreement with SSI and Disney in 1983 (the "1983 Agreement").

In the 1983 Agreement, the Milne heirs revoked the prior grant of rights and then re-granted (on the same page) the rights in the Pooh works to SSI. SSI, in turn, granted the radio, television, motion picture and merchandising rights to Disney in exchange for royalties. The 1983 Agreement expressly replaced the 1930 agreement and increased the royalty payments to the Milne heirs, which "resulted, by some estimates, in a net gain of hundreds of millions of dollars" to the Milne heirs.

The second termination window for the first of the Pooh works opened in 1999, 75 years after copyright was originally secured, and closed in 2004 (extending to 2008 for the last of the Pooh works). In this second round, it was Milne's granddaughter Clare Milne who set out to recapture the rights in the Pooh works from SSI. Clare sent a notice of termination to SSI on Nov. 4, 2002, referencing Nov. 5, 2004, as the effective date for termination of the 1930 grant of rights to SSI.

SSI asserted that the termination notice was invalid because the 1930 grant of rights had already been revoked under the 1983 Agreement and, therefore, there was no pre-1978 grant of rights subject to termination under §304 of the Copyright Act. Clare countered that the 1983 Agreement was "an agreement to the contrary," pointing to the plain language in §304 that "termination of the grant may be effected notwithstanding any agreement to the contrary."

The district court concluded that the 1983 Agreement was a new contract that effectively renegotiated and superseded the 1930 grant of rights, and therefore, there was no pre-1978 grant subject to termination under §304. The court also found that the 1983 Agreement was not an "agreement to the contrary." Accordingly, the district court declared the termination notice to be invalid, and the Ninth Circuit affirmed based on the same reasoning.

The Ninth Circuit's opinion in *Milne* suggested that grantees could renegotiate their terminable grants and, thereby, avoid termination under §304. But the opinion did not fully answer the issue of when a renegotiation will be considered effective and when it will be considered an invalid "agreement to the contrary."

'Lassie Come Home'

The Ninth Circuit gave greater insight into that on July 11, 2008, when it held in *Classic Media Inc. v. Mewborn*, 532 F.3d 978 (9th Cir. 2008), that a post-1978 assignment did not extinguish the right to terminate a pre-1978 transfer in "Lassie Come Home," first published as a story in 1938 and as a novel in 1940, because (1) the post-1978 assignment did not improve the terms of the prior deal and did

not expressly supersede the prior deal, and (2) critically, at the time Winifred Knight Mewborn—the author's heir—entered into the post-1978 assignment on March 16, 1978, Ms. Mewborn had only a mere termination expectancy, a "far cry" from the heir in *Milne*, who had the right to vest copyright in himself at the very time he revoked the prior grants and leveraged his then-existing termination rights to secure the benefits of a new deal. As the Ninth Circuit explained,

In Mewborn's case, the 56-year term of copyright was set to expire in the story in 1994 and in the novel in 1996. Mewborn could not have filed a notice of termination of the assignment of rights to exploit the story any earlier than 1984 or any later than 1997; she could not have done so for the novel any earlier than 1986 or any later than 1999. Therefore the future rights that would revert upon termination of the grant could not have vested any earlier than 1984 for the story and 1986 for the novel. *** Whereas Mewborn in 1978 [when she entered into the purportedly superseding agreement] did not even have the right to serve an advance notice of termination, . . . the heir in *Milne* had the present right to serve an advance notice of termination [when the purportedly superseding agreement was entered into], and could exercise it at any moment.⁹

Cases over 'Lassie' and Steinbeck works build on existing law.

Under such circumstances, the Ninth Circuit held that Ms. Mewborn's post-1978 assignment was "an agreement to the contrary," that Ms. Mewborn was therefore entitled to exercise her statutory termination rights, and that the termination notice she served in 1996 was valid and effective.

The *Classic Media* opinion left the door slightly ajar to the possibility that a renegotiation did not have to occur during the actual five-year termination window but could instead occur at any time during the longer notice period. But just one month later in *Penguin Group Inc. v. Thomas Steinbeck*, 537 F.3d 193 (2d Cir. 2008), the Second Circuit kicked that door wide open.

'Steinbeck' Case

The *Steinbeck* case involved various works written by John Steinbeck and first published from 1929 through 1941, including "The Grapes of Wrath" (©1939) and "Of Mice and Men" (©1937). Steinbeck had granted Viking Press the right to publish these works in a 1938 Publishing Agreement. Steinbeck's surviving spouse Elaine renegotiated the 1938 Publishing Agreement and entered into a new agreement on Oct. 24, 1994 (the "1994 Agreement") with Penguin (Viking's successor) for the continued publication of all the works that were covered in the 1938 Publishing Agreement as well as several others.

The 1994 Agreement also changed the economic terms of the 1938 Publishing Agreement, mostly to Elaine's benefit. The 1994 Agreement was entered into during the first termination window that applied to "Of Mice and Men" (1993-1998), after the expiration of the first termination window that applied to Steinbeck's earlier works, and before the first termination window (but within the notice period) that applied to Steinbeck's later works, including "The Grapes of Wrath" (1995-2000).

Round two began 10 years late. On June 13, 2004, Steinbeck's surviving son and grandson served what purported to be a notice of termination on Penguin Group, seeking to exercise their termination rights. This termination notice was served during the second termination window that would have applied to "The Grapes of Wrath" and "Of Mice and Men," after the expiration of the second termination window that would have applied to Steinbeck's earlier works, and before the second termination window (but within the notice period) that would have applied to Steinbeck's later works.¹⁰

The district court held that the termination notice was valid as to all works covered by the 1938 Publishing Agreement, but in a decision issued Aug. 13, 2008, the Second Circuit reversed, holding that the 1994 Agreement replaced the 1938 Publishing Agreement and, thus, there was no pre-1978 transfer of rights to which the termination right could be applied. If the Second Circuit had followed the narrowest interpretation of the Ninth Circuit's decision in *Classic Media*, the 1994 Agreement would have been an "agreement to the contrary" as to "The Grapes of Wrath" and Steinbeck's later works because the 1994 Agreement was entered into before the first termination window even opened for those works. But the Second Circuit diverged from that narrowest interpretation of *Classic Media* when it held that the 1994 renegotiation of the original 1938 transfer of rights was not "an agreement to the contrary."

What remains to be seen is if the Ninth Circuit meant that the renegotiation has to occur in the midst of the five-year termination window to avoid being labeled an "agreement to the contrary" or whether the renegotiation just has to occur at some point during the 13-year notice period, which after *Steinbeck* is the narrowest interpretation that can be taken in the Second Circuit.

Until there is a case resolving the issue in the Ninth Circuit or in the U.S. Supreme Court, copyright grantees seeking to renegotiate terminable grants should consider taking advantage of the precedent in the Second Circuit that is more tolerant of renegotiations on this issue by designating New York choice of law and venue in their renegotiated contracts.



1. *Classic Media Inc. v. Mewborn*, 532 F.3d 978, 990 (9th Cir. 2008).

2. *Milne ex rel. Coyne v. Stephen Slesinger Inc.*, 430 F.3d 1036 (9th Cir. 2005).

3. *Penguin Group Inc. v. Thomas Steinbeck et al.*, 535 F.3d 193 (2d Cir. 2008).

4. 17 USC §304(c)(5).

5. *Marvel Characters Inc. v. Simon*, 310 F.3d 280 (2d Cir. 2002).

6. *Siegel v. Warner Bros. Entertainment Inc.*, 542 F.Supp.2d 1098, 1145 (C.D. Cal. 2008).

7. 17 USC §304(c)-(d).

8. *Milne*, 430 F.3d at 1039.

9. *Classic Media Inc.*, 532 F.3d at 989.

10. Curiously, the termination right on some of the Steinbeck works had not expired by the effective date of the CTEA (Oct. 27, 1998), which would mean that the second termination window never should have materialized for such works under §304(d). The Second Circuit, however, sidestepped that issue without explanation, seemingly taking the position that even if the second termination window did materialize for such works, the 2004 termination notice was nevertheless invalid.