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IS AN AGREEMENT TO SHARE IN AN INCOME STREAM DERIVED FROM COPYRIGHT EXPLOITATION SUBJECT TO COPYRIGHT TERMINATION?

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In 1998, Sonny Bono ("Sonny") went up a mountain to ski in South Lake Tahoe but failed to make it back down. The death of a music icon who had also served in Congress was major news at the time. But from a copyright point of view, the full repercussions of his death are only now beginning to be made clear.

On March 14, 2023, the U.S. District Court for the Central District of California issued a decision in a closely watched case involving copyrights in and to musical compositions written in whole or in part by Sonny. After reviewing the Marital Settlement Agreement under which Sonny and his former wife Cher agreed to share the income stream flowing from copyrights in and to the musical compositions, a contract controlled by state law, the court ruled that the grant of a right to share in a royalty split was not subject to copyright termination.

With respect to the "Composition Royalties" at issue in the case, the court reasoned that a grant of a copyright interest (a Section 106 right) is subject to copyright termination, but the grant of a right to share in an income stream is not subject to copyright termination. (*Cher v. Mary Bono,* USDC, Case No. LA CV21-08157 JAK (RAO).)

The ruling in the Cher case is consistent with other court decisions. *See Yount v. Acuff Rose-Opry*, 103 F.3d 830 (9th Cir. 1996) [federal copyright law not concerned with an assignment of a royalty under state law]; *Broadcast Music, Inc. v. Hirsch*, 104 F.3d 1163 (9th Cir. 1997) [in dispute over priority between songwriter's creditor and IRS, creditor prevailed because the contractual grant of a royalty stream, as opposed to the grant of a copyright interest, is not subject to copyright termination]; *Merrill v. Hyman*, 2022 WL 11727631 (D. Conn 2022) [wife of lyricist who contracted away royalty stream could not terminate copyright because there was no grant of a Section 106 right].

Interestingly, the distinction between the grant of a copyright interest (yes, subject to copyright termination) and the grant of a right to receive an income stream per a contract controlled by state law (no, not subject to copyright termination) is a consistent through-line and rationale in all of these prior cases, even though the income stream itself at issue resulted from the exploitation of a copyright interest enumerated in Section 106.

Copyright termination is an extremely valuable right that typically provides enhanced bargaining leverage to the living author or his or her heirs. The right, often hotly contested, was established as part of the 1976 revision to the Copyright Act as to grants or transfers made after Jan. 1, 1978 (Section 203). The Sonny Bono Copyright Term Extension Act, enacted in Sonny's memory in 1998, extends the right to grants or transfers made prior to 1978 (Section 304(c)). These sections vest a living author or his or her heirs with the right to terminate certain types of licenses, grants and transfers of a copyright interest.

The policy underlying this statutory scheme is based on the recognition that many artists enter into agreements early in their careers, before achieving success, and therefore have missed opportunities to profit from their own works. The intent of the law is to give living authors or their heirs a "second bite of the apple," an opportunity to renegotiate a more equitable economic deal at a time when the respective bargaining positions of the parties are on a more equal footing. Once the copyright termination rights have been exercised and a new contract created, the author or the heirs cannot seek to effectuate a subsequent copyright termination. *See Penguin Group (USA) v. Steinbeck*, 537 F.3d 193 (2nd Cir. 2008) [notice of copyright termination from the third wife not valid because termination rights had been previously exercised]. In other words, the second bite is expected and allowed (assuming it is a Section 106 copyright interest as explained above), but there can be no third bite of the apple.

Copyright termination rights do not extend to works made for hire, although the analysis may be different under the 1909 Act. *See Dolman v. Agee*, 157 F.3d 708 (9th Cir. 1998) [soundtracks for Laurel and Hardy movies were not works made for hire because the copyright registrations, in the name of the composer, rebutted the work made for hire presumption]. Because only the "author" or his or her heirs can

effectuate a copyright termination, if the terminating party is a corporation or a "loan-out" company, the termination will not be effective. *See Waite v. UMG Recordings, Inc.*, 477 F. Supp.3d 265, 271, fn 22 (S.D.N.Y. 2020). Once a copyright interest has been terminated, the grantee is still entitled to exploit existing derivative works (e.g., the original movie and sequels nos. 2 - 4) but cannot create a new derivative work (e.g., a new sequel no. 5). Section 203(b)(1). The grantee would have to make a new deal with the living author or the heirs, shifting the leverage to them.

Because Congress' clear intent was to make sure that living authors or their heirs could actually get a second bite of the apple, it enacted companion Sections 203(a)(5) and Section 304(c)(5), providing that the right of copyright termination may be effected "notwithstanding any agreement to the contrary." In other words, a living author or his or her heirs are absolutely precluded from effectuating an "early" alienation of their copyright termination rights. To put it another way, U.S. copyright termination rights will spring back to life, even if the author or heirs have granted them away by virtue of a prior transfer, assignment, license or other grant pursuant to an "agreement to the contrary."

For this reason, many lawsuits involving issues of copyright termination turn on whether a prior assignment of rights is, or is not, "an agreement to the contrary." If yes, the copyright termination rights spring back to life at the proper statutory time, with the negotiating leverage that goes along with it in favor of the terminating party. If not, the author or heirs are out of luck.

Case law has gone both ways. In *Milne v. Slesinger, Inc.*, 430 F.3d 1036 (9th Cir. 2005), the Ninth Circuit held that a 1983 renegotiated agreement was not an agreement to the contrary but rather was a "re-grant." It noted that hundreds of millions of dollars had changed hands in reaching its ruling that copyright termination rights did not arise. In contrast, in *Classic Media v. Mewborn*, 532 F.3d 978 (9th Cir. 2008), the same Ninth Circuit ruled that where only a few thousand dollars had changed hands, the assignments at issue were agreements to the contrary and copyright termination rights did arise. *See also Marvel Characters Inc. v. Simon*, 310 F.3d 280 (2nd Cir. 2002) [an after-the-fact agreement to treat the Captain America character as a work made for hire after its creation was an agreement to the contrary; copyright termination rights did arise]. It should be noted that effective copyright termination applies only to U.S. rights, not foreign copyrights. It is thus important for the bargaining parties to understand their practical leverage during "second bite of the apple" renegotiations. If a rock and roll band successfully effectuated copyright termination vis-à-vis its music publisher and/or record label, it would only be able to "deliver" U.S. rights to any new grantees, not worldwide rights. It may therefore not have as much leverage in new negotiations as it believed.

The law on copyright termination, including what constitutes an "agreement to the contrary," as well as which types of licenses, grants, transfers and agreements are subject to copyright termination, will no doubt continue to develop. We can expect to see further evolution of the law as more and more works reach their copyright termination dates each year.

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