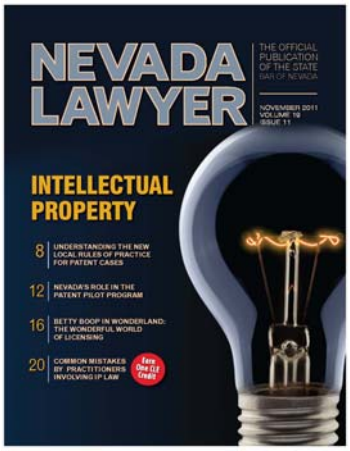
NEVADA LAWYER

WHOSE COPYRIGHTS ARE THEY ANYWAY?

RECORD COMPANIES BRACE THEMSELVES AS ARTISTS SEEK TO RECAPTURE THEIR SOUND RECORDING COPYRIGHTS



This article is a supplement to the November 2011 issue of *Nevada Lawyer* magazine.

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After several years of waging an anti-piracy litigation campaign against the unauthorized downloading and file sharing of music, record companies may soon find themselves playing defense, as legal notices served on them by recording artists asserting termination of the record companies' copyrights in their sound recordings start to take effect on January 1, 2013. This article provides a brief overview of the termination provisions of Section 203 of the Copyright Act of 1976 and their impact on recording artists' efforts to recapture their sound recording copyrights.

Under the copyright act, the term of copyright protection for sound recordings and other copyrightable works is the life of the author plus 70 years or, in the case of works made for hire, 95 years from the year of the work's first publication or 120 years from the year of its creation, whichever expires first.[1]

Recognizing that young authors often lack the bargaining power and foresight to adequately protect their interests, Congress included certain provisions in the copyright act allowing the author or the author's statutory successors to terminate contractual grants of copyrights made by the author for the United States, and recapture ownership of such rights in the United States prior to the expiration of the full term of the copyrights.[2] Such termination rights give authors or their statutory successors a second chance to be adequately compensated for the use of the authors' copyrighted works.[3]

Under Section 203(a) of the copyright act, an author or the author's statutory successors can terminate the grant of a transfer or exclusive or non-exclusive license of the copyrights in a work made by an author to another party on or after January 1, 1978, provided the work is not a work made for hire or the grant is not made "by will."[4] The termination must occur during the five-year period commencing on the date that is 35 years from:

(a) the date of execution of the grant, or

(b) if a publication right[5] is granted in the work, the date of publication of the work or 40 years from the execution date of the grant, whichever term ends earlier (the "Termination Window").[6]

For the termination to be effective, the author or the author's statutory successors must provide to the grantee of the copyrights or the grantee's successor in title, a signed written notice that: (1) specifies the effective date of the termination, which must fall within the above-referenced five-year Termination Window and (2) must be delivered not less than two and not more than 10 years prior to such termination date.[7] In addition, a copy of the notice must be recorded in the U.S. Copyright Office prior to the effective date of the termination, as a condition to its taking effect.[8]

Subject to the below discussed derivative works exception, the copyrights previously owned by the contractual grantee for the United States revert to, and are recaptured by, the author or the author's statutory successors on the effective date of the termination.[9] Because copyrights are territorial and the scope of the Copyright Act is limited to the United States, the contractual grantee retains any copyrights in the applicable work(s) granted to it under the original contract for countries or other territories outside the United States.

Per Section 203(a)(5) of the copyright act, "[t]ermination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant."[10] This provision protects authors and their statutory successors by making clear that they may terminate the U.S. copyrights granted by the author under any prior agreement, regardless of whether the agreement requires the author to waive the author's statutory termination rights or transfer the copyrights to the grantee in perpetuity. Thus, contracts in which authors grant record companies, music publishers, book publishers and other entertainment companies copyrights in their works (that aren't works made for hire) for "the term of the copyrights and all extensions and renewals thereof throughout the world" are examples of the types of "agreements to the contrary" for which broad sweeping grants of U.S. copyrights can be terminated.

Notably, the copyright termination provisions do not apply to derivative works[11] created under the original grant of copyrights, which the contractual grantee can continue to utilize in accordance with the terms of such original grant even after its been terminated.[12] This exception does not extend to the post-termination preparation and use of any new derivative works based on the original copyrighted works covered by the terminated grant.[13] In other words, if a record company commissions a remix of a sound recording (i.e., a derivative work) for which it was assigned the copyrights by an artist and the remix is created prior to the artist's termination of the copyrights in the original sound recording, the record company retains the rights to commercially exploit the remix even after the termination of its copyrights in the original sound recording is made effective. However, once the termination of the record company's copyrights in the original sound recording occurs, the record company would not have the rights to create and commercially exploit any new remixes of the original sound recording without obtaining the permission of the author or the author's statutory successors.

After enduring a decade-long decline in sales of recorded music, come January 1, 2013, record companies will undoubtedly initiate litigations challenging the validity of artists' terminations of their U.S. copyrights in valuable sound recordings that are a source of precious back-catalog revenue streams in a time of great financial uncertainty for the recording industry.

With January 1, 2013 (the date terminations of copyright grants made on or after January 1, 1978 can commence) fast approaching, record companies have already been served and will continue to be served with termination notices from artists seeking to recapture the copyrights in their sound recordings from the late 70s and early 80s. The outcome of recording artists' efforts to terminate record companies' copyrights in their sound recordings will depend largely on how courts decide the unsettled issue of whether or not such sound recordings are non-terminable works made for hire.

The recording industry has routinely treated sound recordings as works made for hire, with recording contracts typically providing that any sound recordings created by artists are "specially ordered or commissioned as works made for hire" by the record companies, but including a fallback provision requiring artists to transfer all rights in the sound recordings to the record companies if for some reason they can't be works made for hire owned by them.

A "work made for hire" is defined in the copyright act as a work that is: "(1) prepared by an employee within the scope of his or her employment or (2) 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 should be considered a work made for hire."[14] Because recording agreements between artists and record companies are most often structured as independent contractor relationships (as opposed to employer/employee relationships) with artists exercising significant creative control over the recording process, sound recordings would need to fall within one of the statutorily enumerated categories provided in the definition to qualify as a work made for hire.[15] Noticeably absent from these nine categories, are sound recordings.

At the urging of the recording industry, Congress attempted to resolve this issue in 1999 in the Satellite Home Viewer Improvement Act, which amended the definition of a "work made for hire" to include sound recordings.[16] After media coverage of the amendment caused substantial public controversy, a group of prominent recording artists, led by Sheryl Crow and Eagles front man Don Henley, formed the Recording Artists Coalition, which successfully lobbied for the repeal of the change. Less than one year after the amendment was added, Congress deleted sound recordings from the list of categories in §101(2), in the "Work Made for Hire and Copyright Corrections Act" of 2000."[17] Significantly, this corrective legislation expressly declines to resolve the outstanding issue of whether sound recordings qualify as works made for hire under the other classifications of §101(2) and directs courts confronted with this issue to disregard the 1999 and 2000 amendments as part of the provision's legislative history that may be considered for purposes of discerning Congressional intent.[18]

Now that the definitional status quo has been restored, record companies will argue that sound recordings are works made for hire as part of collective works[19] or compilations[20] (i.e. albums); a position that has worked favorably in the past.[21] As a hedge, record companies are also taking full advantage of the derivative works exception to the copyright termination right by producing and releasing new remixes and enhanced media DVDs and other derivative works based on or incorporating the original copyrighted works, which they can continue to commercially exploit long after any termi-

nation of their copyrights in the original works.

After enduring a decade-long decline in sales of recorded music, come January 1, 2013, record companies will undoubtedly initiate litigations challenging the validity of artists' terminations of their U.S. copyrights in valuable sound recordings that are a source of precious back-catalog revenue streams in a time of great financial uncertainty for the recording industry. Regardless of how courts ultimately come down on the issue of whether sound recordings are non-terminable works made for hire, record companies will retain any non-U.S. copyrights in sound recordings originally granted to them, which is significant as copyright grants are often made for the world. Since these grants of foreign copyrights will be valid long after any termination of the record companies' U.S. copyrights, it may be in the best interests of both record companies and artists or their statutory representatives to negotiate new deals where the record companies pay a premium to re-acquire their U.S. sound recording copyrights. This kind of compromise not only bodes well for improved artist/record company relations and reduced litigation costs, but is exactly the sort of "second bite at the apple" for artists and their statutory heirs that Congress had in mind when it enacted the copyright termination provisions.

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FOOTNOTES

1. 17 U.S.C. § 302(a)-(c)
2. H.R. Rep. NO. 94-1476, at 124 (1976).
3. H.R. Report NO. 94-1476, at 124 (1976).
4. 17 U.S.C. § 203(a)
5. A "publication right" is the right to reproduce a copyrighted work and distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or licensing. *See* 17 U.S.C. §§ 106 (1) and 106(3)
6. 17 U.S.C. § 203(a)(3)
7. 17 U.S.C. § 203(a)(4)
8. *Id.*
9. 17 U.S.C. § 203(b)
10. 17 U.S.C. § 203(b)
11. Per 17 U.S.C. § 101, a "Derivative Work" is a work based on one or more preexisting works, such as a translation, motion picture version, sound recording, art reproduction, abridgement, condensation, or any other form in which a work may be recast, transformed or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications, which, as a whole represents, an original work of authorship is a "derivative work.
12. 17 U.S.C. § 203(b)(1)
13. *Id.*
14. 17 U.S.C. § 101
15. 1 Melville B Nimmer and David Nimmer, *Nimmer on Copyrights*, §§ 1.06[C] & 5.03[D] (2009)
16. P.L. 106-113 (November 29, 1999), the Intellectual Property Communications Omnibus Reform Act of 1999, Title I, § 1101(d).
17. P.L. 106-379 (October 27, 2000).
18. *Id*. at 2.; *see also* 17 U.S.C. § 101
19. A "collective work" is a work such as a periodical issue, anthology or encyclopedia, in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective whole.
20. A "compilation" is a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated or arranged in such a way that the resulting work as a whole constitutes an original work of authorship. The term compilation includes "collective works." 17 U.S.C. § 101
21. *See UMG Recordings vs. MP3.COM*, 109 F. Supp. 2d 223, 225 (S.D.N.Y 2000) (District court expressly held that CDs were compilations).