Intellectual Property

September 23, 2013

Copyright Assignment Termination After 35 Years: The Video Game Industry Comes of Age

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A little-known section of the Copyright Act allows designers and developers of video games to terminate copyright assignments granted after January 1, 1978. Section 203 of the Act was intended to give creators of copyright-protected works, including video games, the opportunity to regain rights they may have previously transferred when they had little-to-no bargaining power. As the termination of the assignment may be made on the 35th anniversary of the grant, the earliest Section 203 terminations of transfers may take effect in 2013. Therefore, both creators and publishers of video games should consider their copyright assignment termination rights and remedies/defenses as part of any robust intellectual property protection strategy.

Background

In 1972 Atari released its simulated table tennis game, Pong, which went on to become the first video game to reach mainstream success. In the early years that followed many other seminal video games were released—Asteroids, Galaxian, Pac-Man, Pitfall, Frogger, Donkey Kong, etc.—which helped to launch a multi-billion dollar industry. From the birth of the industry, video game creators/developers have entered into contracts transferring their copyright interests to publishers. With very little negotiating power, the creator or developer was often presented with a "standard" contract assigning all intellectual property rights to a publisher in perpetuity in exchange for funds to develop the game and/or a royalty against sales. However, while not widely known in the video game industry, thirty-five years is a magic number when it comes to termination of copyright assignments . . . even ones that are by their language perpetual. As certain video games begin to reach the age of 35 this termination option may become a possibility and potentially a lucrative option. Therefore, it is now ripe to consider whether the creators/developers of video games can rescind a previous copyright assignment, as is becoming more prevalent with other types of copyright protected works. Moreover, publishers of video games should begin consider which older properties still retain significant value and what steps they can take to avoid the possibility of the termination of a copyright assignment.

Section 203

In 1976 Congress amended Section 203 of the United States Copyright Act granting creators of post-1978 protected works, which includes video games, the right to reclaim the copyright in their creations after 35 years. The termination right in Section 203 trumps the language of any written agreements -- even agreements which state they are made in perpetuity. Congress' purpose in amending Section 203 was to alleviate the imbalance in the "take-it-or-leave-it" negotiating situation many copyright owners found themselves in and to provide a creator with a second bite at the apple to monetize their creation. Specifically, Section 203 states, in pertinent part, as 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…17 U.S.C.A. § 203 (a).
>
> 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; or, if the grant covers the right of publication of the work, the period begins at the end of thirty-five years from the date of publication of the work under the grant or at the end of forty years from the date of execution of the grant, whichever term ends earlier… 17 U.S.C.A. § 203(a)(3).
>
> Upon the effective date of termination, all rights under this title that were covered by the terminated grants revert to the author, authors, and other persons owning termination interests…17 U.S.C.A. § 203 (b).

While the above is understandably a mouthful, ostensibly Section 203 states that a creator of video game software, or other protected works like video game music, characters, design documents, etc., is entitled to terminate a copyright assignment 35 years after the first date of publication or 40 years after the execution of the grant, whichever comes first. After the proscribed term has passed, the creator or developer can recaptures his/her rights and can potentially renegotiate a license with the publisher on more favorable terms or can monetize the copyright in the game in some other fashion.

How to Rescind a Video Game Copyright Assignment

It is worthy of note to both creators/developers and publishers that just because a video game has turned 35 does not necessarily mean that a right of rescission will exist for a copyright assignment in all instances. Section 203 is only applicable to U.S. copyright so it would not apply to any foreign copyright assignments. Moreover, a termination under Section 203 does not apply to a derivative work prepared under authority of the original grant. In the video game context this might mean that while the first game in a series may be terminated by the creator/developer under Section 203, such termination would not be effective against other games in the same series which were made by the publisher prior to the rescission. However the publisher would not be able to make any additional games in the series once the termination has occurred. The creator/developer of a video game, or his/her heirs, are the only parties with the right to rescind a grant made after January 1, 1978. Moreover, if the creation or development of the video game is a joint work, a majority of the creators must execute a termination notice for it to be effective. Additionally, Section 203 makes it very clear that if the game was created by an employee of the publisher, as a work made for hire, or if the rights have passed by will, then the termination right does not exist. Therefore, the employment status of the creator or the language of the grant will be of vital importance in determining whether termination rights under Section 203 will exist. While traditionally many agreements with publishers included copyright transfers with work-for-hire language, as the industry has matured these provisions have become highly negotiated.

In order for a termination to be valid, timely and complete notice must be provided and recorded. Section 203 has very specific requirements for a notice of termination:

> The termination shall be effected by serving an advance notice in writing, signed by the number and proportion of owners of termination interests … or by their duly authorized agents, upon the grantee or the grantee's successor in title. 17 U.S.C.A. § 203(a)(4).

Under Section 203(a)(3) the date of termination must fall within a 5-year period following 35 years from the date of the copyright grant. However, if the copyright grant covers the right of publication, which most video game publisher agreements do, the date of termination must be within a 5-year period following 35 years after the publication of the video game or 40 years after the date of the grant, whichever is sooner. According to Section 203(a)(4)(A), notice must be served not less than 2 years (the minimum time) nor more than 10 years (the maximum time) from the effective date of termination. Therefore, a publisher shall have from several years to a decade to decide whether to seek to renegotiate terms for the continued use of the copyright in the video game.

Section 203(a)(4)(B) states that the notice of termination shall comply with the form and content that the Register of Copyright shall proscribe. However, 37 Code of Federal Regulation §210.10 does not provide a particular form for a notice of termination. That said, 37 Code of Federal Regulation §210.10(b)(2) does lay out in detail the required contents of the termination notice. A termination notice should include clear identification of the following for the relevant video game(s):

- A statement that the termination is made pursuant to Section 203;
- Name and address of the developer/creator of the video game or respective heirs;
- Date of the execution of the grant being terminated and, if relevant, the date of publication of the video game;
- Title of the video game or other protected work, the creator(s)/developer(s) and original copyright registration number;
- A brief statement reasonably identifying the grant being terminated;
- The effective date of the termination;
- Signature of the creator(s)/developer(s) or duly authorized agent.

If a termination is being made by the heirs of a creator or developer, additional information is also required to demonstrate that the party sending the notice of termination has the proper rights. 37 Code of Federal Regulation §210.10(f) also requires that a termination notice must be recorded with the Copyright Office prior to the termination date for it to be fully effective.

How to Avoid the Rescission of a Video Game Copyright Assignment

The termination rights under Section 203 are not generally known in the video game industry or to the general public, for that matter. Therefore, it is unlikely that just because the industry has surpassed 35 years publishers will receive a flood of attempted copyright terminations. Just because a video game has reached 35 does not mean rescission of a copyright assignment is imminent or even likely. Many creators or developers of older or less successful video games may not seek to terminate an assignment under the belief that there is no significant monetary potential left in them. Moreover, just because a notice of termination is received by the publisher does not mean that the video game covered is financially worth keeping any rights to. Additionally, the various and specific Copyright Office requirements for a valid notice

of termination will likely lead to many instances where purported notices of termination are found to be failing in one aspect or another. As the burden to act timely and correctly is ultimately on the creator/developer of the video game seeking to terminate the grant, in certain instances a publisher's most cost-effective decision may be to wait and see whether a proper notice of termination is filed or whether the creator/developer misses its opportunity to seek termination of the copyright grant.

That said, if a publisher does wish to retain a copyright grant related to a video game, it has many strategies to follow. The first step that any publisher should undertake is to decide if a copyright grant related to a video game is potentially subject to termination. This should include looking at any game where the copyright grant took place before January 1, 1978, which would not be covered by Section 203. Moreover, for grants after January 1, 1978 it is important to ascertain the employment status of the individual who assigned the copyright to the video game. If the individual(s) were employees of the publisher or if the assignment clearly contained language that the video game was a work-for-hire, then Section 203 may not applicable and a notice of termination would be invalid. There is a common misconception that any copyright-protected work can be contractually defined as a work-for-hire. However, work-for-hire is a specifically defined term in the copyright law and applies only when certain conditions are all met. Section 101 of the Copyright Act defines 9 categories of works that can be produced on a work-for-hire basis. Noticeably absent from the 9 categories is "literary works"—the category software is generally deemed to fall into. This absence is the reason that most experienced attorneys include an additional provision granting assignment of any copyright that is not deemed as a work-for-hire. Audiovisual works, however, are specifically enumerated in the 9 categories. As video games are generally considered to be audiovisual works, depending on the nature of the work subject to the copyright grant, publishers may still have an argument to make that Section 203 would not be applicable. Publishers should keep this employment/work-for-hire distinction in mind when entering into any future business relationships and copyright assignments, as it may hamper future attempts to terminate a copyright assignment. Publishers should also seek copyright grants on a worldwide basis. Section 203 specifically provides that a termination affects only rights under the Copyright Act and not any rights arising under federal, state or foreign laws. Therefore, even if a termination of the grant of copyright in a video game was effective in the U.S., the publisher can still continue to exploit the video game under foreign copyright laws.

A publisher should also look at the success it has had with a video game and consider whether to create sequels to the game or otherwise brainstorm ways to create new revenue sources from products derived from the game prior to the time termination of the grant can occur. This is because a derivative work created under the authority of a copyright grant cannot be terminated by a notice under Section 203. If a publisher has created such derivative works it can continue to exploit them even following the termination of the copyright grant that led to the original video game.

Another way to avoid a termination of a copyright grant is to enter into another agreement with the creator/developer or his/her heirs. If a new copyright assignment is entered into, which specifically cancels or terminates the previous grant, then any termination rights will be timed on the date of the new grant. Therefore, assuming agreeable terms can be negotiated, a publisher can potentially retain the copyright in the video game for another 35- to 40-year period. Moreover, if there are multiple creators/developers of a video game, a publisher can avoid the effectiveness of a copyright termination by separately negotiating and reaching an agreement with a majority of the rights holders to continue the copyright grant. So long as the party seeking termination of a copyright grant does not control a majority-in-interest, the party cannot exercise a termination right under Section 203.

Additionally, it is worthy of note that companies involved in financing or acquiring video game developers or publishers should engage in proper due diligence, including review of any material copyright assignments and licenses, to determine whether there is any risk associated with rescission under Section

203. The risk that statutory termination rights could be exercised in the future could significantly undermine the value of the acquisition of, or investment in, the publisher or developer. Moreover, if a developer or publisher is entering into a financing or acquisition agreement it should be wary of agreeing to boilerplate representations or warranties asserting that it owns all intellectual property rights in any games that could be subject to recessionary rights, without first assessing whether termination rights under Section 203 exist.

Conclusion

While many video games are off the GameStop shelves within six months or less, there are others that were created in 1978 and the years following that are still played today. Moreover, as digital download becomes more-and-more ubiquitous, older games are readily available and, in some cases, are experiencing their resurgence and being discovered by whole new generations. Section 203 can provide video game creators or developers with potentially a second chance to negotiate for a bigger piece of the revenue. Alternatively, given the value that remains in some games even after 4 decades, publishers also need to consider the best methods to minimize the potential impact of a notice of termination.

Section 203 of the Copyright Act and the Copyright Office's administrative rules can be dense and, at times, unforgiving. Preparing and recording a valid notice of termination and calculating the proper rescission dates is the burden of the creator/developer seeking to terminate. For example, if a notice to terminate was served late by a creator or developer, under the rules it is considered a fatal mistake and the rights in the video game would remain with the publisher. Moreover, how to respond to a purported notice of termination also requires mastery of the relevant rules, as well as careful thought, strategy and finesse. Therefore, given the complexity of this area, it is strongly advised that you consult with an attorney knowledgeable about copyrights in the video game space whether you are a creator/developer with the intention to serve a purported notice to terminate a grant or a publisher seeking to avoid the impact of a notice of termination under Section 203.

If you have any questions about the content of this alert, please contact the Pillsbury attorney with whom you regularly work, or the attorneys below.

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