

## **A Second Bite of the Apple: A Guide to Terminating Transfers under Section 203 of the Copyright Act**

**by Margo E. Crespin<sup>1</sup>**

Back in 1979, you were a struggling author, eager to publish your first novel and make a name for yourself in the literary world. After months of marketing your work, a fantasy tale about a young detective, to publishers, you received an offer from Lowball Press to publish the book. When you reviewed the terms of the deal, you noticed that the percentage of royalties Lowball offered was only half that of the industry standard. Although initially reluctant, you decided to accept the low royalty rate, believing that once you established your reputation, you could negotiate a higher rate for your future books. On January 1, 1979, you signed a contract transferring the right to publish the book in English and all other languages along with the right to create derivative works (adaptations based on the book) to Lowball. The book was published on January 1, 1980 and became an instant best-seller.

Years have passed and your book, *The Adventures of Penelope I.*, is now viewed as a classic. It has been translated into 15 different languages and read by children and adults all over the world. The book has sold well consistently over the years. You have not been quite as fortunate. In the wake of *Penelope I.*'s success, Prophet Books offered you a contract to publish your autobiography on what appeared to be favorable terms. They offered to double the percentage of royalties you received on your first book. Despite your hopes of writing a second best-seller, your life story received horrible reviews and sales proved unimpressive. Disappointed, you gave up on writing novels and shifted your energy to poetry. Unfortunately, with its significantly reduced audience, your poetry has failed to generate much income. You meet with your attorney to commiserate. "If only I could turn back time," you say. "If only I could regain the rights I transferred to Lowball. Is there anything I can do?"

"Yes, there is, or perhaps I should say, there will be," she replies. "Section 203 of the Copyright Act allows the creator of a copyrighted work, who, during her lifetime, has transferred all or some of the rights to the work on or after January 1, 1978, to terminate the transfer and regain the rights after a certain period of time – generally, at least 35 years from the date of grant or from publication. The earliest Section 203 terminations of transfers will take effect in 2013. Section 203 was enacted to give authors the opportunity to regain rights they may have signed away when they had little bargaining power. It gives authors a second bite of the apple, a second chance to exploit the rights in and benefit from the works they created."

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<sup>1</sup> Copyright © 2005, Margo E. Crespin, Assistant Director, Kernochan Center for Law, Media and the Arts and Lecturer-in-Law, Columbia Law School. The author wishes to thank Professor Jane C. Ginsburg, Morton L. Janklow Professor of Literary and Artistic Property Law at Columbia Law School and June M. Besek, Executive Director of the Kernochan Center for Law, Media and the Arts at Columbia Law School, for their invaluable comments and suggestions, and Stela Chincisan (Columbia Law School '04) and Zainab Ahmad (Columbia Law School '05) for their research assistance in conjunction with this article.

### **What is Section 203 and how does it work?**

Section 203 applies to a grant of any right under copyright, made by an author on or after January 1, 1978. By “grant” I mean any license or assignment or transfer of any copyright rights. Your contract with Lowball transferred your publication rights in your book as well as the right to create derivative works, and is considered a grant of rights. A grantee is the person or entity to whom rights were transferred, so in your case Lowball would be the grantee. You granted Lowball the copyright to your book in 1979 when you signed your contract, so Section 203 applies. There are some important exceptions though.

### **What kind of exceptions?**

Section 203 does not apply to works made for hire.

### **What is a work made for hire?**

There are two types of works made for hire. The first type consists of works created by employees within the scope of their employment. You were never Lowball’s employee, so you don’t fall into this category. The second type of works made for hire consists of works that are specially ordered or commissioned. These are considered works made for hire only if they are designed for use as a contribution to a collective work such as a newspaper or magazine, as part of a motion picture or other audiovisual work, as a translation, as a compilation or as other specific types of works. Works made for hire in this second category also include a variety of educational and related materials, such as an instructional text, a test, answer material for a test, an atlas, or a supplementary work, such as a foreword, afterword, pictorial illustration, map, chart, table, editorial note or other work that comments on, illustrates, explains, revises, introduces, concludes or assists in the use of a work of another author. In addition, for the work to fall into the second category of work made for hire, the author(s) and the party who orders or commissions the work must agree in a written document signed by both of them that the work will be a “work made for hire” owned by the party who ordered it.

If the work is “for hire,” the employer or party who commissioned the work is viewed as the author and owner of the copyright in the work. Lowball did not commission *The Adventures of Penelope I.* from you, it does not fall under any of the specific categories of works I just mentioned, and your contract with Lowball does not specify that the book was a work made for hire, so it is not a work for hire of the second type either.

### **That’s good news. Are there any other exceptions?**

I’m afraid so: First, Section 203 does not apply to rights transferred by the author in his or her will. So, if you had transferred the copyright in your book to Lowball in your will and died, your heirs would not inherit your termination rights.

Second, and of more immediate concern to you as a living author, Section 203 does not affect foreign rights in the copyrighted work, as it only applies to rights under the U.S. Copyright Act. This means that you will not be able to terminate rights granted

to the foreign publishers who are distributing your work in the UK, Canada, Australia, New Zealand and Singapore. By the same token, you will not be able to stop foreign distribution of translations of *Penelope I.* either.

Third, and potentially most significantly, there is a specific exception for works adapted from your work; the copyright law calls adaptations “derivative works.” A grantee may “continue to utilize” derivative works “prepared under the authority of the original grant” before it was terminated. Even after rights to the original work have been terminated, the conditions set out in the terminated grant continue to apply. That means that you continue to get the same royalties for the derivative works after terminating the contract as you did while the contract was still in force. Indeed, if the terminated grant transferred the derivative work rights for a lump sum, you will not get any more money for the derivative work’s continued exploitation, even though you have terminated the contract. In case you are wondering whether termination makes any difference at all when it comes to derivative works, it may be of some consolation to know that once the contract has been terminated, the grantee may not prepare any new derivative works based on the original work.

### **Can you explain the derivative work exception further?**

Certainly. Let’s say Lowball sold the motion picture rights in your book to Maximar Pictures in 1985, and a movie was made and released in 1990. Because you granted Lowball the right to create derivative works, Lowball is within its rights under the contract. If you terminate the grant of your copyright in the book under Section 203, Lowball will no longer have the right to publish and distribute your book, but the movie company will be able to continue to distribute the film. They will not, however, be able to create sequels, adaptations, or new versions of the film after termination. That means, for example, that once you have terminated, Lowball could not authorize someone to write a play based on your book, nor could Lowball or the movie company make a sequel to the movie. The exception only covers derivative works prepared prior to termination.

### **What if an author contracted away her copyright to a work prior to 1978?**

Another section of the U.S. Copyright Act, Section 304, governs termination of transfers made prior to 1978. Unlike Section 203, which applies only to transfers made by authors after 1978, Section 304 applies to transfers made by the author or his/her heirs. Section 304 contains some similar provisions to 203 but also differs in a number of respects. Section 304 does not apply to your situation, so we will focus only on section 203 today.

### **Who can exercise termination rights under Section 203?**

If the author is alive, only the author may terminate the grant of rights. So in your case, only you can terminate the rights you granted to Lowball.

### **What if the author is dead?**

When an author dies, his or her termination right, known as the “termination interest” is inherited as follows:

- (1) if the author has no children, the surviving spouse inherits the author's entire termination interest;
- (2) if the author has children, they split the termination interest with the surviving spouse – the children take half, divided equally among them, and the surviving spouse takes half;
- (3) if the author has children but no surviving spouse, then the children inherit the author's entire termination interest (divided equally among them);
- (4) if any of the author's children is dead, that child's interest is inherited by his or her own children (divided equally among them); majority action by the children of the author's deceased child is required to exercise that child's termination interest;
- (5) if the author's surviving spouse, children, and grandchildren are all dead, the author's executor, administrator, personal representative, or trustee owns the author's entire termination interest.

The author's heirs (as listed above), or their executors, who own and are entitled to exercise more than one half of the termination interest, either individually or together, may terminate.

#### **What if there is more than one author of the work?**

In the case of a jointly authored work, where the grant of rights was signed by two or more authors, termination of the grant requires majority action by those who signed the grant, or by their heirs.

#### **When can a transfer of rights be terminated?**

Any time during a five-year period beginning at the end of 35 years from the date the grant was made. If the grant included the right to publish the work, however, the five-year termination "window" begins at the end of 35 years from the date of publication or 40 years from the date of the grant, whichever is earlier.

#### **So the time period in which grants of rights can be terminated is different if the initial contract or license transferred the right of first publication?**

Yes, it can be, if the date the grant was made and the date of publication differ. In your case, you transferred the right to publish *The Adventures of Penelope I.* to Lowball on January 1, 1979. But the book was published on January 1, 1980 (the date of publication). Under Section 203, your grant could be terminated any time during the 5 years, beginning at the end of 35 years after the date of publication (January 1, 2015), or 40 years from the grant (January 1, 2019), whichever is sooner. That means the earliest you could terminate the transfer of rights would be in 2015.

#### **What if I don't terminate within the time limits?**

Termination is a use-it-or-lose-it proposition: if you don't terminate within the deadline, your grant of rights continues as before.

### **What if I agreed not to terminate the grant of rights?**

Termination rights cannot be contracted away or waived in advance. Section 203 specifically provides protection of the author's right to terminate, "notwithstanding any agreement to the contrary." That covers both the original grant, and any later agreements. So even if your publishing contract stated that you would not terminate the grant of rights at a later date, you may still terminate under Section 203. By the same token, any promise you later make not to terminate is equally invalid.

But, Section 203 does not apply to any license, transfer or assignment made for a period of less than 35 years. An agreement granting rights for fewer than 35 years is governed by the terms of that agreement. So, if your contract for Lowball stated that the grant of rights in the book would only last for 20 years from the date of the agreement, then the contract would have expired in 1999 and we wouldn't need to be discussing Section 203. Note that if your contract with Lowball expired in 1999, and you immediately entered into another identical 20-year publishing contract, you would not be able to terminate the second grant of rights either, even though the combined duration of the grant would be 40 years. This is something to watch out for: the publisher can't make you promise not to exercise your termination right. It's unclear, however, whether a publisher could avoid the effect of termination if the publisher keeps rolling over a series of contracts each of which lasts for less than 35 years. Some contracts may provide that the contract will automatically renew after a certain number of years, unless the other party gives notice to the contrary. In this instance, you would need to be vigilant about giving notice, if you wished to terminate the contract and renegotiate. It is important to consult with an attorney to understand the provisions of any contract you are considering signing or have already signed, as well as their implications.

### **Even if an agreement not to terminate is void, does the original grantee get any special concessions?**

In general, the author may not agree to a new grant of the terminated rights until the termination takes effect. We'll discuss this further shortly. Section 203 does, however, make a special allowance for the original grantee. Once the author has sent the notice of termination, but before termination takes effect, Section 203 allows the original grantee a first chance to renegotiate the rights originally transferred. This means that your publisher will be able to try to make a new deal with you before you can offer your regained rights to someone else.

### **How do I terminate the transfer of my rights in the book?**

An effective termination requires that notice be given to the grantee. Or, if the rights originally transferred to the grantee are acquired or inherited by any person or entity (for example, if Lowball Press were acquired by another publishing company), notice must be given to the party who has taken over the grantee's rights, referred to as the grantee's "successor in title." It's important to allow sufficient time to research and

identify which party owns the rights to be terminated, prior to giving notice of termination. The law requires a “reasonable investigation” to be made by the person or people who will be signing the notice as to the current ownership of the rights to be terminated, before notice of termination is given. A reasonable investigation includes but is not limited to a search of records in the Copyright Office.<sup>2</sup> If the author is receiving royalty payments, the royalty statements will most likely include the identity and contact information of the successor in title. If the author sold her rights to the work for a lump sum, she will need to research who has acquired the original grantee’s rights to determine who is the successor in title. The author could begin by contacting the original grantee, or if such grantee no longer exists, the author may research to see whether the original grantee was involved in any mergers or acquisitions, and search the Copyright Office’s records. The notice, known as the notice of termination, must meet certain conditions to be effective.

### **So I need to give notice to Lowball? What kind of notice?**

The notice of termination must be given in writing, and must be signed by the author (or by a majority of the co-authors if the work is a joint work). If the author is deceased, a majority of the owners of the termination interest or their authorized agents must sign the notice. The signature of each person making the termination must be accompanied by a typed or legibly printed statement of the full name and address of that person. In addition, if the notice includes a signature by a duly authorized agent, it must clearly identify the person or people on whose behalf the agent is acting. The notice of termination must be “served” by personal service (personally delivered) or sent by first class mail to an address which, after reasonable investigation, is found to be the last known address of the grantee or successor in title.

### **What information does the notice of termination need to include?**

The notice must clearly state:

- that the termination is being made under Section 203 of title 17 U.S.C.;
- the effective date of termination, which must fall within the 5-year period; and
- the name of each grantee whose rights are being terminated, or the grantee’s successor in title, and each address to which the notice is being served.

It must also identify:

- the grant sought to be terminated;
- its date of execution, and if the grant covered the right of publication of a work, the date of publication of the work under the grant; and

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<sup>2</sup> CFR 201.10 (d) (2). In the case of a musical composition where performing rights to the work are licensed by a performing rights society, a “reasonable investigation” also includes a report from the performing rights society identifying the person or people claiming current ownership of the rights being terminated.

- for each work to which it applies, the title of the work, the name of the author, or in the case of a joint work, the authors, who executed the grant being terminated (termination will be rendered ineffective if this information is not included), and if possible, the original copyright registration number.

Additional requirements exist if the author dies and the termination is being exercised by the successors of the deceased author.

**What sort of additional information is required if termination is being exercised by the author's successors?**

The notice of termination also must:

- list the names and relationships to the deceased author of the author's surviving spouse, all of that author's surviving children, and if any of that author's children are dead, all of the surviving children of the deceased child of that author; and
- specifically indicate the person or people executing the notice who make up more than one half of the author's termination interest.

It should be noted however, that where the termination is being exercised by a deceased author's successors, the notice may include, instead of the information I just described, both of the following:

- a statement of as much of the required information as is currently available to the person or people signing the notice, with a brief explanation of the reasons why full information is or may be lacking; together with
- a statement that, to the best knowledge and belief of the person or people signing the notice, the notice has been signed by all of the people whose signature is necessary to terminate the grant under section 203, title 17 U.S.C. or by their duly authorized agents.

**What happens if you do not provide an effective notice of termination?**

If you do not provide an effective notice of termination, your grant will continue in effect for the duration of the specified term, or if no term is specified, for the duration of the copyright. The requirements of the notice of termination I just mentioned are provided in federal regulation, C.F.R. Section 201.10, which can be found on the Copyright Office Website, [www.copyright.gov](http://www.copyright.gov).

**When should I serve the notice of termination?**

The notice must be served (by personal service or sent by first class mail) no later than two years before the intended termination date but may be served up to ten years before the beginning of the five-year period. So if you want to terminate your transfer to Lowball in 2015, the earliest possible time you could give notice of your intent to terminate is 2005. And the latest possible time would be two years before the end of your

five-year termination window. In your case, the termination period runs from 2015 to 2020. That means that the earliest you can notify Lowball would be in 2005, and your last chance would be in 2018.

In addition to serving notice in the proper form and within the proper time period, you must record the notice of termination with the Copyright Office prior to the effective termination date, in order for termination to become effective. Any document pertaining to a copyright (including transfers of copyright rights) may be recorded with the Copyright Office. Recordation of documents with the Copyright Office creates a public record and puts anyone who might be interested in a particular copyrighted work on notice as to the status and ownership of the rights in that work. While you are not required to record transfer documents (such as your original contract with Lowball), it is a good idea to do so, and in any event, you must record your notice of termination with the Copyright Office in order to benefit from Section 203.3

### **What do I need to do to record my notice of termination with the Copyright Office?**

Recording your notice of termination requires payment of a fee of \$80.00 to the Copyright Office as well as submission of a complete and exact duplicate of the notice served on the grantee.<sup>4</sup> The copy must include the actual signatures or a reproduction of the actual signatures appearing on the notice. In addition, the copy of the notice submitted for recordation must include a statement of the date on which notice was served, and the means by which it was served (unless this information is already included in the notice itself). The date on which the Copyright Office receives the payment, the copy of the notice, and the accompanying statement, is deemed the recordation date. Once the notice is recorded, it is returned to the sender with a certificate of record from the Copyright Office.

### **What happens once the notice of termination is served on the grantee?**

Those who possess termination rights (the “termination interest” holders) as of the date the notice of termination is served on the grantee, will own the rights transferred in the original grant, and will be entitled to renegotiate those rights, once the termination is effected. There may be up to ten years from the time the notice of termination is served to the effective date of termination. If any of the termination interest holders dies after the notice of termination is served, but before the termination is effective, that person’s ownership of the rights would go to his/her estate. A majority of the termination interest holders is required for further transfer of the rights after the termination.

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<sup>3</sup> For further information on recordation of documents with the Copyright Office, see Circular 12 on “Recordation of Transfers and Other Documents” at [www.copyright.gov/circs/circ12.pdf](http://www.copyright.gov/circs/circ12.pdf).

<sup>4</sup> A recordation fee of \$80 is required per document for no more than 1 title, and an additional charge of \$20 is required for each group of 10 or fewer additional titles. As your contract with Lowball only covers *The Adventures of Penelope I.*, your recordation fee would be \$80. For a Document Cover Sheet to record your notice of termination with the Copyright Office, visit [www.copyright.gov](http://www.copyright.gov).

**If I comply with the requirements and serve notice in the proper form and at the proper time, and record the notice with the Copyright Office prior to the effective date, what happens on the effective date?**

On the effective date, all rights under the U.S. Copyright Act that were covered by the terminated grant revert to the author(s) and other owners of the termination interest. In the case of joint authorship or where multiple parties own the termination interest, the rights revert to all owners of the termination interest, regardless of whether or not they signed the notice of termination. In other words, if a person could have signed the termination notice, the person is bound by the majority action of those who terminated the grant, and that person will receive a proportionate share of the reverted rights automatically. But don't forget that if derivative works have been created prior to the termination, the grantee can continue to utilize them under the conditions of the original grant. Even so, the grantee can't make new or additional derivative works once the grant is terminated. And grants of foreign rights continue as before.

**Once the termination is effected, can the rights be granted again?**

Once the rights are terminated under the original contract or license, a new grant, referred to as a "further grant," or an agreement to make a further grant, may be negotiated, but only if signed by a majority of those to whom the rights reverted. The further grant is effective with regard to all those in whom the right has vested (those who owned the termination interest as of the date the notice of termination was served), including those who did not sign it. If a person in whom terminated rights vested dies, Section 203 provides that person's legal representatives, legatees (people who receive a gift under the terms of a will), or heirs at law represent him with regard to further grants. In order to be valid, any further grant must be made after the effective date of termination.

**The conversation included in this article serves as an example to illustrate the Section 203 termination of transfer provision. It is not, and should not be viewed as legal advice. Consult with a copyright attorney to discuss Section 203 as it relates to the facts of your specific case.**

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**Overview of Section 203**

**Who may benefit from Section 203?**

- The author is the initial owner of the Section 203 termination right.
- In the case of jointly authored works, majority action is required to terminate the transfer.

**Section 203 applies to:**

- Grants of transfer or license of copyright or any right under a copyright, whether by exclusive or nonexclusive license
- Executed by the author – the author must be living or must have been living when the grant was made

- On or after January 1, 1978.

**Section 203 does NOT apply to:**

- Works made for hire.
- Grants made by the author in his/her will.
- Transfers by the author's successors.
- Derivative works prepared prior to termination may continue to be utilized under terms of the original grant (but no new derivative works may be created after termination).

**When may termination of the grant take effect?**

- Any time during a 5-year window beginning 35 years from the date of execution of the grant.
- If the grant covers the publication of the work, any time during a 5-year window beginning at the earlier of: 35 years from the date of publication or 40 years from the date of execution of the grant.

**How does one terminate the grant?**

- Before serving notice, must make a reasonable investigation as to the current ownership of the rights to be terminated, and based on such investigation:
- Must serve notice on the grantee or grantee's successor in title.
- Either by personal service or by first-class mail sent to an address which, after reasonable investigation, is found to be the last known address of the grantee or successor in title (37 C.F.R. Section 201.10(d)(1)).

**Notice of Termination requirements (C.F.R. Section 201.10):**

To be effective the notice must:

- Be in writing.
- Clearly state that the termination is being made under Section 203 of title 17 U.S.C.
- Be signed by the author or the majority owner(s) of the termination interest, or their authorized agents; the signature of each person making the termination must be accompanied by a typed or legibly printed statement of that person's full name and address.
- State the intended date of termination, which must fall within the 5-year period.
- Be served no later than 2 years before the intended termination date BUT may be served up to 10 years before the beginning of the 5-year period.
- Identify the grant or grants sought to be terminated, its date of execution, and, if the grant covered the right of publication of a work, the date of publication of the work under the grant.

- Include the name of each grantee whose rights are being terminated, or the grantee's successor in title, and each address to which the notice is being served.
- Identify the author or authors, title (failure to include this information renders the termination ineffective) and, if possible, the copyright registration number for each work to which the notice of termination applies.
- Be recorded in the Copyright Office before the effective date of termination.

If the author dies and the termination is being exercised by the successors of the deceased author, the notice must:

- list the names and relationships to the deceased author of that author's surviving spouse, and all of that author's surviving children, and where any of that author's children are dead, all of the surviving children of the deceased child of that author; and
- specifically indicate the person or people executing the notice who constitute more than one half of the author's termination interest.

Alternatively, the notice exercised by successors of the deceased author may include both of the following:

- a statement of as much of such information as is currently available to the person or people signing the notice, with a brief explanation of the reasons why full information is or may be lacking; together with
- a statement that, to the best knowledge and belief of the person or people signing the notice, the notice has been signed by all of the people whose signature is necessary to terminate the grant under section 203, title 17 U.S.C. or by their duly authorized agents.

**Requirements for recording notice of termination with the Copyright Office:**

- Pay \$80 fee to the Copyright Office per document with no more than one title (an additional fee of \$20 is required for each group of 10 or fewer titles covered in the notice).
- Include copy of notice of termination – copy must include the actual signatures or a reproduction of the actual signatures appearing on the notice.
- Must include a statement of the date on which notice was served, and the means by which it was served (unless this information is already included in the notice itself).
- Recordation date is date on which the Copyright Office receives, copy of the notice of termination and the statement.
- Once notice is recorded, it is returned to the sender with certificate of record.
- Must record notice prior to effective date of termination.