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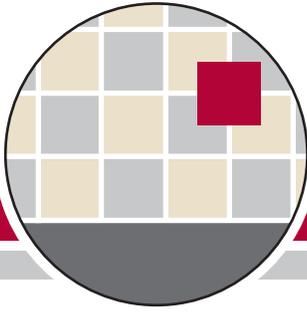
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Commentary: Revisiting the Derivative Works Exception of the Copyright Act Thirty Years After *Mills Music*

Robert S. Meitus*

INTRODUCTION

Section 203 of the U.S. Copyright Act of 1976 (the “Act”) allows authors or their heirs to terminate exclusive and non-exclusive copyright grants after thirty-five years.¹ This termination right is seen to incentivize creative authorship by allowing the author or her heirs to extract the fair value of a work after the true worth is determined.² An exception within Section 203 that allows derivative works created before termination to continue to be utilized by a grantee following termination³ (the “Exception”) was included in order to balance the rights of creators of derivative works with those of terminating parties.⁴ Many scholars and practitioners opine that the law surrounding the Exception is settled based on the nearly thirty-year-old *Mills Music, Inc. v. Snyder* Supreme Court decision⁵ and the limited case law that followed.⁶ But given that § 203 terminations ripened for the first time in 2013, resulting in

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1. 17 U.S.C. § 203(a) (2012).

2. *Music Sales Corp. v. Morris*, 73 F.Supp.2d 364, 372 (1999).

3. 17 U.S.C. § 203(a)(3) (2012).

4. The legislative history indicates that Congress intended the termination provisions and the Exception to produce a balance among various interests. See U.S.CODE CONG. & ADMIN.NEWS 1976, pp. 5739, 5740, 5756; S. REP. NO. 94-473, at 108 (1975).

5. *Mills Music, Inc. v. Snyder*, 469 U.S. 153 (1985).

6. See, e.g., *Woods v. Bourne Co.*, 60 F.3d 978 (2d Cir. 1995) (holding that performance royalties for post-

an increased volume of termination notices being filed in 2012 and 2013 as compared to the immediately preceding and following years,⁷ it seems worthwhile to reexamine the nature of the Exception. *Mills Music*, decided in a 5–4 split, has received notable criticism over the years,⁸ and I will argue that its application is open to interpretation and should be narrowly construed to best serve the Act and its underlying legislative intent. This interpretation should allow third party licensees in certain circumstances to obtain new licenses from terminating parties or their agents, replacing existing pre-termination licenses.

Like the old adage “when you’re a hammer, everything looks like a nail,” practicing attorneys used to seeking beneficial opportunities for their clients naturally look for all possible advantages in the copyright termination process. For instance, once notices are filed with a music publisher or a record company to terminate U.S. copyright grants, such entities will often renegotiate the terms of an existing contract in order to retain all rights going forward with the respective composer(s) or recording artist (often the same person or musical group). While the termination right provides the composer and artist with valuable leverage in such renegotiations, the Exception disadvantages terminating parties, especially after the *Mills Music* decision, which held that “the ‘terms of the grant’ as existing at the time of termination govern the author’s right to receive royalties; those terms are therefore excluded from the bundle of rights that the author may seek to resell”⁹ For instance, while a composer could cause the reversion of her U.S. right to issue *new* licenses in her musical compositions, a music publisher would argue that many valuable *existing* licenses, including existing synchronization and mechanical licenses (to be discussed in Part II below), must remain in place under the terms of the original publishing agreement between the composer and the publisher. I argue that the *Mills Music* holding should be interpreted literally as requiring only that the terms of the actual grant (*e.g.*, the specific mechanical license entered into between a publisher and the record company) remain in force post-termination, and the rights under that specific agreement are excluded from the reversion by reason of the

termination broadcasts of pre-termination audio sound recordings belong to post-termination copyright owner as long as the underlying recorded song did not itself qualify as a copyrightable derivative work of the original composition); *Fred Ahlert Music Corp. v. Warner Chappell Music, Inc.*, 958 F. Supp. 170 (S.D.N.Y. 1997) (holding that a pre-termination publisher does not have authority to license new uses of a pre-termination derivative work after termination (*i.e.*, new compilations, soundtrack albums, and scores)).

7. The Public Records and Repositories division of the Copyright Office, provided the following statistics upon request:

2011 notices received: 399 (151 under § 203; 248 under § 304).

2012 notices received: 482 (274 under § 203; 208 under § 304).

2013 notices received: 401 (203 under § 203; 198 under § 304).

2014 notices received: 234 (72 under § 203; 54 under § 304) (as of 8/13/14).

8. See *Woods*, *supra* note 6, at 987, citing 1 PAUL GOLDSTEIN, COPYRIGHT, § 4.9.3 at 498-501 (1989); WILLIAM F. PATRY, LATMAN’S THE COPYRIGHT LAW 113 (6th ed. 1986); Howard B. Abrams, *Who’s Sorry Now? Termination Rights and the Derivative Works Exception*, 62 U. DET. L. REV. 181, 224–32, 238–39 (1985); Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 901–02 (1987).

9. *Mills Music*, 469 U.S. at 174 (interpreting an identical provision in § 304 applicable to copyrights subsisting as of January 1, 1978).

Exception. However, depending on the terms of the existing agreement, a third party licensee may be able to unilaterally terminate. In such a case, neither the Exception nor the *Mills Music* decision should be construed to prevent the third party licensee from entering into a new agreement with the terminating party or its agent.

To bring this analysis to life, let's look at a real world example. The rock band The Police topped the charts in 1983 with their "Synchronicity" album on A&M Records, featuring the number one hit "Every Breath You Take," written by Gordon Sumner aka Sting and published by EMI Blackwood Music. Assuming for the purpose of analysis that Sting granted publishing rights in the song to EMI in 1983, then he should be able terminate such transfer of rights in the U.S. copyright in the song in 2018 (35 years after the date of the grant to EMI). Even if such termination was filed properly, EMI likely would continue to collect royalties from A&M for the ongoing sales of "Every Breath You Take" (through downloads and physical album sales) through EMI's existing mechanical license, presumably granted to A&M in 1983. However, provided such license is terminable under its own terms, A&M could terminate the original mechanical license and obtain a new one from Sting or his new publisher.

The Exception was intended to protect the third parties who create derivative works (*e.g.*, A&M Records) from the potential negative consequences of termination, including losing the rights to sell their derivative works or being forced by copyright owners to pay higher prices for such rights¹⁰. Interpreting *Mills Music* and the Exception broadly to lock in every existing license for a derivative work would be contrary to accepted principles of contract law and would have the effect of penalizing third party licensees by preventing them from striking more favorable post-termination deals with copyright owners. This is neither equitable nor what the law intended. My conclusions are supported by both a plain reading of the Act and the relevant legislative history, and reinforce the policy objectives of § 203 and § 304¹¹ as well as the purpose of the Exception.¹² This commentary places importance on the permissive nature of the word "may" in the Exception, as opposed to *Mills Music* and subsequent courts, which concentrated on an analysis of the terms "grant" and "utilize" in their respective decisions. Put simply, under the Exception, derivative works *may* continue to be used under the authority of an original grant, consistent with the *Mills Music* holding. But a third party creator of a derivative work, such as a record company, may instead seek a new license from a terminating party, and the Exception should not limit its ability to do so. The *Mills Music* court was not asked to address this specific issue, and it seems that no court has addressed it since.

10. See 17 U.S.C., *supra* note 3.

11. H.R. REP. NO. 94-1476, at 124–28; 139–42 (1976).

12. STAFF OF S. COMM. ON THE JUDICIARY, 88TH CONG. COPYRIGHT LAW REVISION PT. 4: FURTHER DISCUSSION AND COMMENTS ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT 39 (Comm. Print 1964) (statement of Barbara Ringer). The House Report that accompanied the 1976 Act also supports this

I. MUSIC LICENSING

Before examining the relevant statutory language and jurisprudence, I will describe certain aspects of the music industry to provide perspective for the subsequent legal analysis. The term “mechanical royalty” originated in the 1909 Copyright Act in connection with payments for devices “serving to mechanically reproduce sound,” such as piano rolls and wax cylinders.¹³ Through the advent of analog and digital technologies, mechanical devices became outdated, but the term “mechanical” has continued to be used in the arena of copyright law and the music industry. Today, a mechanical license refers to a contract granting a record company and/or distributor the non-exclusive right to make and sell a sound recording embodying a reproduction of a musical work. Such agreements can be voluntary or compulsory, as required by the Act.

A form of the compulsory mechanical license originally was enacted in § 1(e) of the 1909 Copyright Act and was updated in § 115 of the Act.¹⁴ Section 115 modifies a copyright owner’s exclusive right in a nondramatic musical work (*i.e.*, a “song”) by providing a right for the public to obtain non-exclusive compulsory mechanical licenses to reproduce, distribute, and sell the song.¹⁵ Congress revisited the issue again in 1995 and expanded the right to cover digital phonorecord downloads under § 115.¹⁶ When a compulsory mechanical license is invoked, a copyright owner does not personally grant a license, but, rather, a license is conferred upon the manufacturer who must comply with the terms of § 115,¹⁷ including payment of a mechanical royalty set by the Copyright Royalty Board in accordance with strict notice and quarterly accounting procedures.¹⁸

In actual practice, the compulsory license is rarely used in the music industry, and parties typically enter into negotiated agreements with the threat of the compulsory mechanism effectively setting a ceiling on the price of a mechanical royalty. Furthermore, consensual negotiations typically involve the services of the Harry Fox Agency (“HFA”), which was

13. DONALD. S. PASSMAN, *ALL YOU NEED TO KNOW ABOUT THE MUSIC BUSINESS* 213 (8th ed. 2012).

14. 17 U.S.C. § 115(a)(1). Scope of exclusive rights in non-dramatic musical works: Compulsory license for making and distributing phonorecords.

15. *Id.* When phonorecords of a nondramatic musical work have been distributed to the public in the United States under the authority of the copyright owner, any other person, including those who make phonorecords or digital phonorecord deliveries, may, by complying with the provisions of this section, obtain a compulsory license to make and distribute phonorecords of the work. A person may obtain a compulsory license only if his or her primary purpose in making phonorecords is to distribute them to the public for private use, including by means of a digital phonorecord delivery.

16. *Id.*

17. 2 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 8.04[A] (2014); *see also* Nafal v. Carter, 540 F. Supp. 2d 1128, 1143 (C.D. Cal. 2007), *aff’d*, 388 Fed. App’x 721 (9th Cir. 2010).

18. *See* U.S. COPYRIGHT OFFICE, *MECHANICAL LICENSE ROYALTY RATES*, *available at* <http://www.copyright.gov/carp/m200a.pdf>. Currently, the rate is \$.091 or \$0.0175 per minute of playing time or fraction thereof, whichever is greater.

established in 1927 by the National Music Publishers' Association to act as a clearinghouse for licensing musical copyrights and is authorized to issue mechanical licenses on behalf of the major U.S. publishers.¹⁹ Following are extracts of the standard HFA mechanical license,²⁰ which includes references to the term "compulsory," but is, in fact, a voluntary license between a representative of the publisher and, typically, a record company:²¹

You . . . shall have all the rights which are granted to, and all the obligations which are imposed upon, users of said copyrighted work under the compulsory license provision of the Copyright Act, after phonorecords of the copyrighted work have been distributed to the public in the United States under the authority of the copyright owner by another person, except that with respect to phonorecords thereof made and distributed hereunder: You shall pay royalties and account to us as Agent for and on behalf of said Publisher(s) . . . For such phonorecords made and distributed, the royalty shall be the statutory rate in effect at the time the phonorecord is made . . . In the event that you fail to account to HFA and pay royalties as herein provided for, said Publisher(s) or his Agent may give written notice to you that . . . this compulsory license will be automatically terminated . . . You need not serve or file the notice of intention to obtain a compulsory license required by the Copyright Act.²²

The HFA license is nonexclusive and makes no reference to duration or term. In fact, many mechanical licenses omit any reference to duration, and some state that the license will endure "in perpetuity" or "during the term of the United States copyright in the composition."

Let us examine the absence of any durational language first. "An agreement without a fixed term of duration generally is terminable at will by either contracting party."²³ However, according to some authority, a contract of indefinite duration is not terminable at will if it contains express performance or default conditions.²⁴ Thus, a mechanical license of indeterminate duration, such as the standard HFA contract, likely would be terminable at will by the licensee, if the licensor were not in default of its accounting or other material obligations. It is less clear that the licensor (HFA or the publisher) could terminate the license at will, in light of the licensor's express grant of mechanical rights and the licensee's reliance on such grant to make and sell recordings. Whether the licensee may terminate is important to my argument, but whether the licensor may terminate is irrelevant, as will become clear as

19. HARRY FOX AGENCY, http://www.harryfox.com/find_out/aboutus.html (last visited Nov. 9, 2014).

20. Harry Fox Agency standard mechanical license.

21. If not a formal record company, often individuals obtain HFA or other mechanical licenses to record and distribute a "self-release" of their own recorded music.

22. See Harry Fox Agency, *supra* note 20.

23. 17B C.J.S. *Contracts* § 602 (2011) (internal citations omitted).

24. *Id.* (citing *Iraola & CIA, S.A. v. Kimberly-Clark Corp.*, 325 F.3d 1274 (11th Cir. 2003) (applying Georgia law)).

this commentary unfolds.

Next, let us turn to the example of a mechanical license that endures “in perpetuity” or “for the term of copyright,” which I have seen from time to time. A contract which purports to run in perpetuity must be clear about the parties’ intent in order to be enforceable,²⁵ and a contract will not be construed as imposing a perpetual obligation if doing so would be adverse to the public interest.²⁶ How would these contract principles apply to a mechanical license granting a non-exclusive right to a licensee in perpetuity or for the full term of copyright in the underlying composition? It seems clear that the licensor would be obligated to honor the license for the stated duration if the licensee did not default in its obligations. However, it is unclear that the licensee would be required to continue licensing a song if the licensee ever stopped manufacturing and selling a particular record; the license, in fact, would be dormant in that scenario. But, what if the licensee had another source of obtaining the mechanical rights in the same song and wished to continue making and selling the same record under a separate license? I would suggest that the initial mechanical license for a perpetual term or life of copyright could be terminated by a licensee in such circumstances, as long as the agreement did not state that the licensor shall be the sole or exclusive source of the licensed rights for the stated term. But, regardless of the right of a licensee to terminate in such situation, the first license could merely lie dormant while the licensee obtained rights from a terminating party or her new publisher.

By analogy, say I am a baker and have a standard purchase contract (simply stating price and delivery terms) to obtain a unique type of apple from Musgrave Orchards for my award-winning apple pies. For a number of years, Musgrave is the only orchard growing this type of apple, but then neighboring Melton’s Orchard obtains seeds and, after many years, it too begins producing the apples I need for my special pies. Nothing should prevent me from buying my apples from Melton’s, instead of Musgrave. Similarly, if a record label could obtain the mechanical rights for a song from another source (*e.g.*, a new publisher following termination of a copyright grant), there should be no reason that the record label could not choose to enter into a new license with the new publisher. But before being certain of this conclusion, we must examine the exact language of the Exception and how it has been interpreted by the courts.

II. THE STATUTORY LANGUAGE

Any judicial interpretation of the law usually begins with an analysis of the ordinary meaning of the statutory language. The general right of an author or heir to terminate a copyright transfer made after January 1, 1978, is set forth in § 203 of the Copyright Act as

25. *Id.* (internal citations omitted).

26. *Id.*

follows:

In the case of any work other than a work made for hire, the exclusive or nonexclusive grant of a transfer or license of copyright or of any right under a copyright, executed by the author on or after January 1, 1978, otherwise than by will, is subject to termination . . . Termination of the grant may be effected at any time during a period of five years beginning at the end of thirty-five years from the date of execution of the grant.²⁷

The Act also provides the following exception to the general right of termination:

[A] derivative work prepared under authority of the grant before its termination *may* continue to be utilized under the terms of the grant after its termination, [but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.]²⁸

For context, I have included in brackets the second clause of § 203(b)(1)—an exception to the Exception—although I will not address any cases involving preparation of derivative works following termination. Therefore, what is left seems fairly simple at first blush. The Exception simply mandates that a derivative work created prior to termination of a copyright transfer may continue to be utilized after the date of termination. For example, Universal Pictures would be able to continue to use Peter Benchley’s famous story and characters set forth in his book entitled *Jaws* as part of the derivative motion picture of the same name even if Benchley terminated any grant to Universal Pictures. It is possible that Benchley originally exclusively granted the motion picture rights to his literary publisher who, in turn, sublicensed these rights to the movie studio. In either case, under the plain language of the Exception it is clear that the movie “may continue to be utilized” by Universal Pictures “under the terms of the grant after its termination.”²⁹

No one yet has presented a legal challenge arguing that a direct or a third party licensee may not continue to utilize a derivative work following termination. Rather, the litigation around the Exception has focused on related issues, including, in *Mills Music*, whether the terminating party had the right to take over administration and collection for the existing mechanical licenses. We now turn directly to the *Mills Music* decision and a few important cases that followed.

27. 17 U.S.C. § 203.

28. 17 U.S.C. § 203(b)(1) (emphasis and brackets added).

29. *Id.*

III. *MILLS MUSIC V. SNYDER* AND ITS PROGENY

Under the facts of *Mills Music*, Ted Snyder had assigned his portion of the copyright in the song “Who’s Sorry Now” to a predecessor of Mills Music (“Mills”). Mills, itself and through HFA, issued over four hundred mechanical licenses to record companies to create and distribute various sound recordings of the song, each considered a derivative work under the Act.³⁰ The mechanical licenses obligated the record companies to pay royalties to Mills, who was in turn contractually obligated to pay fifty percent of such royalties to Snyder.

Following Snyder’s death and passage of the 1976 Act, Snyder’s heirs terminated the original assignment to Mills of the U.S. copyright in *Who’s Sorry Now*, and argued that they should receive all of the royalty income from the mechanical licenses issued by Mills prior to termination. The dispute raised the question of whether an author’s termination of a publisher’s interest in a copyright also terminates the publisher’s contractual right to share in the royalties from such derivative works.³¹

The District Court held that the record companies’ derivative works had been “prepared under authority of the grant” from Snyder to Mills. It concluded that the terms of the various contracts that had been in effect prior to the termination governed the record companies’ obligation to pay royalties. The court further ruled that Mills and the Snyders were each entitled only to their contractual 50% share in the net royalties.³² The Second Circuit reversed, arguing that the Exception preserved only the “grants” from Mills to the record companies (directly or through HFA) and that the reversion to the Snyder heirs included the right to collect royalties from those licenses.³³ The Second Circuit determined that the termination provisions were enacted entirely for the benefit of authors and their heirs; that the Exception was necessary to protect the “utilizers” of derivative works; and that Mills as a publisher was in neither class.³⁴ The court went on to explain that, because Mills as a publisher was neither an author nor a “utilizer,” it was not a member of either class that the termination provisions were intended to benefit.³⁵

In reversing the Second Circuit’s decision, the Supreme Court held that Mills was entitled to

30. 17 U.S.C. § 101 (“A ‘derivative work’ is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, 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, represent an original work of authorship, is a ‘derivative work.’”).

31. *Mills Music*, 469 U.S. at 156.

32. *Id.* at 162–63 (citations omitted) (internal quotation marks omitted).

33. *Harry Fox Agency, Inc. v. Mills Music, Inc.*, 720 F.2d 733, 743 (2d Cir. 1983).

34. *Id.* at 739–40.

35. *Id.*

its 50% share of the royalty income in dispute, pursuant to the original agreements,³⁶ holding, “[t]he ‘terms of the grant’ as existing at the time of termination govern the author’s right to receive royalties; those terms are therefore excluded from the bundle of rights that the author may seek to resell unimpeded by any ill-advised prior commitment.”³⁷ More specifically, the Court explained:

The contractual obligation to pay royalties survives the termination and identifies the parties to whom the payment must be made. If the Exception is narrowly read to exclude Mills from its coverage, thus protecting only the class of ‘utilizers’ as the Snyders wish, the crucial link between the record companies and the Snyders will be missing, and the record companies will have no contractual obligation to pay royalties to the Snyders. If the statute is read to preserve the total contractual relationship, which entitled Mills to make duly authorized derivative works, the record companies continue to be bound by the terms of their licenses, including any terms requiring them to continue to pay royalties to Mills.³⁸

The Supreme Court saw *both* the record company licensees and the publisher as “utilizers.” Accordingly, it did not see the term “utilize” in the Exception as a limitation on the right of *Mills* to continue to administer and collect royalties for existing mechanical licenses. In contrast, Justice White, dissenting, wrote, “In this case, only the recording companies—not Mills—can exercise the right to utilize the derivative works.”³⁹ He was correct, as “utilize” means to “make use of; turn to practical use or account.”⁴⁰ When a record company obtains a mechanical license, either through the compulsory provisions of § 115 of the Act or voluntarily from a publisher, songwriter, HFA or other agency, it is the record company that actually *utilizes* the sound recording by recording, manufacturing, marketing, distributing, and selling it. A music publisher does not *utilize* the sound recording under any common understanding of this word. But, regardless of the majority’s tortured interpretation of the term “utilize” in the Exception, the horse is out of the barn, and the Court has spoken: music publishers have the right to administrate and collect pursuant to existing mechanical licenses the publishers have issued to record companies prior to the date of termination.

However, nothing on the face of the *Mills Music* decision prohibits a record company from

36. *Mills Music*, 469 U.S. at 178.

37. *Id.* at 174.

38. *Id.* at 169.

39. *Id.* at 179 (White, J., dissenting) The first footnote in Justice White’s dissent clarifies, “As the Court of Appeals observed, if Mills did attempt to utilize any of the derivative works, for example by selling copies of the phonorecords of the copyrighted work to the public, it would be infringing on the derivative copyrights. *Harry Fox Agency, Inc. v. Mills Music, Inc.*, 720 F.2d 733, 739 (2d Cir. 1983)”.

40. *Utilize Definition*, MERRIAM-WEBSTER ONLINE DICTIONARY, <http://www.merriam-webster.com/dictionary/utilize> (last visited Sept. 29, 2014).

obtaining a new mechanical license from the terminating party or their agent (e.g., a new publisher). Some may argue that the Court, by stating “those terms are therefore excluded from the bundle of rights that the author may seek to resell,”⁴¹ is just such a prohibition. But the word “terms” in this sentence refers to “‘terms of the grant’ as existing at the time of termination,”⁴² and therefore it is only the terms of the specific, existing mechanical license that are excluded from the copyright reversion. Thus, this holding should not restrict new mechanical licenses from being granted, under the authority of terminating parties, to record companies that had previously obtained prior licenses from publishers prior to a respective termination.

As one academic wrote soon after the *Mills Music* decision, the Court requires that, where multiple levels of licenses govern use of a derivative work, the “terms of the grant” encompass the original grant from author to publisher and each subsequent grant necessary to enable the particular use at issue.⁴³ If one of those grants requires payment of royalties by licensees to an intermediary, such as a publisher, then continued utilization of derivative works “under the terms of the grant” requires continued payments to the intermediary. The effect of *Mills Music*, then, is to preserve during the post-termination period the panoply of contractual obligations that governed pre-termination uses of derivative works by derivative work owners or their licensees.⁴⁴ I do not disagree with this statement. If there is an ongoing contractual obligation of a record company to license exclusively from a publisher who granted a mechanical license prior to termination, then such party may be in breach if it were to enter into a new license with the terminating party or its agent following termination. Notably, there is no such exclusivity provision in the HFA license or in any other mechanical licenses I have seen in my practice.⁴⁵

The two most pertinent and influential cases to build on the *Mills Music* holding occurred in the Second Circuit: *Woods v. Bourne Co.*, which addressed the right to collect public performance royalties derived from pre-termination derivative works, and *Ahlert Music v. Warner/Chappell Music*, which addressed new uses of pre-termination derivative works.⁴⁶ While neither case dealt with the specific issue addressed in this commentary, both opinions are worth discussing in connection with what they said about the language and application of the Exception. In the *Woods* case, the Second Circuit interpreted *Mills Music* “to require that where multiple levels of licenses govern the use of a derivative work, the ‘terms of the grant’ encompass the original grant from author to publisher and each subsequent grant necessary to

41. *Mills Music*, 469 U.S. at 174.

42. *Id.*

43. See Abrams, *supra* note 7, at 234–35 (describing the holding in *Mills Music* as “preserv[ing] the entire paper chain that defines the entire transaction.”).

44. *Id.*

45. See Harry Fox Agency, *supra* note 20.

46. *Woods v. Bourne Co.*, 60 F.3d 978 (2d Cir. 1995); *Fred Ahlert Music Corp. v. Warner Chappell Music, Inc.*, 958 F. Supp. 170 (S.D.N.Y. 1997).

enable the particular use at issue.”⁴⁷ The *Ahlert* court pointed out that *Mills Music* concluded that the derivative works exception “freezes authorized uses and royalty arrangements as of the ‘time of termination’” of the grant.⁴⁸ The court went on to argue that where a derivative work was licensed and created before termination, the termination provisions and the Exception, read together with the holding in *Mills Music*, provide that: “(a) all rights covered by the terminated license revert to the author or his statutory heirs, except (b) use of the derivative work may continue after termination (c) pursuant to those terms of the license (d) that were in effect at the time of termination.”⁴⁹ Thus, both the *Woods* and the *Ahlert* holdings are consistent with *Mills Music* and reinforce that if a pre-termination derivative work license were to remain in effect after termination, then it would do so pursuant to those terms of the license that were in effect at the time of termination. However, neither of these decisions has anything to say about whether a new license could be entered into after termination, provided a licensee chose to do so.

IV. PRACTICAL EFFECTS

Under the prevailing logic of publishers, when a songwriter or her heirs terminate, existing mechanical royalties continue to flow through the original publishing agreement and the publisher keeps its share of gross revenues under such arrangement. The publisher’s share may be as much as 50% under older publishing agreements and more likely would be 25%-30% under more recent “co-publishing” agreements.⁵⁰ Without control over pre-existing mechanical rights, the songwriter or her heirs would be left with control over new mechanical licenses, U.S. public performance rights (the publisher’s share of ASCAP, BMI and SESAC royalties), new synchronization rights (for motion pictures, advertisements, etc.) and print music. For popular musical artists, the original release of an album is where the most significant mechanical royalties most often are derived. For, instance, the Police’s A&M release of “Every Breath You Take” is likely to be the most valuable recording of that song, as opposed to new covers by any number of lesser known artists. If, as I argue, Sting or a new publisher he engages could issue a new mechanical license post-termination, then the value of the entire termination increases significantly. Even if Sting ultimately stayed with EMI as his publisher following the termination date, his leverage in renegotiating his contract with EMI would increase significantly, and he likely could derive better financial terms in the process. Such benefit to the original songwriter is consistent with the purpose of the termination provision—to allow the original author and her heirs to receive further remuneration for a work that is proven valuable long after the original transfer.⁵¹

47. *Woods*, 60 F.3d at 987.

48. *Ahlert*, 958 F. Supp. at 173 (internal citations omitted).

49. *Id.*

50. DONALD E. BIEDERMAN ET AL., *LAW AND BUSINESS OF THE ENTERTAINMENT INDUSTRY*, 642-43 (5th ed. 2007).

51. *See Music Sales Corp.*, *supra* note 2.

At this point, you may be wondering why a record label (licensee) like A&M would be interested in replacing an old mechanical license with a new one. One answer is that A&M could conceivably negotiate a lower royalty rate if there is economic competition, as opposed to a monopoly. Consumers would benefit if record labels passed along savings by reducing retail prices of commercial music. Another answer is more complicated. If The Police’s “Synchronicity” album was released in 1983, the notice of termination of the transfer of the copyright in the sound recording likely would be filed with A&M simultaneous to the termination notice sent to EMI publishing for the musical compositions on that album. Therefore, Sting could request that A&M agree to enter into new mechanical licenses with him or a new publisher, as a part of his and the band’s renegotiation with the record label. Practically, the mechanical requirement would be subsumed within a range of requests in the renegotiation, such as increased artist royalties, non-recoupable bonus payments, and increased artist control of the master recordings. In addition to the record label feeling pressure from the artist in such a renegotiation, the label would also have an economic incentive to obtain a lower mechanical royalty rate, assuming the artist or her publisher agreed to such favorable rate. If the pre-existing mechanical license was issued at the prevailing statutory rate of \$.091 per unit (for a track of 5 minutes or less), then presumably any rate less than this amount would be beneficial to the record label, even if only modestly. Again, this would all be part of the renegotiation between the artist and the label—The Police and A&M in my example.

CONCLUSION

Despite being law for almost four decades, the terminations of transfer provisions of the Act have led to limited jurisprudence to date.⁵² As Congress explores revising the Act, and the Copyright Office conducts the Music Licensing Study⁵³ to explore whether current law adequately addresses the needs of the music industry in light of new technology, Congress should consider revisions to the Act to ameliorate textual inconsistencies and better serve the purpose of copyright law—including clarifying that the Exception does not prevent new licenses from being freely entered into for the post-termination use of derivative works. Any violations of original licenses could be dealt with outside of the Copyright Act as ordinary contract breach claims. In the absence of new, clarifying legislation, courts should interpret the Exception and the *Mills Music* decision narrowly to allow new licenses to be granted when there is no underlying contract breach involved or tortious interference by a terminating party or its new publisher.

The Supreme Court’s goal in *Mills Music* appears to have been the same as that of Congress in drafting the Exception—to strike a balance between the two competing interests established by the 1976 Copyright Act: (1) the ability of authors or their statutory successors to regain rights

52. 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 11.02 (2014).

53. See U.S. COPYRIGHT OFFICE, MUSIC LICENSING STUDY, available at www.copyright.gov/docs/musiclicensingstudy/.

that may have been unfairly bargained away; and (2) the right of the owners of a derivative works to continue to exploit the derivative works after termination.⁵⁴ As the Court stated in *Mills Music*, the termination provisions and the Exception serve “countervailing purposes” of the Copyright Act.⁵⁵ My conclusions are supported by a plain reading of the Act, as I have set forth above, and are consistent with the *Mills* holding. They are also consistent with the legislative history and the policy objectives of both § 203 and § 304 in general (rewarding and “safeguarding authors against unremunerative transfers . . . needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work’s prior value until it has been exploited.”⁵⁶) and the Exception in particular (to “preserve the right of the owner of a derivative work to exploit it, notwithstanding the reversion”⁵⁷). Allowing a terminating party to grant new mechanical licenses obviously rewards the original author and her heirs. Furthermore, allowing a derivative work licensee, such as a record label, to choose between relying upon an existing license or obtaining equal or better terms in the form of a new voluntary or compulsory license preserves the rights of that licensee and simultaneously enhances the author or her heirs.

54. Abrams, *supra* note 7, at 203.

55. See 17 U.S.C., *supra* note 3.

56. H.R. REP. NO. 94-1476, at 124 (1976).

57. STAFF OF S. COMM. ON THE JUDICIARY, 88TH CONG. COPYRIGHT LAW REVISION PT. 4: FURTHER DISCUSSION AND COMMENTS ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT 39 (Comm. Print 1964) (statement of Barbara Ringer). The House Report that accompanied the 1976 Act also supports this view.