



Thinking ahead: What you should know about termination and reversion of copyright

BY SPENCER M. DARLING

The U.S. Copyright Act gives authors the right to terminate copyright assignments and licenses granted to third parties 35 years after those grants were effective.¹ Termination rights are codified in 17 USC §§ 203 and 304 and apply to all works of original authorship — literature, music, architecture, software, movies, photography, choreography, sculpture, and more. However, termination rights do not apply to “works made for hire.”²

Business and general practice attorneys often recommend that clients conduct business through a separate legal entity. Some of the reasons are well-established, including projecting a more businesslike structure, risk management, and protection of personal assets. However, in situations involving creative clients, conducting business through a

separate legal entity where the distinction between artist and company is not clear can lead to problems when artists seek to terminate prior grants of copyright. The question, then, is whether the creative work product is a “work made for hire” for their own company?³ If yes, then termination and reversion under § 203 is not available.⁴

This article illustrates how attorneys can create business entities for creative clients (referred to throughout this article as “artists” but includes software engineers, architects, songwriters, and other creators) to allow them to license their copyrighted work while preserving § 203 termination rights by structuring the relationship between the artist and their entity in such a way that precludes a work-made-for-hire argument.

THE IMPORTANCE OF TERMINATION RIGHTS

Generally, an artist (especially early in their career) will assign their work to third parties in exchange for “promotion and commercialization.”⁵ Then, “when an artistic work turns out to be a ‘hit,’ the lion’s share of the economic returns” goes to the third parties rather than the artist.⁶ Termination rights offer artists the chance to capitalize on their early success.

The story of Victor Miller, screenwriter of the film “Friday the 13th,” illustrates the importance of termination rights and the risks of an appearance of a work-made-for-hire relationship. Miller was paid \$9,282 for the screenplay to “Friday the 13th.”⁷ Released in 1980, the film made nearly \$60 million at the global box office⁸ and spawned a universe of sequels and crossovers.

When Miller attempted to exercise his § 203 rights, he was promptly met with litigation. The film’s production company argued that Miller wrote the screenplay as a work made for hire and, therefore, termination under § 203 was not available.⁹ While the U.S. Court of Appeals for the Second Circuit ultimately held that no work-made-for-hire relationship existed,¹⁰ a lack of foresight nearly prevented the reversion of Miller’s extremely lucrative copyright.

Miller’s story also illustrates that concerns about termination rights are not merely for established entertainment industry players. While “Friday the 13th” is now a horror classic, at the time of its creation it had a small budget of around \$500,000. At its inception, one could have dismissed “Friday the 13th” as an independent project with little long-term monetary value. However, Miller’s screenplay demonstrates the need to account for the possibility of a creative client’s breakout success. Thus, preservation of termination rights should be considered as a matter of course.

UNDERSTANDING WORKS MADE FOR HIRE

Preserving termination rights involves avoiding the creation of facts indicative of a work-made-for-hire relationship. When a work is truly a work made for hire, the hiring party (not the artist/creator) is considered the author.¹¹ Thus, no termination rights attach to the individual creating a work made for hire. While there are two ways a work can qualify as a work made for hire, this article focuses on works “prepared by an employee within the scope of his or her employment.”¹²

The definition of “employee” for the purposes of copyright law may differ from its definition in certain labor law contexts. In *Community for Creative Non-Violence v. Reid*, the U.S. Supreme Court held that whether someone is an employee is not a matter of state law or contract law but is governed by principles of “the general common law of agency.”¹³ Under agency law, whether someone is an employee depends on a number of factors. One of the most important factors is “the hiring party’s right to control the manner and means by which the product is accomplished.”¹⁴

The Supreme Court has provided “other factors relevant to this inquiry” including:

[1] the skill required; [2] the source of the instrumentalities and tools; [3] the location of the work; [4] the duration of the relationship between the parties; [5] whether the hiring party has the right to assign additional projects to the hired party; [6] the extent of the hired party’s discretion over when and how long to work; [7] the method of payment; [8] the hired party’s role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; [9] whether the hiring party is in business; [10] the provision of employee benefits; [11] and the tax treatment of the hired party.¹⁵

While this test falls short of a brightline rule,¹⁶ it is still instructive. A guiding principle for avoiding the creation of facts indicative of a work-made-for-hire relationship is ensuring that there is a separation between the artist and their entity so that it is clear the artist retains control over the manner and means by which the product is accomplished. The remaining factors (where applicable) provide additional considerations for reinforcing the separateness of the artist and their entity.

STRATEGIES FOR PRESERVING § 203 RIGHTS

The overall goal of any § 203 termination preservation strategy is ensuring that the structure of the entity, as well as the language of any contracts entered into by the entity, clearly illustrate that the artist is the creator of the work and maintains control over the manner and means through which the product is accomplished.

Articles of organization/incorporation are an opportunity to define the relationship between the artist and their entity. Rather than listing the purpose of the entity as being for all lawful purposes, the purpose could specify that the entity was established to exploit works of authorship created by the artist. The entity can also maintain its own policies designed to limit its control over the manner and means by which the product is accomplished. These policies can be drafted with reference to the 11 factors from *Reid*.

After the artist’s entity has been structured in a way that ensures the relationship between artist and entity does not resemble a work-made-for-hire relationship, attorneys can use other strategies to reinforce this relationship. Copyright registrations are public records and present an opportunity for lawyers to implement the relationship between artist and entity. The most important fields for defining this relationship are the author and claimant fields; the author field discloses the legal author of a work, whereas the claimant field names the work’s owner(s).¹⁷

Authorship and ownership are distinct concepts in copyright law. In general, a company is only listed as an author when a work is a work

made for hire.¹⁸ Mistakenly listing a company as an author opens the door for grantees to argue that the work is a work made for hire.¹⁹

The relationship between an artist and their entity can also be reinforced in contracts between the company and third parties. When an artist is licensing their works through their entity to a third party, care should be taken to create a clear chain of conveyance — for the artist’s entity to assign rights in the artist’s copyright, it must have either acquired rights from the author or is itself the author by virtue of a work made for hire. Hence, avoiding § 203 termination issues requires that attorneys ensure the artist formally executes a written assignment (or license) of copyright to their entity, making it clear that a conveyance by the artist’s entity to a third party originates from the initial conveyance from the artist to their company. This conveyance can be recorded with the U.S. Copyright Office, which provides the benefit of constructive notice.²⁰

Finally, when an artist uses their company to provide creative services that result in the creation of a copyrighted work, attorneys should take care to use appropriate contractual language. Artists’ companies are generally party to service agreements where the company agrees to “cause” the artist to perform certain services. Where the goal is for the artist to merely license the work created as a result of the service contract (i.e., where the goal is not for the work to be a work made for hire), the service contract should specify that the artist is the *author* of the work. Any language regarding assignments should also specify that the artist’s company will *cause* the artist (the author) to make the assignment. Once again, this creates a chain of conveyance that originates with the artist and strengthens the client’s position if a grantee later disputes termination and argues that the work was a work made for hire.

CONCLUSION

Termination rights are unique in that the value of these rights may be unknown at the time a copyright assignment or license is granted. Thirty-five years later, the rights to a copyrighted work could be priceless or, even if not commercially successful, could fare better in the hands of the original author or their heirs. On a more human level, copyright termination can be an important tool for an artist or their heirs to control an artist’s legacy. In the year 2059, someone will be grateful that an attorney, in setting up a business entity for an artist and drafting contracts relating to that entity, gave priority consideration to the issue of copyright termination.



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ENDNOTES

1. The policy rationale for this right of termination is due to the “unequal bargaining position of authors, resulting in part from the impossibility of determining a work’s value until it has been exploited.” House Report No. 94-1476.
2. 17 USC §§ 203, 304.
3. This argument has been attempted outside of the § 203 context. It is usually unsuccessful. See *Clancy v Jack Ryan Enters*, opinion of the United States District Court for the District of Maryland, issued Feb 10, 2021 (Civil Action No. ELH-17-3371); *Jules Jordan Video, Inc v 144942 Canada Inc*, 617 F3d 1146, 1155 (CA 9 2010); *Woods v Resnick*, 725 F Supp 2d 809, 824 (WD Wis 2010). Despite this, 3 Nimmer on Copyright § 11.02 treats this work made for hire argument as viable.
4. 17 USC § 203 (stating that termination is available “In the case of any work other than a work made for hire...”).
5. *Waite v UMG Recordings, Inc*, opinion of the United States District Court for the Southern District of New York, issued Jan 27, 2023 (Case No. 19-cv-1091 (LAK)).
6. *Id.*
7. *Horror Inc v Miller*, 15 F4th 232, 237 (CA 2 2021).
8. *Friday the 13th (1980)*, The Numbers <[https://www.the-numbers.com/movie/Friday-the-13th-\(1980\)#tab=summary](https://www.the-numbers.com/movie/Friday-the-13th-(1980)#tab=summary)> [<https://perma.cc/6ERA-PR4H>] (website accessed December 6, 2024).
9. *Horror Inc*, *supra* n 7.
10. *Id.*
11. 17 USC § 201.
12. 17 USC § 101.
13. *Community for Creative Non-Violence v Reid*, 490 US 730, 751; 109 S Ct 2166; 1Ed2d 811 (1989).
14. *Id.*; *Aymes v Bonelli*, 980 F2d 857, 861 (CA 2 1992) (noting that some factors, including “the hiring party’s right to control the manner and means of creation” are always relevant to the agency law inquiry and holds more importance than other factors).
15. *Reid*, *supra* n 13.
16. *Aymes*, *supra* n 14, noting that the *Reid* test can be “easily misapplied, since it consists merely of a list of possible considerations that may or may not be relevant in a given case.”)
17. Compendium of US Copyright Office Practices 3d § 404.
18. Compendium of US Copyright Office Practices 3d § 405.
19. See *Horror Inc*, *supra* n 7.
20. Compendium of US Copyright Office Practices 3d. § 101.3(A).



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