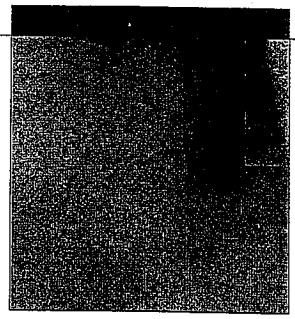

What Estate Planners Need to Know About Copyrights

The rules that apply to tangible property do not apply in one unique, narrow area of the law that deals with intangible property—the law of copyrights. This article analyzes the issues surrounding copyrights that estate planners should be aware of.

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If you are like many estate planning lawyers, you may think that Superman, Mickey Mouse, and plays are the province of intellectual property lawyers, not trusts and estates lawyers. You'd be wrong. A key duty of the trusts and estates lawyer is, of course, to identify assets of an estate. In discharging this duty, imagine you sit down with a new client, an author, and have him list his assets. He tells you about the physical assets, the house, the car, the boat, the jewelry. These may be the things he bought with the ongoing royalties he gets from an old assignment he made of the copyright in his book to his publisher. You meet his spouse and children, list the assets, put them in a trust to avoid tax, and are content with a job completed. The client is happy. For now.

Background

Most people, nonlawyer clients specifically, quite logically recognize that if they assign their car or computer to a third party in a transaction, they have lost that asset unless the contract provides them some right to undo the transaction they entered into. When I buy a car, I give my money and the car company gives me a car—assigns title to and ownership to the car to me. No one would think the car company could come back to me and take back the car, nor does anyone really think that years after the purchase he could return the car and get his money back (lemon laws aside). These are common sense principles. And not surprisingly, the law that deals with physical, tangible property correctly reflects these basic principles.

But these obvious rules that apply in the context of tangible property do not apply in one unique, narrow area of the law that deals with intangible property—the law of copyrights. In the law of copyrights, assignments of copyrights your client may have made many years ago—where he gave up his copyrighted work and the publisher gave him money for it—can years later be revoked, and he can recapture his copyright without having to return the consideration he was given for the initial assignment. It gets better.

This right to terminate a prior assignment is an absolute right, belonging to the creator and his or her widow/widower and children/grandchildren. This is a unique rule to copyright law and does not apply in all the other areas of the law that deal with intangible intellectual property, such as patents or trademarks. As with all rules, there is one exception: if the work was a work for hire, the recapture/termination provisions do not apply. (Whether a work was

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a work for hire is itself a complicated question under the Copyright Act, and not within the scope of this article.) For you, a copyright is an asset and its existence needs to be explored so you can ensure clients trigger their right to terminate a prior copyright assignment.

There is another side to this coin that is also relevant to you. Clients may have copyrighted works they have not assigned, but they have very specific intentions about the copyrights upon their death. And this termination methodology reflects a rule of law that vests in the creator's widow or heirs the right to effect the termination of the creator's assignment *even if* the creator affirmatively left his copyrighted creations to other third parties in his or her trust. In other words, you may have a client who owns a copyright and leaves his work to his foundation; he dies; and it passes under state law through his trust to the foundation. Your efforts could be for naught, however, because federal law trumps state law, and your client's widow and heirs have the unqualified right to recapture that copyright at certain times, thereby gutting the testamentary intent. Thus, as well as marshalling the estate's assets (the right to terminate prior assignments), you also have to be cognizant of the law that addresses how your client can dispose of his owned copyrights in a way that does not allow disgruntled heirs to undo such a transaction, and the rules for this are not necessarily intuitive.

This legal regime puts estate planning lawyers in the middle of federal copyright law, and this article will explore these issues for the trust and estate lawyer.

Copyright basics

We begin, naturally, in the beginning. The Founding Fathers recognized the immense value to society of the arts, and the need to encourage people to create content to advance our collective human experience. So, the Constitution specifically gave Congress the obligation to create a set of laws to protect copyrights and promote the progress of science and the arts.[1] That "progress" includes the copyright.

What is a copyright? A *copyright* is just that: the *right* to *copy*. It is, of course, now broader than just the reproduction right; it includes the right to display, publicly perform, reproduce, exhibit, and create derivative or adaptive works.[2] A copyright exists in myriad intellectual creations: books, stories, plays, music, movies, architectural works, source code, art and sculptures, among other things. It exists at the moment one creates her work in a tangible medium of expression—i.e., pen to paper, fingers to keys on the computer, events to film, music to recording device.[3]

Since the establishment of our Republic, Congress has passed several Copyright Acts to encourage the creation of works of art and to protect both the author's right not to be copied and also the public's right to borrow from works to advance human knowledge, discourse, ideas, and progress. One fundamental practical reality that has always been obvious to Congresses in various time periods is that in the marketplace, authors, artists, musicians and other content creators are often at a serious disadvantage to corporate interests that may be interested in buying their creative works. As a result, artists lack bargaining power and often undervalue their works, especially when promised a quick paycheck after years of toiling in obscurity. For this reason, there are termination provisions in the Copyright Act that serve to redress this uneven leverage to help fulfill the mandate to promote science and the arts.

To protect content creators, Congress at the turn of the last century created a right in the then-existing 1909 Copyright Act that allowed content creators to revisit years later an assignment they may have made of their creations.[4] In effect, content creators could at a specified future date terminate the previous assignment and take back their copyright. As a practical matter, what this meant was that if the assigned intellectual property in the intervening years had become tremendously valuable, then the owner of it would renegotiate with the author and pay the author more money so that the owner could continue owning and exploiting it. The pie, so to speak, was able to be re-sliced.

This system is one that Congress decided struck the appropriate balance between (1) not punishing purchasers who post-purchase make something valuable and (2) fairly rewarding content creators for their intellectual endeavors, which have unique value. Under the 1909 Act, Congress effected this with two copyright terms, each for 28 years. Congress did this, instead of providing for one 56-year term, so that any assignment of the copyright could be revisited at the renewal of the second 28-year term by the assignor. And under the current copyright act (which abandoned two terms, and instead made a copyright last for the life of the author plus 70 years), Congress has effected this policy by allowing an assignor to terminate a prior assignment 35 years after the assignment.

1 U.S. Const. Art. I, § 8.
2 17 U.S.C. § 106.
3 17 U.S.C. § 102.
4 17 U.S.C. § 28, *repealed* by 1976 Copyright Act.

The copyright recapture and termination right

Superman and copyright law. So where does Superman fit in all this? In the 1930s, two high school friends, Jerry Siegel and Jerome Shuster, came up with an idea for a superhero who fought for justice, had superhuman strength, could fly and wore a red, blue and yellow costume with a cape. This superhero came to Earth from a different planet, Krypton, a planet that due to its arrogance had destroyed itself. Krypton's lone survivor was a boy who came to Earth and was raised by farmers in Kansas. He had superpowers and also an alter ego, Clark Kent, to hide his true identity. After trying different formats and after several companies passed on the option, Siegel and Shuster sold this idea in a comic book format for $130 to DC Comics in 1938.

At the time, no one knew what Superman might be worth one day, but the law was (apparently) clear that they could revisit their assignment in 1966 and renegotiate for the second 28-year term, thereby effecting a renegotiation if Superman became valuable. But in the 1940s the Supreme Court in a 5–3 decision in *Fred Fisher Music Co. v. M. Witmark & Sons*,[5] wrongly interpreted the Copyright Act to gut this termination and renewal right. In effect, *Fred Fisher* held that the right to terminate could be assigned away (it was not sacrosanct) and so assignments of "all rights" could include not only the first 28-year term, but also the second 28-year term.

As a result, Siegel and Shuster lost the right to revisit in 1966 the value of Superman, which by then was already far, far more valuable than $130. Because the Supreme Court made the right assignable, it also meant that publishing companies subsequently routinely would require that assignment on the front end, thereby gutting the very purpose of the 1909 Act's duality of copyright terms.

Later in life, Siegel and Shuster sadly were destitute. As *The New York Times* wrote in 1975: "Two 61-year-old men, nearly destitute and worried about how they will support themselves in their old age, are invoking the spirit of Superman for help. Joseph Shuster, who sits amidst his threadbare furniture in Queens, and Jerry Siegel, who waits in his cramped apartment in Los Angeles, share the hope that they each will get pensions from the Man of Steel."[6] Meanwhile, the owners of Superman made millions if not billions of dollars. After a public outcry about this wealth disparity and the condition of the very creators of Superman, the then-owner (Warner) gave them each a pension of sorts with some health care benefits. But it did not give them a piece of the action.

Congress eventually repealed the *Fred Fisher* Supreme Court decision and, when it rewrote the Copyright Act in 1976, it made crystal clear that any prior assignment of a copyright was terminable by the author (unless the author's creation was a work for hire) before the start of subsequent renewal periods and any agreement to the contrary was fully void.[7]

And it was terminable not only by the creator but also by the creator's heirs. Congress outlined the order of interest of people—the heirs—who could exercise the right to terminate a prior assignment: first the widow/widower and, if there are children or grandchildren, then the widow(er) owns a 50% interest and the children/grandchildren own the other 50% of the author's interest on a per stirpes basis.[8] If there is no widow or widower, and there are children or grandchildren, the interest is owned per stirpes by the children and grandchildren. Moreover, if there are no heirs, the right to terminate is owned by the author's executor, administrator or trustee.[9] In order to trigger this right to terminate, a majority of the interest must vote to do so.[10]

Finally, the definition of "widow" and "children" is not necessarily consistent with certain state law definitions. "Widow" or "widower" is defined as follows: "the author's surviving spouse under the law of the author's domicile at the time of his or her death, whether or not the spouse has later remarried."[11] And the term "children" is defined as follows: "person's immediate offspring, whether legitimate or not, and any children legally adopted by that person."[12] There is no federal definition of "grandchildren."

This termination right is different depending on when the work was created. The key date in the copyright world is 1/1/1978. If the work was created before that date, the 1909 Copyright Act applies. Under the 1909 Act, again, a copyright lasted for 28 years with a second 28-year renewal term. Congress has twice amended the life of 1909 Act works, adding 19 years in 1976, for a total life of 75 years, and then again adding 20 years in 1998, for a total life of 95 years. Accordingly, under the 1909 Act as amended several times subsequently, any 1909 Act work that has been assigned can now be terminated at several distinct times all of which are at the various renewal dates for 1909 Act copyrights: 56 years later or 75 years later. Currently, the total life of a

5 318 U.S. 643, 656-59 (1943).

6 Breasted, "Superman's Creators, Nearly Destitute, Invoke His Spirit," N.Y. Times (11/22/1975).

7 17 U.S.C. § § 203, 304.

8 17 U.S.C. § § 203(a)(2)(A), 203(a)(2)(B), and 203(a)(2)(C).

9 *Id.*

10 *Id.*

11 17 U.S.C. § 101.

12 *Id.*

1909 Act copyright is 95 years, so if the author or his or her heirs trigger a termination at the 75-year mark, they will own the copyright for the last 20 years until the work enters the public domain. And if the author or heirs fail to trigger a termination when the first opportunity arises (56th year), they can trigger a termination at the second or third opportunities time (75th year).

And so enters Mickey Mouse. Several years ago, when Mickey Mouse was almost 75 years old and about to enter the public domain in 2003 (because 1909 Act works then lasted for 75 years), Congress—no doubt swayed by the lobbying influence of Disney and other holders of copyrights that were on the verge of entering the public domain—added 20 years of life to 1909 Act works, thereby giving such works a 95-year term (the current term). That Act was the Sonny Bono Copyright Extension Act. That last 20-year-term granted in 1998 is again now fast approaching as Mickey Mouse currently will enter the public domain in 2024, and if Disney does not want to lose copyright-based control over Mickey Mouse, it will no doubt revisit its lobbying efforts. If it succeeds, Congress may add another, say, 20-year term, and then the above-described scheme for termination would also apply, allowing authors or heirs to terminate a previous assignment at the 95th year for the last 20 years (years 96–115).

In contrast, for works created after 1/1/1978, the 1976 Act applies. Under it, a copyright lasts for the life of the author plus an additional 70 years.[13] It has a similar termination provision that allows creators to terminate previous assignments of copyrights. Specifically, a copyright assignment may be terminated 35 years after the original assignment.[14] For example, the copyrights to Van Halen's original materials in 1978 were probably owned by the record label that signed them, precisely because Van Halen, before their fame, lacked the prowess to properly and fairly negotiate the future value of their works. But in 2013, Van Halen will be able to terminate those assignments it made to the record label and secure back the copyrights to its original materials (Van Halen, being as successful as they are may have already bought them back as some artists have). When one considers the catalogue of music alone created in the late 1970s and early 1980s, it is clear that we are on the verge of a massive war over the reshuffling of ownership rights in valuable copyrighted material.

So what happened to Siegel and Shuster and Superman? The right to terminate the 1938 assignment started in a five-year window between the 56th and 61st year of the 1938 assignment, i.e., between 1994 and 1999. And they triggered a termination. Mr. Siegel and Mr. Shuster unfortunately died before they could see the outcome of their termination case, but their heirs in due course did trigger this right to terminate Warner Bros.'s rights to Superman. Massive litigation followed, and continued for years. In 2008, the federal trial court in California found that the heirs—Mr. Siegel's widow and child (and Mr. Shuster's heirs who filed a companion suit subsequently will follow in the same result)—did indeed have the right to terminate the assignment given almost 70 years ago, did in fact terminate properly, and, therefore, the copyright to Superman now resided with them.

As a result, Warner Bros. has now lost control domestically over all the copyrighted elements to Superman on a prospective basis with the exception of its right to continue to exploit the pre-existing derivative works.[15] (This is also why practically it is taking a long time to get a sequel to the last Superman movie into production.) A second damages phase of the case is under way, whereby the parties are analyzing the damages case to assess how much money the heirs are entitled to for post-termination exploitation by Warner Bros. This is why the termination right is so powerful and valuable: the assignee loses all domestic rights to create new derivative works from the specified date of termination (here, it was a specified date of April 1999) and can only exploit domestically pre-existing derivative works, which were made during the period of the assignment. The assignor and heirs, if successful, secure back the copyrights to license as they wish for all future uses, or none.

Accordingly, these federal laws provide an absolute right to terminate and it cannot be waived; the federal laws *almost* always trump any contrary state laws or probate proceedings and even the author's own wishes not to allow his heirs to secure his or her copyrights. Thus, if in the Van Halen example, they agreed in writing, even with the advice of their lawyers, to assign their copyrights to the record label and to waive the future termination rights, that waiver is invalid. It is an absolute, non-waiveable right, almost. The one exception for how an author can pass a copyright without worrying about disgruntled heirs triggering this termination right is by a will.

The exception: An author can avoid the termination right structure if a transfer is done by 'will.' There is one major exception that the trust and estates bar can find

[13] 17 U.S.C. § 302(a).

[14] 17 U.S.C. § 203(a)(3).

[15] Siegel v. Warner Bros., 581 F. Supp. 2d 1098 (C.D. Cal., 2008).

comfort in. An author who assigns his copyright by will, and by will only, can do so and heirs cannot challenge that transfer under the Copyright Act's termination provisions. Specifically, section 304(c) states: "In the case of any copyright subsisting in either its first or renewal term on January 1, 1978, other than a copyright in a work made for hire, the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, executed before January 1, 1978, by any of the persons designated by subsection (a)(1)(C) of this section, *otherwise than by will*, is subject to termination under the following conditions...."[16]

As a result, this means that a copyright that is transferred by will to a third party is a transaction a content owner can engage in if he or she wants to ensure that disgruntled heirs cannot challenge that transfer through the federal termination right scheme. But an agreement to leave a copyright in a will or a purported waiver of the right to terminate is void, and use of a trust to pass a copyright is not a defined exception in the federal Code. (This will-trust dichotomy raises obvious estate-based tax issues, which are outside the scope of this article but which you must consider.)

The Cave Dwellers case. Even then, however, problems can arise. One famous case involves the Playwright William Saroyan. William Saroyan penned a famous play in the 1950s called *The Cave Dwellers*. In his life, he had assigned the play to his Foundation. In his will, he left all copyrights to the play to a third-party Foundation, the William Saroyan Foundation, which was a trust. He subsequently died in the first 28-year term. But when the 28-year term expired in the 1980s, his heirs sought to take the renewal period of 28 years for themselves. The Foundation took issue with this tack, and a legal battle ensued. The court found that the bequest of renewal rights to the Foundation was without effect because the renewal rights never became part of the estate. The federal court held that the renewal term was not Mr. Saroyan's to grant away until he renewed—there is an absolute right of termination of a prior copyright assignment that belongs to the author and his heirs and vests in the renewal term.

More important, there is a quirk in the federal statutory regime. The "by will" exception discussed above does not apply to grants that were made in the first 28-year term when the author died in that first 28-year term. This contrasts to the scenario where the "by will" exception does work as discussed above, but because we are now past 2006, the temporal limits of the exception at issue in *Saroyan*[17] should never reappear for the wills and trusts lawyers. Thus, had Mr. Saroyan died in the second 28-year term, his "by will" designation would have thwarted his heirs' ability to terminate the copyright transfer and the Foundation would own the play. And so the heirs got the copyright to the play back. The point here is that the federal Code governs, it is a tricky labyrinth, and assumptions about how state intestacy principles apply may not always find harmony on the federal legislation.

'A feat accomplished against all odds.' One final point about the Superman case is important. The method of effecting a termination is remarkably complicated as it requires a lawyer to navigate a complicated set of copyright laws and ascertain the exact windows of time where notice must be provided so as to secure the copyright. There are equally important specifics that need to be identified in the termination notices so that they are valid. This *Superman* case exemplifies this complicated process.

The terminating party must specify a date in the five-year window where the termination is effective. The court then looks back 61 years from that date and any pre-existing copyright is not recaptured, and if pre-existing copyrighted material exists, then the purported termination could be undone entirely. This means the party seeking to terminate is in control of the specification of the date, and if too late a date is picked, the existing statutory copyright that predates that specified termination date can mean that the purported termination does not reach back far enough to capture *that* copyrighted material, thereby failing in its intent and leaving the copyright to that material that predates the 61-year window to the other side who may continue to exploit the copyright.

In the *Superman* case, the plaintiffs specified a termination date of 4/16/1999, exactly 61 years after the Siegel-Shuster assignment on 4/16/1938. Thus, any pre-existing Superman copyright material was not recaptured. Warner Bros. in discovery found a 4/10/1938 advance sheet on the Superman comic, which had been published with all the appropriate copyright formalities. Warner Bros. argued that the advance sheet gutted the plaintiff's case. Ultimately, the court rejected Warner Bros.'s argument because the advance sheet was a small black-and-white picture that did not mention the name Superman, and only showed at best a man in black and white leotards holding a car. The federal court, then, concluded that

[16] 17 U.S.C. § 304(c) (emphasis added); see also 17 U.S.C. § 203(a) (same rule for 1976 Act works).

[17] See Saroyan v. William Saroyan Foundation, 675 F. Supp. 853 (S.D.N.Y., 1987).

Warner Bros. did not lose the right to tell stories about *that*.

For these reasons, the laws on termination are so byzantine that to navigate them successfully is "a feat accomplished against all odds" as one leading copyright commentator has stated.[18]

How to protect your clients and yourself

Estate planning lawyers in many ways are on the front lines when it comes to interacting with content creators who may have these assets that spring to life in the future. The practical reality is your clients think that their ancient assignment of a creative work is done and complete, like a car sale that no one revisits decades later. Your clients may not tell you about these assignments of copyright material if you don't ask because of the basic assumptions about property transactions. But the reality is that these types of intangible assets may be recovered as a matter of absolute federal law. If you represent anyone who was in the entertainment industry and was a content creator of any kind—an artist, musician, architect, screenwriter, writer or moviemaker—these are issues you should be thinking and asking about. Moreover, if you represent anyone who is a close relative of a content creator, these issues need to be explored.

In assessing what are the assets of an estate or client, you need to inquire about any ancient assignments of copyrights, because the right to terminate that assignment belongs to the assignor and his or her heirs, and can be incredibly valuable. Indeed, here you have two broad categories of clients who are affected by this federal regime on copyrights: (1) content creators who seek your help in marshaling their assets into a will or trust, and (2) widows, spouses, heirs, and the like who come to you for advice on how to challenge someone's will or trust or who want to understand the assets in the estate of which they are beneficiaries.

As a result, when you are representing clients who may have been content creators, they may have an asset even they don't know about: the right to terminate a prior assignment they may have made and recapture the copyright. That is an asset you want to ascertain, marshal to the estate and advise upon so that the creator takes proper legal steps to terminate a prior assignment or is at least on notice that he or his heirs may do so. There are important questions to ask: when did you create your work, when did you assign it, and so on. Because the law allows this right to be exercised in a few distinct windows of time for works created before 1/1/1978, and in only one window of time for works created after 1/1/1978, you need to understand the exact date of creation and assignment. Asking these questions is enough to identify the issue and get the client to a copyright lawyer to handle the intricacies of the Copyright Act and its notice provisions and specific, formalistic deadline periods for providing notice to effect the termination and recapture of the copyright. And even if they have missed all current opportunities to terminate, they may get another bite at the apple if Mickey Mouse is again saved from entering the public domain.

Alternatively, you may represent content creators who have not assigned their copyrights away, but who want their copyright creations to go to particular third parties and not their widow/children, much like William Saroyan did. You need to be able identify the same issues and advise the client about the problems posed by federal law. You need to make sure that, if you want to avoid a future disgruntled heir from seeking to terminate your client's grant, that your client puts the copyrights through a will. This federal exception is the only one to the termination right methodology. Or you may be representing a widow or heirs who want to challenge a will or trust, and they may have bona fide, strong grounds to secure copyrights for themselves irrespective of the author's use of a trust to move the copyrights. They, too, should be advised of this federal overlay, and referred to a copyright lawyer for proper advice about their rights under federal law, and on how to trigger those rights.

Practice Notes

When you are representing clients who may have been content creators, they may have an asset even they don't know about: the right to terminate a prior assignment they may have made and recapture the copyright.

Conclusion

As you can see, Superman, Mickey Mouse and William Saroyan do indeed matter not to just copyright lawyers, but also to estate planning lawyers. This article should hopefully allow you to spot the issues or amend your intake process to ask some additional, relevant questions. Identifying the issue and referring the client to a copyright lawyer is certainly preferable to never asking and one day potentially receiving a call from one's insurance carrier.

As for Superman, does this mean the Man of Steel will never fly again? It seems most unlikely that the heirs of Mr. Siegel and Mr. Shuster would mothball Superman until he enters the public domain in 2033. Practically, it seems a safe bet that the Man of Steel will fly again, only now there will be a different division of the profits. ■

[18] 2 Patry, *Patry on Copyright* § 7:52 (2007).