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Invalid Pre-termination Grants and the Challenge to Obtain a Remedy

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I. Introduction

A tension has long existed between the authors of creative works and the businesses with capital to exploit those works.\textsuperscript{1} Traditionally, authors have depended on businesses with capital to exploit their creative works.\textsuperscript{2} As a result, the standard practice developed whereby authors would enter into agreements granting their copyrights to content exploiting companies in exchange for monetary compensation.\textsuperscript{3} Where the authors and the worth of their works were relatively unknown, the companies generally held the superior bargaining power.\textsuperscript{4} As a result, authors often entered into agreements granting their copyright interests to companies in exchange for poor compensation,\textsuperscript{5} sometimes even with companies that poorly exploited those copyright interests.\textsuperscript{6}

To remedy this problem, the 1976 Copyright Act gives authors of copyrighted works a chance to reclaim their copyrights through what is called termination.\textsuperscript{7} Termination is a right that allows authors to terminate prior grants of their copyrights and reclaim ownership from the

\textsuperscript{2} The advent of the Internet and the continuing evolution of technology have disrupted traditional business models for content exploitation by reducing authors’ dependency on creative content companies to exploit their creative works. See, e.g., Alexandra Alter, Books: Sci-Fi’s Underground Hit – Authors are snubbing publishers and insisting on keeping e-book rights; How one novelist made more than $1 million before his book hit stores, Wall Street Journal, March 8, 2013, at D1; see John Jurgensen, A New Way to Break a Band, Wall Street Journal, Nov. 9, 2012, at D7.
\textsuperscript{3} See Donald S. Passman, All You Need To Know About The Music Business 215 (7th ed. 2009).
\textsuperscript{5} See id.
\textsuperscript{6} The stories of record labels not knowing how to exploit an author’s copyrighted work or failing to even try to exploit those copyrighted works are legion. A recent example of this occurred between hip-hop artist Kid CuDi and record label Universal Republic, wherein Kid CuDi criticized Universal Republic for its lack of support for his then recent album, “WZRD.” See Ed Christman & Jason Lipshutz, Kid Cudi Slams ‘Weak Ass Label’ Over Handling of Rock Album, (May 16, 2014, 11:36 AM), http://www.billboard.com/articles/columns/the-juice/503037/kid-cudi-slams-weak-ass-label-over-handling-of-rock-album.
\textsuperscript{7} See 17 U.S.C. §§ 203(a), 304(c) (2014).
original grantees.\(^8\) This right is inalienable.\(^9\) The purpose of making this right inalienable was in part to protect authors against unremunerative transfers.\(^10\) This right also gives authors a powerful bargaining chip to negotiate better agreements once the value of their works has been realized.\(^11\)

Another important reason Congress created this right was to prevent speculation of future copyright interests.\(^12\) Speculation of future copyright interests involves third parties who purchase or attempt to purchase an author’s contingent copyright interest before it has vested.\(^13\) This became a problem under the 1909 Copyright Act after the Supreme Court’s decision in *Fred Fisher Music Co. v. M. Witmark & Sons*.\(^14\) That decision enabled authors to grant their future copyright interests before they vested.\(^15\) Purchasing an author’s future copyright interests in conjunction with the initial term soon became standard practice.\(^16\) Congress sought to prevent such speculation under the 1976 Copyright Act by making authors’ termination right inalienable.\(^17\) This right protects not only authors, but also helps original grantees have a chance to negotiate a further grant\(^18\) with authors before the original grant terminates.\(^19\)

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\(^8\) See 17 U.S.C. §§ 203(a), 304(c).

\(^9\) See id. § 203(a)(5) (“Termination of the grant may be effected notwithstanding any agreement to the contrary….“); see id. § 304(c)(5) (same); see also *Stewart v. Abend*, 495 U.S. 207, 230 (1990) (“The 1976 Copyright Act provides a single, fixed term, but provides an inalienable termination right.”)


\(^11\) See *Milne ex rel. Coyne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1046 (9th Cir. 2005).


\(^13\) See id.

\(^14\) See 318 U.S. 643, 657 (1943); see also *Marvel Characters v. Simon*, 310 F.3d 280, 286 (2d Cir. 2002) (noting that assigning future copyright interests became standard practice after the decision in *Fred Fisher*).

\(^15\) See *Fred Fisher, supra* note 14, at 657.


\(^17\) See 675 F. Supp. at 864.

\(^18\) A further grant is a grant of rights for the remaining life of the copyright after the original grant has terminated. See generally 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D). A further grant is valid only if executed after the effective termination date, with one notable exception discussed in depth below. See *id*. For purposes of this article, a further grant executed before the effective termination date is called a pre-termination grant.
However, an inalienable termination right can prove to be a double-edged sword. The statutory prohibition against pre-termination grants\(^\text{20}\) effectively vitiates causes of action third party grantees would otherwise have against authors who execute invalid pre-termination grants. As a result, authors are free to execute invalid pre-termination grants with virtual impunity while third party grantees and original grantees suffer the consequences of these authors’ actions.

The main premise of this article is that the termination right incentivizes authors of copyrighted works to execute invalid pre-termination grants wherein they reap all of the benefits while externalizing all of the risk and harm. Third party grantees may forfeit all money and rights in these deals, as well as lose any cause of action they would otherwise have had against these unscrupulous authors. Original grantees in turn have no remedy against authors or third party grantees for entering into invalid pre-termination grants. These problems will be addressed in depth below.

This article is divided primarily into four sections, with this first section serving as the introduction to the issues to be discussed. Section II provides the substantive background for the termination right, so as to facilitate understanding when it is applied to a given set of facts. Section III of this article examines various hypotheticals where these problems arise and the relevant remedies and defenses that may apply.\(^\text{21}\) Section IV concludes the original premise of this article.

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\(^{20}\) For purposes of this article, pre-termination grants are further grants executed before the effective termination date, i.e. before the original grant has terminated. As will be discussed below, pre-termination grants are only valid between authors and original grantees, when executed in compliance with other statutory requirements. See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D); see generally 37 CFR § 201.10 (2014). All other pre-termination grants are invalid. See 17 U.S.C. §§ 203(5), 304(c)(5).

\(^{21}\) Please note that this article does not attempt to describe all possible hypotheticals involving invalid pre-termination grants, the problems they implicate, or every possible remedy that an injured party may pursue.
The majority of the analysis in this article occurs in Section III involving three hypotheticals. In Hypothetical 1, the author executes an invalid pre-termination grant with the third party grantee, and then subsequently executes a valid further grant with the original grantee. In Hypothetical 2, the author executes an invalid pre-termination grant with the third party grantee. In Hypothetical 3, the author executes invalid pre-termination grants with multiple third party grantees.

II. Substantive Background

a. The Termination Right

The 1976 Copyright Act states that authors of copyrighted works who previously granted their copyrights may recapture those copyrights after a specified period of time. The 1976 Copyright Act has a two-tier system for determining termination rights: (1) copyrights granted before 1978 and (2) copyrights granted during or after 1978.

i. Copyrights Granted Before 1978

The 1909 Copyright Act originally governed copyrights granted before 1978. The duration of a copyright under the 1909 Act was originally 28 years plus another 28-year renewal period, for a total possible duration of 56 years. The 1976 Copyright Act originally extended the life of subsisting pre-1978 copyrights by 19 years, for a total possible duration of 75 years.

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22 See 17 U.S.C. §§ 203, 304(c)-(d).
23 See id. §§ 304(c)-(d).
24 See id. § 203.
However, in 1998, Congress extended total duration by 20 years, thus making the total possible duration for a pre-1978 copyright 95 years.27

Consequently, authors of pre-1978 copyrights may terminate their prior grants during two possible periods: (1) The 19-year extension term and (2) the additional 20-year extension term.28 For the 19-year extension term, authors may effect termination during a five-year window beginning at the end of 56 years from the date the copyright issued.29 For the additional 20-year extension term, authors may effect termination during a five-year window beginning at the end of 75 years from the date the copyright issued.30

For a termination to be valid, the author must follow specific procedures.31 The author or party seeking to effect termination must serve an advance written termination notice on the original grantee or its successor in title.32 The author or party seeking to effect termination must sign the notice33 and must serve it upon the grantee or its successor in title at least two years and not more than ten years before the effective termination date.34 A copy of the notice must be recorded with the Copyright Office before the termination35 and the notice must comply with Copyright Office formalities.36

ii. Copyrights Granted During or After 1978

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28 See id. §§ 304(c)-(d). Statutory heirs can also terminate prior grants executed by the author or statutory heirs.
29 See id. § 304(c)(3).
30 See id. § 304(d)(2).
31 For a complete explanation of these procedures, see 37 C.F.R. § 201.10.
32 See 17 U.S.C. § 304(c)(4); 37 C.F.R. § 201.10(d)(1).
33 See 17 U.S.C. § 304(c)(4); 37 C.F.R. § 201.10(c)(1).
The 1976 Copyright Act originally stated that the duration of copyrighted works created during or after 1978 was for the life of the author plus 50 years. However, as with pre-1978 copyrighted works, Congress extended the total duration for these works by 20 years. Thus, copyright duration for works created during or after 1978 is now for the life of the author plus 70 years. The five-year window for termination of these grants arises 35 years after the date the grant was executed, not the date the copyright issued. All other formalities for effecting termination of post-1977 grants are essentially the same as that described above with respect to pre-1978 grants, and thus are omitted from this discussion.

iii. Exception to Pre-termination Grants

As mentioned above, one of the remarkable aspects of the 1976 Copyright Act is that it unambiguously makes the termination right inalienable. Concordantly, further grants or agreements to make further grants before the effective termination date are invalid. However, an exception to this rule exists. Authors and original grantees can make further grants or agreements to make further grants before the effective termination date once notice is served.

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39 See id. Please also note that under 17 U.S.C. §203, statutory heirs cannot terminate grants made by statutory heirs.
40 Or if the grant involves the publication right of a work, the duration is 35 years from the date of publication under the grant, or 40 years from the date of execution of the grant, whichever period ends earlier. See id. § 203(c)(3).
41 See id. § 203(a)(3).
42 See id. § 203(a)(4); see 37 C.F.R. § 201.10.
43 See 17 U.S.C. § 203(a)(5) (“Termination may be effected notwithstanding any agreement to the contrary….“); see id. § 304(c)(5) (same); see Stewart, 495 U.S. at 230.
45 And their successors in interest. See id.
46 See id. However, according to Professor Nimmer, this exception applies only to agreements to make further grants and not to the making of further grants. See Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 11.08[A]; see also 17 U.S.C. § 203(b)(4) (“A further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid only if it is made after the effective date of the termination. As an exception, however, an agreement for such a further grant may be made between the persons provided by clause (3) of this subsection and the original grantee or such grantee’s successor in title, after the notice of termination has been served as provided by clause (4) of subsection (a).” [emphasis added]). Nevertheless, that interpretation of the statute is incorrect. Restricting the pre-termination exception to only agreements to make further grants would
This exception gives original grantees a competitive advantage over prospective third party grantees.\textsuperscript{47}

Exception aside, authors cannot otherwise dispose of their termination right through contract.\textsuperscript{48} This does not mean that prospective third party grantees cannot negotiate with authors before the effective termination date.\textsuperscript{49} It only means that further grants or agreements to make further grants with third party grantees before the effective termination date are invalid.\textsuperscript{50} Therefore, absent the exception stated above, any agreement that is construed to contravene the author’s termination right before the effective termination date will be held invalid.\textsuperscript{51}

\section{III. Hypothetical Situations Involving Invalid Pre-termination Grants and the Remedies That May Apply}

To facilitate understanding of the basic legal problems that pre-termination grants between authors and third party grantees implicate, understanding the context of these situations and the people involved is helpful. Accordingly, the following discussion for this section sets forth hypothetical situations and the legal problems that arise from them. These hypothetical situations all have at least an author of the copyrighted work, an original grantee, and a
prospective third party grantee, and all of them implicate problems of contract law, unjust enrichment, fraud, and preemption.

a. Hypothetical 1: Author Executes Pre-termination Grant with a Third Party and with the Original Grantee

Hypothetical 1 begins with a songwriter (“Songwriter”). At the start of his career, Songwriter enters into an agreement with a major music publisher, (“Music Publisher 1”), assigning his copyright interests in exchange for an advance\(^{52}\) of $200,000 in exchange for 50% of the royalties\(^{53}\) earned from his musical compositions.\(^{54}\) Shortly thereafter, these songs become major hits and earn vast sums of money for Songwriter and Music Publisher 1, particularly Music Publisher 1.\(^{55}\) Songwriter proceeds to lead a successful career for many decades, writing many more hit songs and granting them to Music Publisher 1, earning even money for Songwriter and Music Publisher 1.

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\(^{52}\) An advance is an upfront payment that is later recouped from royalties earned. See Donald S. Passman, All You Need to Know About the Music Business 79.

\(^{53}\) Royalties are the proceeds or profits received from the exploitation of the copyrighted work. See id.

\(^{54}\) In music publishing, the royalties are divided into two equal halves called the writer’s share and the publisher’s share. The writer gets 50% of the proceeds for writing the song and the publisher gets the other 50% for exploiting the songs. This was the standard percentage breakdown in traditional publishing agreements for many years until the advent of the co-publishing agreement in the latter half of the twentieth century. See id. at 216. A co-publishing agreement is an agreement wherein the songwriter already has his/her own publishing company and enters into a deal with the publisher. The publisher exploits the songs as before but now takes only 50% of the publisher’s share and the songwriter takes the other 50% of the publisher’s share on top of the writer’s share, i.e. the songwriter receives 75% of the total proceeds while the publisher now receives only 25%. See id. at 286. Another type of publishing deal is what is called an administration agreement, also known as an “admin agreement”. In an administration agreement, the songwriter retains the rights to his/her songs and takes more of the total proceeds while the publisher takes the lesser remaining portion, ranging from 25% to 10% or less of total proceeds. See id. at 293.

\(^{55}\) Music Publisher 1 held the superior bargaining power at the time of the original grant because Songwriter was an unproven artist then. See H.R. Rep. No. 94-1476, 2d Sess. at 124 (1976); see Section I of this article above.
After many years of success, Songwriter’s right to terminate a large portion of his catalog approaches. Songwriter’s lawyer informs him that he has the right to terminate many of those grants he made originally to Music Publisher 1. He thinks about this, and in the meantime starts receiving bids from many music publishers looking to purchase his highly valuable catalog. Given the value of his catalog, Songwriter is able to command more favorable terms for himself now than he was able to with his original grants to Music Publisher 1. Songwriter decides to exercise his termination right and properly serves a notice of termination on Music Publisher 1.

Meanwhile, a new music publisher, (“Music Publisher 2”), desires to purchase Songwriter’s catalog. Music Publisher 2 approaches Songwriter and offers an advance of $2,000,000 in exchange for 25% of royalties. Songwriter accepts the offer and executes a further grant to Music Publisher 2 who then pays Songwriter $2,000,000. All of this occurs before the effective termination date.

Meanwhile, Music Publisher 1 subsequently approaches Songwriter with a new offer of a $3,000,000.00 advance in exchange for 20% of royalties. Songwriter agrees and executes a further grant to Music Publisher 1. Music Publisher 2 discovers this and confronts Songwriter, who laughs and refuses to return Music Publisher 2’s money. Music Publisher 2 considers what

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56 Each of Songwriter’s copyrights may terminate at different times. Pre-1978 copyrighted works can be terminated 56 years from the date the copyright was originally secured. See 17 U.S.C. § 304(c)(3). Post-1978 copyrighted works can be terminated 35 years from the date of execution of the grant, or if the grant covers the right of publication of the work, 35 years from the date of publication of the work or 40 years from the date of execution of the grant, whichever comes first. See id. § 203(a)(3).

57 For example, Songwriter can demand higher advances, see Donald S. Passman, All You Need to Know About the Music Business 269-70, can exercise greater control over Music Publisher’s uses of Songwriter’s musical compositions, see id. at 279, and/or can obtain an admin agreement, wherein Songwriter retains ownership of his/her musical compositions but gives Music Publisher a small percentage of the royalties derived from Music Publisher’s exploitation of these musical compositions. See id. at 293.
legal recourse it may have against Songwriter to enforce the transfer of the copyright, or alternatively to get its money returned.

i. Potential Causes of Action for Invalid Pre-termination Grants

Music Publisher 2 is in a difficult position now. Having entered into an invalid pre-termination grant with Songwriter, not only does Music Publisher 2 have the chance of never getting the copyrights it paid for, it may never recover its money either. As noted earlier, an inalienable termination right can prove to be a double-edged sword when authors who hold that right abuse it. The following discussion explains the problems that a third party grantee, such as Music Publisher 2, would face in attempting to recover a legal or equitable remedy against the author, who in this case is Songwriter.

1. Illegal Contracts and Promissory Estoppel

a. Illegal Contracts

Pre-termination grants, namely further grants and agreements to make further grants entered into before the effective termination date, fall into the category of contracts. The elements of a contract generally are mutual assent and consideration. Mutual assent is comprised of an offer and an acceptance, while consideration generally consists of a benefit to the promisor and detriment to the promisee. These requirements are met as the parties have

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58 Note that the causes of action analyzed in Hypothetical 1 would also likely be potential causes of action in Hypotheticals 2 and 3 below. One notable difference in Hypotheticals 2 and 3 is that it is Music Publisher 1 who would sue, and not third parties like Music Publisher 2. The analyses would otherwise be the same, and are thus omitted from Hypotheticals 2 and 3.
agreed to a grant of copyright interests in exchange for money. Under the 1976 Copyright Act, if an author seeks to assign his or her copyright interest, then the author must do so through a written contract.\textsuperscript{63}

Assuming Songwriter complied with the writing requirement, a problem nonetheless remains. Songwriter was prohibited by law from granting his copyright interests to Music Publisher 2 before the effective termination date,\textsuperscript{64} and as such, granted nothing to Music Publisher 2.\textsuperscript{65} Consequently, Music Publisher 2 has been harmed as he has performed under the contract, but Songwriter has not.\textsuperscript{66} Thus, Music Publisher 2’s first likely cause of action against Songwriter would be for breach of contract.

However, to recover under a theory of breach of contract, the plaintiff must prove that: (1) a valid contract exists; (2) the plaintiff performed under the contract; (3) the defendant did not perform under the contract; and (4) damages resulted to the plaintiff.\textsuperscript{67} Most of these elements are met. Music Publisher 2 performed under the agreement by paying Songwriter money, Songwriter failed to grant his copyright interests to Music Publisher 2 as promised, and Music

\textsuperscript{63} See 17 U.S.C. § 204(a); see Mellencamp v Riva Music Ltd., 698 F. Supp. 1154, 1161-62 (S.D.N.Y. 1988) (contractual transfers of copyright must be in writing to be enforceable); see Valente-Kritzer Video v. Pinckney, 881 F.2d 772, 774 (9th Cir. 1989) (tortious interference claim barred because alleged agreement was oral and 17 U.S.C. § 204(a) bars both “copyright infringement actions [and] breach of contract claims based on oral agreements”); but see Effects Associates, Inc. v. Cohen, 908 F.2d 555, 558 (9th Cir. 1990) (non-exclusive licenses need not be in writing).

\textsuperscript{64} See 17 U.S.C. §§ 203(a)(5), (b)(4), 304(c)(5), (c)(6)(D).

\textsuperscript{65} See Range Road Music, 76 F. Supp. 2d at 381 (pre-termination grant invalid and thus constituted a nullity).


Publisher 2 now has lost money and still has no copyright interests. The issue here is whether a valid contract exists.

When authors make a further grant or enter into an agreement to make a further grant with a third party grantee before the effective termination date, the grant or agreement to make a further grant is invalid per se because it is prohibited by law. Courts will not enforce illegal agreements. Examples of illegal contracts are meretricious agreements, i.e. contracts based on consideration of sexual services, and contract killings. These contracts are illegal and unenforceable because they either violate the law or violate public policy.

Pre-termination grants between authors and third party grantees, such as the one between Songwriter and Music Publisher 2, almost certainly fall under the category of illegal contracts. The 1976 Copyright Act clearly prohibits pre-termination grants between authors and third party grantees. Cases involving pre-termination grants between authors and third party grantees have found those agreements to be invalid.

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68 Contracts that transfer copyright interests almost always contain representations and warranties provisions, whereby the party represents and warrants that he or she has the right to grant the particular copyright interest. See Thomas D. Selz et al., Entertainment Law 3d: Legal Concepts and Business Practices § 9:114 (3d ed. 2013). Accordingly, Songwriter almost certainly breached this provision when he promised to grant a copyright interest that he in truth did not have the right to grant at that time.

69 See 17 U.S.C. §§ 203(a)(5), (b)(4), 304(c)(5), (c)(6)(D); see also Cramer v. Consolidated Freightways, Inc., 255 F.3d 683, 695 (9th Cir. 2001) (illegal contracts or illegal provisions within a contract are unenforceable); see Dodge v. Richmond, 10 A.D.2d 4, 16 (N.Y. App. 1960) (same).


74 See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D). Note that this exception also applies to successors in interest to the original grantee(s).

75 See Bourne Co., 675 F. Supp. at 861, 861 n. 3; see Range Road Music, Inc., 76 F. Supp. 2d at 380-81.
Moreover, as stated above, Congress sought to prevent third parties from engaging in speculation of future copyright interests when it made the termination right for authors inalienable.\textsuperscript{76} Congress sought to prevent this because speculation of future copyright interests interferes with original grantees’ ability to negotiate further grants with authors.\textsuperscript{77} Enforcement of a pre-termination grant between authors and third party grantees, such as the one between Music Publisher 2 and Songwriter, would violate this public policy concern.

Therefore, a court almost certainly would not enforce a pre-termination grant between authors and third party grantees both because the law prohibits it and because it would violate the public policy underlying the law.\textsuperscript{78} Thus, an injured third party grantee, such as Music Publisher 2, most likely could not sue the author, Songwriter in this case, for breach of contract in this situation.

b. Promissory Estoppel

If Music Publisher 2’s cause of action for breach of contract fails, it might try to sue under a theory of promissory estoppel. Promissory estoppel is an equitable remedy that applies in

\textsuperscript{76} See Bourne Co., 675 F. Supp. at 864.
\textsuperscript{77} See id. at 864.
\textsuperscript{78} However, a situation in which a pre-termination grant between an author and third party grantee is not outright illegal might exist. Suppose that an author grants his copyright interest to someone in exchange for royalties. The author then enters into a pre-termination agreement with a third party wherein he sells his right to receive royalties due under the original grant between the author and the original grantee in exchange for a large upfront sum. This agreement between the author and the third party is for the life of the copyright. No law seems to prohibit authors from selling his or her right to receive royalties due under an original grant to third parties. However, if the agreement between the author and the third party contains a provision that assigns the copyright to the third party post-termination, then some problems may arise, aside from the invalidity of the provision assigning the copyright to the third party post-termination. See 17 U.S.C. § 203(b)(4), 304(c)(6)(D). On the one hand, if no dispute about the assignment arises, the third party may in effect own the copyright through course of performance. On the other hand, if a dispute about the assignment does arise, the third party might continue to own the right to receive royalties, assuming there is a severability clause. This would be functionally the same deal as before. However, the court in Bourne Co. v. MPL Communications, Inc., 675 S. Supp. at 863-64, denied the defendants’ claim to royalties for the extended renewal term in part on the basis that forbidding authors to transfer renewal rights before the effective termination date but allowing authors to transfer the most valuable part of the renewal rights, i.e. the right to receive royalties, before the effective termination date would make little sense and possibly undermine the policy that supports the termination right.
the absence of consideration to enforce what effectively would have been a contract.\textsuperscript{79} To sue under a theory of promissory estoppel, the plaintiff must establish that: (1) the defendant made a promise; (2) the plaintiff reasonably relied to his or her detriment on that promise; and (3) that enforcement of the promise is necessary to prevent injustice.\textsuperscript{80} However, a court will not enforce a cause of action for promissory estoppel if it would have the same effect as enforcing an illegal agreement.\textsuperscript{81}

Here, if Music Publisher 2 sued Songwriter under a cause of action for promissory estoppel, it would most likely fail for a number of reasons. First, everyone is presumed to know the law,\textsuperscript{82} and the law prohibits pre-termination grants between authors and third parties.\textsuperscript{83} Moreover, most people who work in the business of buying, selling and managing copyright interests are sophisticated parties who regularly perform due diligence when bidding on well-known catalogs and almost certainly know about invalid pre-termination grants.\textsuperscript{84} Furthermore, relying on a promise made in a patently illegal agreement is likely not reasonable.\textsuperscript{85} Consequently, a third party grantee would probably find great difficulty proving reasonable

\textsuperscript{79} \textit{See} Restatement (Second) Contracts § 90; \textit{see also} Drennan v. Star Paving Co., 333 P.2d 757, 759-60 (Cal. 1958) (a promise can be enforced in the absence of consideration); \textit{see also} Allegheny College v. National Chautauqua County Bank of Jamestown, 246 N.Y. 369, 374 (N.Y. 1927) (same).


\textsuperscript{81} \textit{See} Euclid Holding Co. v. Schulte, 274 N.Y.S. 515, 521 (N.Y.S. 1934), reversed on other grounds in 276 N.Y.S. 533 (N.Y. App. 1934); Colby v. Title Ins. Co., 117 P. 913, 918 (Cal. 1911); \textit{see also} Fournoy v. Highlands Hotel Co., 153 S.E. 26, 28 (Ga. 1930) (“Not even estoppel can legalize or vitalize that which the law has made void.”)

\textsuperscript{82} \textit{See}, e.g., Alfaro v. Alfaro, 142 N.Y.S.2d 863, 865 (N.Y.S. 1955) (everyone is presumed to know the law); \textit{see} People v. Hagedorn, 127 Cal. App. 4th 734, 748 (Cal. App. 2005) (same).

\textsuperscript{83} \textit{See} 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D).

\textsuperscript{84} Additionally, these people usually have competent legal representation that will spot these issues. \textit{See} Jeffrey Brabec & Todd Brabec, Music Money and Success: The Insider’s Guide to Making Money in the Music Business 471-78 (7th ed. 2011). Furthermore, copyright law heavily regulates the music industry. People who work within it, particularly the business side, are much more likely to know about important copyright issues like termination. \textit{See} Corey Field, “\textit{Think Big}” – \textit{The Next Great Copyright Act}, Aimp.org (May 16, 2014, 11:12 am), http://www.aimp.org/copyrightCorner/7/Think_Big_%E2%80%93_The_Next_Great_Copyright_Act.

\textsuperscript{85} \textit{See} Kiely v. Raytheon Co., 105 F.3d 734, 736-37 (1st Cir. 1997); \textit{cf.} American Viking Contractors, Inc. v. Scribner Equip. Co., 745 F.2d 1365, 1372 (11th Cir. 1984) (unenforceable promises cannot be reasonably relied upon).
reliance on the author’s promise to grant future copyright interests when the law clearly prohibits the author from doing that.\textsuperscript{86}

Second, an injured third party grantee most likely could not argue that injustice would result absent enforcement of the promise when the agreement at issue was illegal. If anything, injustice would result from enforcing the agreement.\textsuperscript{87} Congress clearly intended to protect authors against unremunerative transfers\textsuperscript{88} and original grantees against speculation of future copyright interests when it created the inalienable termination right.\textsuperscript{89} Congress could have protected third parties against authors’ abuses of the termination right, but it did not. As such, injured third party grantees, such as Music Publisher 2, most likely would not be able to prove that injustice would result absent enforcement of the promise.

Third, a court most likely would not enforce Music Publisher 2’s cause of action against Songwriter for promissory estoppel because it would have the same effect as enforcing a pre-termination grant between authors and third parties, which the law clearly prohibits.\textsuperscript{90} Enforcing an author’s promise to grant to a third party the author’s future copyright interest before the effective termination date would have the same effect as enforcing the pre-termination grant. Moreover, enforcing the author’s promise would undermine Congress’s concerns for protecting authors against unremunerative transfers\textsuperscript{91} and original grantees against third party speculation of future copyright interests.\textsuperscript{92} Thus, a court could not reasonably grant Music Publisher 2’s claim

\textsuperscript{86} See 17 U.S.C. §§ 203(a)(5), (b)(4), 304(c)(5), (c)(6)(D).
\textsuperscript{87} Or at least a greater injustice would result, i.e. authors’ loss of statutorily provided protections and original grantees’ loss of competitive advantage.
\textsuperscript{90} See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D).
\textsuperscript{92} See 675 F. Supp. at 864.
against Songwriter for promissory estoppel without violating the law and the public policies underlying it.

Accordingly, Music Publisher 2 would most likely be barred from suing under a theory of promissory estoppel. The main reasons are that Music Publisher 2 most likely would not be able to establish reasonable reliance on Songwriter’s promise or that injustice would result absent enforcement of Songwriter’s promise. More importantly, enforcement of Songwriter’s promise would almost certainly result in violating the law and the public policies that underlie it. Thus, promissory estoppel most likely would fail as a cause of action here.

2. Restitution

Given that Music Publisher 2 most likely would not be able to sue Songwriter for breach of contract or promissory estoppel, Music Publisher 2 may have a cause of action for restitution based on a theory of unjust enrichment.93 A cause of action for restitution arises when someone has unjustly benefited at the expense of another.94 Retention of the benefit is unjust if the recipient engaged in fraud or the donor of the benefit acted under a mistaken belief.95 A person who has been unjustly enriched at the expense of another is liable to that person in restitution.96

Here, Music Publisher 2 most likely would be able to successfully establish a prima facie case for restitution. Music Publisher 2 conferred a benefit on Songwriter by paying him

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95 See Dinosaur Development, Inc. v. White, 216 Cal. App. 3d 1310, 1316 (Cal. App. 1989); see Restatement (First) Restitution § 61.

96 See CTC Real Estate Services v. Lepe, 140 Cal. App. 4th 856, 860 (Cal. App. 2006); see Waldman, 92 A.D.2d at 836.
$2,000,000 in exchange for his future copyright interests and for a percentage of the royalties derived from their exploitation. Songwriter derived value from the benefit by accepting a large sum of money. Retaining the money without conveying the copyright interests as originally promised would be unjust. As such, this would be a rather clear-cut case for restitution.

However, the 1976 Copyright Act most likely would undermine a claim for restitution. When the claim for restitution involves an illegal contract, courts are generally loath to grant the claim because it would effectively enforce an illegal contract. Here, Music Publisher 2 is not the original grantee and cannot utilize the pre-termination grant exception between authors and original grantees. Thus, Music Publisher 2’s claim for restitution would likely fail because it is based on an illegal contract, i.e. the invalid pre-termination grant, and granting restitutionary relief would likely be equivalent to legitimizing the invalid pre-termination grant. Additionally, the illegal nature of the pre-termination grant here has equitable implications, which further support the argument that Music Publisher 2’s claim for restitution will likely fail. These implications will be further discussed below.

a. Unclean Hands

A claim for restitution generally derives from equity, but can be either a legal or an equitable remedy. Thus, any inequitable misconduct by the plaintiff can negate his/her claim for restitution. This doctrine is also known as unclean hands. The doctrine of unclean hands

states essentially that a plaintiff who pursues a legal or equitable remedy “must come to court with clean hands,” i.e. the plaintiff must not have engaged in misconduct related to the subject matter of the litigation.\textsuperscript{103}

The alleged inequitable conduct must relate sufficiently to the subject matter of the litigation for the clean hands doctrine to apply.\textsuperscript{104} The misconduct does not necessarily have to be conduct that would impose civil or criminal liability,\textsuperscript{105} but it must be sufficiently wrongful to warrant application of the doctrine.\textsuperscript{106} Being party to an illegal contract is likely sufficiently wrongful conduct that justifies applying the clean hands doctrine.\textsuperscript{107}

Here, Music Publisher 2’s conduct is clearly related to the subject matter of the litigation, as Music Publisher 2 is a party to the contract with Songwriter. Moreover, the pre-termination grant at issue is illegal, making Music Publisher 2 party to an illegal contract. Thus, Music Publisher 2’s participation in this illegal agreement implicates the doctrine of unclean hands, which would likely bar equitable recovery in this case.

\begin{flushright}
\textsuperscript{102} See \textit{Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.}, 324 U.S. 806, 814-15 (1945); see \textit{Keystone Driller Co. v. General Excavator Co.}, 290 U.S. 240, 244-45 (1933); see Restatement (Third) Restitution § 63.
\textsuperscript{103} See 324 U.S. at 814-15; see 290 U.S. at 244-45; see Restatement (Third) Restitution § 63.
\textsuperscript{106} See 76 Cal. App. 4th at 979; 890 N.Y.S.2d at 318-19.
\textsuperscript{107} See \textit{Lothar’s of California, Inc. v. Weintraub}, 601 N.Y.S. 2d 231, 232-33 (N.Y.S. 1993) (“Where an arrangement is illegal, the law will not extend its aid to either party or listen to their complaints against each other, but will leave them where their own acts have placed them,” citing \textit{United Calendar Mfg. Corp. v. Huang}, 94 A.D.2d 176, 180); see \textit{De Garmo v. Goldman}, 123 P.2d 1, 6 (Cal. 1942) (illegality bars equitable relief).
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However, some exceptions to the doctrine of unclean hands do exist. First, equitable relief may be awarded if doing so does not violate the public policy underlying the law that prohibits the contract at issue. Second, courts may refrain from applying the clean hands doctrine if its application would cause a greater injustice than its non-application. These will be discussed more in depth below.

i. Policy Considerations

Here, assuming that the court does not dismiss the claim for restitution on the grounds that it would effectively enforce an illegal contract, Music Publisher 2 could argue that granting its claim for restitution in this case would not violate the public policy that underlies the termination right. Specifically, Music Publisher 2 could argue that granting its claim for restitution would not violate the public policy that underlies the termination right because the prohibition was designed, at least in part, to protect original grantees and prevent speculation of copyright interests. The original grantee in this hypothetical, Music Publisher 1, was not deprived of its opportunity to negotiate a further grant with Songwriter. In fact, Music Publisher 1 was able to capitalize on the pre-termination exception and still execute a further grant with Songwriter, despite the pre-termination grant between Music Publisher 2 and Songwriter.

Please note that some of these exceptions fall under the discussion of in pari delicto, which is closely related to the doctrine of unclean hands, and is discussed below. Please note also that not every possible exception will be discussed, but rather the ones that would give a plaintiff like Music Publisher 2 the most viable arguments.

See Restatement (Third) Restitution § 32(2); see Gargano v. Smith, 411 N.Y.S.2d 804, 807 (N.Y.S. 1978) (allegedly unlicensed contractor allowed to proceed with restitution claim because the policy underlying the law for requiring contractors to be licensed, i.e. to prevent fraud and abuse, did not occur here); see also Strong v. Beydoun, 166 Cal. App. 4th 1398, 1404 (Cal. App. 2007) (restitution claim allowed where particular services rendered under a contract that was void against public policy were not specifically themselves prohibited). See Health Maintenance Network v. Blue Shield of So. California, 202 Cal. App. 3d 1043, 1061 (Cal. App. 1988); see Furman v. Krauss, 26 N.Y.S.2d 121, 123-24 (N.Y.S. 1941) (unclean hands doctrine should never be used to work an injustice).

See H.R. Rep. No. 94-1476, 94th Cong., 2d Sess., at 127 (1976); see Bourne Co., 675 F. Supp. at 864. See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D). It is worth noting however that Music Publisher 2’s actions may have increased the price that Music Publisher 1 was willing to pay to secure the further grant with Songwriter.
Moreover, some of the primary purposes of the termination right are to relieve authors from unremunerative transfers\(^{113}\) and to give them increased leverage to negotiate better deals after the worth of their works has been realized.\(^{114}\) Those policy concerns are arguably not implicated here. Songwriter terminated his original assignment and negotiated a better deal with Music Publisher 1.\(^{115}\) Songwriter both benefited from the termination right and harmed Music Publisher 2 by taking its money without conveying the copyright as promised. The termination right ostensibly was not created for authors to abuse in such a manner.

Furthermore, allowing unscrupulous authors to engage in pre-termination grants with third parties without some sort of punishment arguably turns the termination right on its head. Granted, authors historically have had the inferior bargaining position and have entered into less than stellar agreements conveying their copyright interests.\(^{116}\) Nevertheless, that does not entitle authors to engage in abusive tactics themselves.

However, to find for Music Publisher 2 in this hypothetical would effectively immunize third party grantees against the deterrent effect of the prohibition against pre-termination grants between authors and third parties. If injured third party grantees were able to recover via restitution against unscrupulous authors, they would likely become even more cavalier in their deal making, knowing full well that they could recover whenever authors tried to defraud them. This would probably in turn lead to more third parties attempting to execute pre-termination

\(^{114}\) See Milne, 430 F.3d at 1046.
\(^{115}\) One could also point out that Songwriter did make a lot of money under the original grant, and thus was not oppressed by an unremunerative transfer. However, the original grant was likely not nearly as lucrative for Songwriter as it was for Music Publisher 1. Songwriter was an unproven artist at the time of the original grant and lacked the bargaining power that a major music publisher like Music Publisher 1 had. See Section I of this article above.
\(^{116}\) See H.R. Rep. No. 94-1476, supra note 113, at 127 (1976); see Fredric Dannen, Hit Men 49 (1st ed. 1991) (for example, it was a common practice for publishers and record companies to compensate artists by only giving them a car instead of the profits derived from their copyrighted works, which was grossly disproportionate to the amount of profits their music actually earned).
grants during the pre-termination notice period and potentially interfering even more with original grantees’ ability to negotiate further grants with authors, which would undermine one of the policies underlying the law.117

Whichever side prevails likely depends on which outcome poses the greater harm. Allowing injured third party grantees to recover in this hypothetical would likely incentivize them to engage in invalid pre-termination grants with abandon. On the other hand, denying injured third party grantees relief will leave authors free to continue to abuse the termination right. Nevertheless, the authors would likely prevail because the law clearly prohibits these agreements and any form of relief to the injured grantees would likely undermine the deterrent effect of the law and the policy against speculation of copyright interests.

   ii. Greater Injustice Would Result from Applying the Clean Hands Doctrine

   Another argument that Music Publisher 2 could make is that a greater injustice would result by applying the unclean hands doctrine than by its non-application.118 This argument is likely to be based in the same policy considerations discussed above, and as such, the policies underlying the prohibition against third party pre-termination grants would likely prevail against the injuries to third party grantees like Music Publisher 2. On the one hand, to deny Music Publisher 2 relief would effectively immunize authors of copyrighted works against making fraudulent conveyances or invalid pre-termination grants. This would in turn incentivize authors

of copyrighted works to continue to execute invalid pre-termination grants or fraudulent conveyances. Congress most likely did not intend this result.

On the other hand, Congress clearly did intend to prevent authors of copyrighted works from conveying their copyright interests before the original grants had terminated,119 except as previously noted between authors and original grantees.120 Moreover, whenever the courts apply the clean hands doctrine, some injustice is virtually inevitable when a court leaves the parties as it finds them.121 The mere fact that third party grantees are injured as a result of engaging in an invalid transaction by itself is likely insufficient to support non-application of the clean hands doctrine. Furthermore, to not apply the clean hands doctrine and allow plaintiffs like Music Publisher 2 to proceed with their claims would undermine the deterrent effect of the prohibition against pre-termination grants between authors and third party grantees. Thus, Music Publisher 2 most likely would lose this argument as well.

b. *In Pari Delicto*

A doctrine closely related to unclean hands is *in pari delicto*, which means the parties are equally at fault in the subject matter of the litigation.122 Courts generally will not award claims for equitable relief when they find the parties *in pari delicto*,123 but leave the parties as they are found.124 *In pari delicto* applies often, if not invariably, to cases involving illegal agreements.125

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Here, a court would almost certainly find Music Publisher 2 to be *in pari delicto*, at least initially. The pre-termination grant Music Publisher 2 executed with Songwriter was illegal and both parties entered this agreement knowing it was illegal.\(^1\) As such, a court would likely leave Songwriter and Music Publisher 2 as it finds them, unless Music Publisher 2 can prove that it is not *in pari delicto*.\(^2\) Equitable relief can still be awarded if the conduct of one party to an illegal agreement is less culpable than the other, i.e. is not *in pari delicto*.\(^3\)

Here, Music Publisher 2 might be able to overcome the implications of *in pari delicto*. Music Publisher 2 paid Songwriter a large sum of money and received nothing while Songwriter received a large sum of money and gave Music Publisher 2 nothing in return, contrary to what was promised in the original agreement. Music Publisher 2 did nothing to injure Songwriter, while Songwriter clearly injured Music Publisher 2. Thus, Music Publisher 2 is the more innocent party and not *in pari delicto*.

On the other hand, Music Publisher 2 was still likely acting *in pari delicto*. Music Publisher 2 knowingly entered into an illegal agreement.\(^4\) This is arguably similar to *The Highwayman’s Case*.\(^5\) In that case, the plaintiff and defendant were highway robbers that had previously agreed to split the proceeds of their crimes.\(^6\) The defendant refused to pay the plaintiff as promised, so the plaintiff sued for his share of the proceeds.\(^7\) The court denied the

\(^1\) See Lothar’s, 601 N.Y.S.2d at 232-33 (“Where an arrangement is illegal, the law will not extend its aid to either party or listen to their complaints against each other, but will leave them where their own acts have placed them,” citing United Calendar Mfg. Corp. v. Huang, 94 A.D.2d 176, 180); see Chateau v. Singla, 45 P. 1015, 1015-16 (Cal. 1896).
\(^2\) Knowledge is presumed because the law presumes that everyone knows the law. See Alfaro, 142 N.Y.S.2d at 865; Hagedorn, 127 Cal. App. 4th at 748.
\(^4\) See 117 P. at 916-17; see 92 A.D.3d at 776.
\(^5\) See 142 N.Y.S.2d at 865 (everyone is presumed to know the law); see 127 Cal. App. 4th at 748 (same).
\(^6\) See Everett v. Williams, Ex. (1725), 9 L.Q.Rev. 197 (1893).
\(^7\) See id.
\(^8\) See id.
plaintiff’s claim on the grounds that the parties were equally at fault, i.e. *in pari delicto*, and that
the court would not use its equitable powers to enforce an illegal agreement.\footnote{See Everett, supra note 132. Also interesting to note is that both parties were hung and the court fined the plaintiff’s lawyers for bringing a case that was “both scandalous and impertinent.” See U.S. S.E.C. v. Lyttle, 538 F.3d 601, 605 (7th Cir. 2008).}

Then again, this hypothetical is different from the facts in *The Highwayman’s Case*\footnote{See Everett, supra note 132.} because this hypothetical does not involve two people robbing an innocent third person; rather, one of the persons involved in an illegal scheme defrauds the other. If anything, this case is more similar to *Stewart v. Wright*.\footnote{See 147 F. 321 (8th Cir. 1906).} In that case, the defendants had pretended to enlist the plaintiff’s services in a fixed gambling game.\footnote{See id. at 323.} However, what actually happened was that it was the plaintiff who was the target of the defendants’ fraudulent scheme.\footnote{See id. at 323-24.} The plaintiff sued and the court held for the plaintiff on the grounds that although the plaintiff in his mind believed he was participating in a fraudulent scheme, in reality he was not.\footnote{See id. at 328-29.} Rather, the plaintiff was the victim of the fraudulent scheme, so the court allowed the plaintiff to proceed with his claim.\footnote{See id.}

Here, Music Publisher 2 could argue that it was the victim of Songwriter’s scheme to defraud it of the money that it paid for Songwriter’s future copyright interests. Although Music Publisher 2 and Songwriter had ostensibly agreed for this arrangement to be mutually beneficial, it in reality benefited only Songwriter and defrauded Music Publisher 2. However, Music Publisher 2 would probably have difficulty arguing that it was truly defrauded in an agreement that everyone knows is illegal.\footnote{See Alfaro, 142 N.Y.S.2d at 865; see Hagedorn, 127 Cal. App. 4th at 748.} Even more importantly, it stands to reason that a court would likely hesitate to allow any form of recovery in a case involving an agreement that Congress
went to great pains to invalidate. Therefore, Music Publisher 2 would still likely be found in pari
delicto and thus denied any equitable relief, unless the provision of such relief falls under an
exception.

i. Exceptions: Undue Influence, Menace and Duress

Equitable relief may be awarded if the defendant was the party mostly at fault. More
specifically, if the plaintiff’s participation in the illegal agreement was the result of undue
influence, menace or duress by the defendant, then the plaintiff may still be entitled to equitable
relief. Put another way, the plaintiff might be entitled to equitable relief despite participation
in an illegal agreement if the plaintiff’s participation was not voluntary.

1. Undue Influence

Undue influence exists when one party takes an unfair advantage of the other. It exceeds the bounds of normal persuasion and essentially becomes coercion. To find undue
influence, courts generally consider the circumstances surrounding the transaction, such as
delicacy of the parties, relationship between the parties, the respective parties’ character,
strength, condition, and other circumstances, and common sense.

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141 See Belling v. Croter, 57 Cal. App. 2d 296, 304-05 (Cal. App. 1943); see Williamson v. Stallone, 905 N.Y.S.2d 740, 754-55 (N.Y.S. 2010) (plaintiff trustee not barred from recouping on behalf of innocent investors). Please note that the issue of fraud is discussed below under the section of “Fraud and Fraud in the Inducement.”
142 See Belling, 57 Cal. App. 2d at 304-05.
143 See Williamson, 905 N.Y.S.2d at 754-55.
147 See, e.g., 588 N.Y.S. 2d at 624 (decedent had a ninth grade education, was ill, and partially dependent on his
nephew the claimant, a real estate developer aided by his then fiancée who was a law student); but see Rosiny v.
Schmidt, 587 N.Y.S.2d 929, 930-31 (N.Y.S. 1992) (being of a certain advanced age or educational background does not necessarily void the contract.)
148 See In re Welch’s Will, 91 P. 336, 337 (Cal. 1907).
Here, Music Publisher 2 most likely would not be able to successfully argue that Songwriter exercised undue influence over Music Publisher 2 when entering into the agreement. Music Publisher 2 is a sophisticated and successful major music publisher. It has highly qualified employs and sufficient assets at its disposal so as to be at arms’ length when negotiating with Songwriter. If anything, authors in Songwriter’s position are the parties more likely to be underrepresented and subject to the pressures that major corporations like Music Publisher 2 can impose.\footnote{In this situation, however, Songwriter is a successful songwriter who also has sufficient assets to retain competent legal representation or negotiators when making deals like this. The threat of undue influence is greatly diminished here.}

Moreover, no evidence of a special relationship, such as a fiduciary\footnote{See Black’s Law Dictionary 702 (9th ed. 2013) (“A person who is required to act for the benefit of another person on all matters within the scope of their relationship; one who owes another the duties of good faith, trust, confidence and candor.”)} relationship, exists here to require the imposition of additional duties.\footnote{See, e.g., Apple Records, Inc. v. Capitol Records, Inc., 137 A.D.2d 50, 57 (N.Y. App. Div. 1988) (fiduciary relationship found between the Beatles and record company) disapproved by Faulkner v. Arista Records LLC, 602 F. Supp. 470, 483-84 (S.D.N.Y. 2009) (Apple Records limited to its facts as generally no fiduciary relationship exists between an artist and its record label).} Even if a special relationship did exist, Music Publisher 2 would likely be unable to claim that Songwriter violated that relationship because both parties knew this was an illegal agreement.\footnote{See Alfaro, 142 N.Y.S.2d at 865; see Hagedorn, 127 Cal. App. 4th at 748.} Thus, Music Publisher 2 most likely cannot avoid the implications of \textit{in pari delicto} on grounds of undue influence.

2. Duress and Menace

Duress is essentially an unlawful act that induces another to enter a contract against his/her will.\footnote{See Keithley, 11 Cal. App. 3d 443 at 451; see Gerstein v. 532 Broad Hollow Road Company, 429 N.Y.S.2d 195, 199 (N.Y.S. 1980).} Menace is a threat of duress or injury to persons or property.\footnote{See Cal. Civ. Code § 120.} Here, the facts do
not indicate any use of physical force or threat of physical force to persons or property. No facts support a claim that Songwriter overbore Music Publisher 2’s will.

Perhaps Music Publisher 2 could argue that Songwriter’s execution of a further grant constitutes some form of duress, i.e. it induced Music Publisher 2 to give Songwriter the money promised in return for the copyright interest. However, this is simply another way of saying that Songwriter lied, and if lying constituted duress or menace, it would allow bootstrapping of menace and duress to fraud claims or breach of contract claims. Moreover, as has been mentioned already, both parties knew this agreement was illegal. Therefore, Music Publisher 2 most likely could not have the contract voided and avoid the implications of the clean hands doctrine on the grounds of duress or menace.

c. Disgorgement of Profits

Assuming Music Publisher 2’s arguments against application of the unclean hands and in pari delicto doctrines succeed, Music Publisher 2’s choice of remedies would nevertheless be limited. First, Music Publisher 2 would not be able to request a declaratory judgment that Music Publisher 2 is the rightful owner of the copyrights at issue here because the law expressly prohibited the agreement that Music Publisher 2 and Songwriter entered into. Restitution cannot be used to do that which the law forbids. Second, a valid agreement exists between Music Publisher 1 and Songwriter wherein Songwriter has already conveyed his copyright.

155 See Alfaro, 142 N.Y.S.2d at 865; see Hagedorn, 127 Cal. App. 4th at 748.
157 See Blank v. Rodgers, 255 P. 235, 239 (Cal. 1927) (cannot use restitution to recover monies paid under an illegal contract); see Reiner v. North American Newspaper Alliance, 259 N.Y. 250, 256 (N.Y. 1932) (persons who commit wrongful acts cannot use the court to recover their monies).
interests. Thus, Songwriter has no copyright interests that he can grant to Music Publisher 2. As such, Music Publisher 2’s most likely remedy would be for a disgorgement of profits.

Disgorgement of profits is a restitutionary remedy that requires the wrongdoer to disgorge what was unjustly gained. Here, Music Publisher 2 and Songwriter were parties to an unlawful transaction in which Music Publisher 2 paid Songwriter $2,000,000 for a copyright that was never conveyed. Music Publisher 2 could request that Songwriter disgorge the $2,000,000 tendered under the pre-termination grant so that it would at least be restored to its original position while Songwriter would not unjustly benefit from his wrongdoing. The failure to grant otherwise would allow Songwriter to profit from his own wrongdoing, which is contrary to the purposes of restitution.

However, policy concerns would likely arise here if the court granted Music Publisher 2’s claim for disgorgement of profits. Specifically, disgorging Songwriter of his ill-gotten gains could be potentially construed as giving effect to an illegal agreement, which courts are loath to do. Had Congress truly been concerned about parties in the same situation as Music Publisher 2, it could have created a disgorgement remedy in the Copyright Act. Nevertheless, it did not. Moreover, to allow a claim for disgorgement of profits would effectively immunize third party

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158 See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D); see also id. § 205(d) (priority between conflicting transfers provision, which states that a first executed transfer prevails if recorded within one month in U.S. or two months outside U.S.; otherwise, later transfer prevails if recorded and taken in good faith for valuable consideration.) It is the author’s opinion that the priority between conflicting transfers provision would have no effect in this situation because the further grant executed between Music Publisher 2 and Songwriter is invalid and as such, recordation of an invalid transfer would do nothing other than to memorialize a transfer that was invalid.


160 See 130 Cal. App. 4th at 460; 734 F. Supp. at 1075.

grantees like Music Publisher 2 from their actions. This would further incentivize them to enter into these agreements with the expectation that they can recover their monies if the agreements are found to be invalid. Thus, policy considerations likely trump Music Publisher 2’s interests and Music Publisher 2 most likely would not be able to recover under a disgorgement remedy.

3. Fraud and Fraud in the Inducement

Given that Music Publisher 2 most likely cannot successfully sue Songwriter for breach of contract, promissory estoppel, or restitution, it may try pursuing a claim for fraud or fraud in the inducement. Fraud and fraud in the inducement have essentially the same elements.\textsuperscript{164} To prove fraud, the plaintiff must establish that: (1) the defendant misrepresented a material fact; (2) the defendant knew the representation was false; (3) the defendant intended to induce reliance on the representation; (4) the plaintiff reasonably relied on the representation; and (5) the plaintiff was injured as a result.\textsuperscript{165} In commercial transactions, fraud focuses on whether the contract entered into is the one anticipated.\textsuperscript{166} To prove fraud in the inducement, the misrepresentation must have induced the reliance that caused the plaintiff to enter into the contract.\textsuperscript{167} Reliance for either cause of action is not reasonable if the injured party ignored a known or obvious risk.\textsuperscript{168} Each cause of action will be discussed separately below.

a. Fraud

\textsuperscript{168} See Pettis v. Haag, 84 A.D.3d 1553, 1555 (N.Y. App. 2011) (reliance not reasonable if party could have easily discovered the falsehood); see Champion v. Woods, 21 P. 534, 535 (Cal. 1889) (same); see also Young v. Karol, 373 N.Y.S.2d 949, 951 (N.Y. App. 1975) (reliance not reasonable when parties had knowledge of the facts); see also Maxon-Nowlin Co. v. Norswing, 137 P. 240, 241 (Cal. 1913) (no recovery if party had knowledge of the facts).
Music Publisher 2 likely could establish many of the basic elements for fraud. First, Songwriter represented to Music Publisher 2 that he would convey his future copyright interests when he in fact was not able to do so.\textsuperscript{169} Second, Songwriter knew that he was unable to grant his future copyright interests because everyone is presumed to know the law.\textsuperscript{170} Third, Songwriter’s intent to induce reliance can be inferred from Songwriter’s knowledge that the representation was false\textsuperscript{171} and the fact that the representation was false.\textsuperscript{172} Finally, Songwriter’s failure to convey his future copyright interests to Music Publisher 2 as promised injured Music Publisher 2 financially both immediately and in terms of future royalties, as well as prestige that comes with owning a valuable catalog like Songwriter’s.

However, Music Publisher 2 most likely will not be able to successfully sue Songwriter for fraud because Music Publisher 2 will have difficulty proving justifiable reliance. As mentioned before, everyone is presumed to know the law,\textsuperscript{173} and the law prohibits pre-termination grants between authors and third parties.\textsuperscript{174} Thus, Music Publisher 2 knew that it

\begin{itemize}
  \item \textsuperscript{169} Contracts transferring copyright interests almost always contain provisions, called representations and warranties, whereby the grantor represents and warrants that he or she has the right to transfer the particular copyright(s) at issue. \textit{See} Thomas D. Selz et al., \textit{Entertainment Law 3d: Legal Concepts and Business Practices}, § 9:114. As such, Songwriter’s breach of this provision is both a breach of contract and a misrepresentation.
  \item \textsuperscript{170} \textit{See} Alfaro, 142 N.Y.S.2d at 865; \textit{see} Hagedorn, 127 Cal. App. 4th at 748. Additionally, Songwriter had much success at this point and had the means to hire competent legal representation or negotiators who would understand the music business and basic copyright law.
  \item \textsuperscript{171} \textit{See Whitney v. West Coast Life Ins. Co.}, 169 P. 997, 999 (Cal. 1917) (intent to deceive presumed when defendant knowingly makes a false statement).
  \item \textsuperscript{172} \textit{See Downey v. Finucane}, 205 N.Y. 251, 265 (N.Y. 1912) (fraudulent intent can be inferred from the falsity of the statements made). Intent to defraud could also likely be inferred from Songwriter’s act of conveying the same copyright interests twice.
  \item \textsuperscript{173} \textit{See} 142 N.Y.S.2d at 865; \textit{see} 126 Cal. App. 4th at 748. Accordingly, people who may not actually know about termination rights would still have the requisite knowledge imputed to them as though they actually did know. \textit{See}, e.g., \textit{Boehm v. Spreckels}, 191 P. 5, 9 (Cal. 1920) (parties presumed to know possibility of termination of agency); \textit{Mammoth Oil Co. v. U.S.}, 275 U.S. 13, 54 (1927) (parties to contract presumed to know that the law did not authorize lease). This is also known as constructive knowledge. \textit{See} Black’s Law Dictionary 950 (9th ed. 2009) (“Knowledge that one using reasonable care or diligence should have, and therefore that is attributed by law to a given person.”)
  \item \textsuperscript{174} \textit{See} 17 U.S.C. §§ 203(a)(5), (b)(4), 304(c)(5), (c)(6)(D). 
\end{itemize}
entered into an illegal agreement and cannot claim justifiable reliance on any claims Songwriter made.

Moreover, copyright law heavily regulates the music industry.\textsuperscript{175} Those who work within the music industry, particularly the business side, are very well versed in matters like termination rights.\textsuperscript{176} These businesses regularly engage in due diligence when acquiring copyrights.\textsuperscript{177} Such due diligence would reveal when Songwriter was able to terminate his original grants. Additionally, no evidence exists to establish that the agreement entered into was not the one that Music Publisher 2 anticipated. Both parties knew and understood the contents of the agreement. Any claims to the contrary would be incredulous.

Finally, if everyone knows the transaction is invalid or illegal, reliance on a representation made in such a transaction is not reasonable.\textsuperscript{178} Music Publisher 2’s reliance on Songwriter’s representations was not reasonable because the agreement was illegal. Therefore, Music Publisher 2’s claim for fraud would most likely fail because it could not prove justifiable reliance on Songwriter’s representations.

b. Fraud in the Inducement

As for fraud in the inducement, much of the analysis will be the same as it was for fraud.\textsuperscript{179} The primary difference with establishing fraud in the inducement is that the defendant had to intend to induce the plaintiff into entering the particular contract at issue.\textsuperscript{180} While Music

\textsuperscript{175} See Corey Field, “Think Big” – The Next Great Copyright Act, Aimp.org (May 16, 2014, 11:12 am), http://www.aimp.org/copyrightCorner/7/Think_Big_%E2%80%93_The_Next_Great_Copyright_Act.
\textsuperscript{176} See id.
\textsuperscript{177} See Jeffrey Brabec & Todd Brabec, Music Money and Success 7-8, 471-78.
\textsuperscript{178} See Kiely, 105 F.3d at 736-37 (reliance on illegal promise not reasonable); cf. American Viking Contractors, Inc., 745 F.2d at 1372 (unenforceable promises cannot be reasonably relied upon).
\textsuperscript{179} See Section III(i)(3)(a) of this article above.
\textsuperscript{180} See City of Oakland, 104 P.2d at 32; see Telford, 223 A.D. at 177.
Publisher 2 may argue that Songwriter’s representations caused it to enter into the contract at issue, it will still have difficulty proving justifiable reliance on Songwriter’s representations.

If everyone is presumed to know the law, Music Publisher 2 is presumed to know that the pre-termination grant with Songwriter was invalid. Moreover, Music Publisher 2 deals in the business of copyright interests and would be well versed in termination rights. Furthermore, Music Publisher 2 could not claim reasonable reliance on Songwriter’s representations because they were made in an illegal agreement. Therefore, Music Publisher 2 most likely would not be able to successfully sue Songwriter for fraud in the inducement.

ii. Preemption

Assuming that Music Publisher 2 is able to successfully assert a cause of action against Songwriter, Songwriter may be able to defend on grounds of preemption. Preemption is an affirmative defense that potentially enables federal law to void conflicting state law causes of action. The basis for federal preemption is the Supremacy Clause. Preemption may be express or implied. Express preemption may occur when Congress explicitly states in statutory language its intent to preempt state law and the extent to which it intends to preempt

181 See Boehm, 191 P. at 9; see Mammoth Oil Co., 275 U.S. at 54; 17 U.S.C. §§ 203(a)(5), (b)(4), 304(c)(5), (c)(6)(D).
183 See Kiely, 105 F.3d at 736-37; cf. American Viking Contractors, Inc., 745 F.2d at 1372.
184 See William F. Patry, Patry on Copyright § 18:8.50.
188 See Barnett Bank of Marion County, N.A. v. Nelson, 517 U.S. 25, 31 (1996); see 41 Cal. 4th at 935; see 104 A.D.3d at 45.
state law. Generally two types of implied preemption exist: field preemption and conflict preemption. Field preemption applies where, absent statutory language expressly preempting an area of law, federal legislation is so pervasive in a particular field that Congressional intent to occupy the field can be inferred. Conflict preemption may occur when a state law interferes with the objectives of federal law or it is impossible to comply with both federal and state laws.

Here, Music Publisher 2’s claims against Songwriter potentially implicate both federal and state law issues. Causes of action for breach of contract, promissory estoppel, restitution, and fraud or fraud in the inducement, generally fall under state law. Meanwhile, copyright law falls primarily under federal law. The 1976 Copyright Act was enacted under the power of the federal Constitution, and expressly preempted preexisting state copyright laws. Accordingly,

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192 See Doomes, 17 N.Y.3d 601; see Olszewski, 30 Cal. 4th at 815. This type of preemption most likely does not apply because Congress expressly stated in the Copyright Act its intent to preempt the field of state copyright law. See 17 U.S.C. § 301(a).


194 See 17 U.S.C. § 301(a); see also id. § 301(b)(1) (works not fixed in tangible medium of expression are outside subject matter of federal copyright law).

195 See U.S. Const. Art. I, § 8, cl. 8 (“The Congress shall have Power… To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”).

196 More specifically, federal copyright law preempted state copyright law with respect to “works of authorship that are fixed in a tangible medium of expression….” See 17 U.S.C. § 301(a). Works of authorship that are not fixed in a
state law rights that are equivalent to the exclusive rights provided by federal copyright law and come within the subject matter of copyright law are preempted. Conversely, state law rights that are not equivalent to the exclusive rights provided by federal copyright law or do not come within the subject matter of copyright law are not preempted.

To determine whether federal copyright law preempts state law under the Copyright Act, the inquiry becomes: (1) whether the rights asserted come within the subject matter of federal copyright law, and (2) whether the rights asserted are qualitatively different from the exclusive rights provided under federal copyright law. The first requirement is satisfied here because this hypothetical involves musical compositions, which clearly come within the subject matter of copyright law. Thus, the dispositive issue is whether the rights asserted by the state law cause of action are equivalent to those provided by copyright.

197 See id. § 301(a); see, e.g., Motown Record Corp. v. George A. Hormel & Co., 657 F. Supp. 1236, 1240 (C.D. Cal. 1987) (interference with prospective economic advantage held to be preempted by federal copyright law to the extent it was an equivalent to a cause of action for copyright infringement); Lennon v. Seaman, 63 F. Supp. 2d 428, 436 (S.D.N.Y. 1999) (unjust enrichment claim was equivalent to a claim of unauthorized publication, which is an exclusive right provided by federal copyright law and thus preempted).

198 See 17 U.S.C. § 301(b)(3).

199 See id. § 301(b)(1).


201 See 17 U.S.C. § 301(a); see Montz v. Pilgrim Films & Television, Inc., 649 F.3d 975, 979-80 (9th Cir. 2011); see Briarpatch Ltd., L.P. v. Phoenix Pictures, Inc., 373 F.3d 296, 305-06 (2d Cir. 2004).


203 As to what constitutes “equivalent” is subject to debate, as it was not defined in Section 301 of the 1976 Copyright Act. Case law has established an “extra elements” test, which holds that a state law cause of action is not preempted if it requires proof of an element that makes it qualitatively different from a copyright infringement claim. See Valente-Kritzer Video, 881 F.2d at 776; see Computer Associates Intern., Inc. v. Altai, Inc., 982 F.2d 693, 716 (2d Cir. 1992). Professor Nimmer posits a somewhat similar approach to the “extra elements” test, which states that
1. Preemption of Breach of Contract and Promissory Estoppel Claims

With respect to actions for breach of contract or promissory estoppel, Songwriter’s defense of preemption would probably fail. Generally, copyright law does not preempt contract law. However, a split of authority exists regarding what constitutes grounds for preemption of breach of contract claims. One line of cases states that breach of contract claims are not preempted because the “bilateral expectation of compensation” renders them qualitatively different from copyright infringement claims. Another line of cases finds that breach of contract claims are preempted if they assert rights governed exclusively under federal copyright law, but not preempted if they seek to enforce other rights under the contract. A more recent case, attempting to reconcile the split of authority, at least to a limited extent, suggested that, “it

if any exercise of the exclusive rights provided under federal copyright law infringes the state law rights, the state law is preempted. However, if the state law requires qualitatively different elements, it falls outside the general scope of federal copyright law and is not preempted. See Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 1.01[B][1]. Professor Abrams criticizes this approach arguing that it unduly emphasizes whether the rights in question have similar elements rather than whether the rights are equivalent. He suggests instead a “functional approach” which focuses on whether the state law right has the same effect as the restrictions of copyright law. See Abrams, Copyright, Misappropriation, and Preemption: Constitutional and Statutory Limits of State Law Protection, 1983 Sup. Ct. Rev. 509, 555-56; see also Thomas D. Selz et al., Entertainment Law 3d: Legal Concepts and Business Practices § 16:308, n. 3 (summarizing the preceding discussion).

See Altera Corp. v. Clear Logic, Inc., 424 F.3d 1079, 1089 (9th Cir. 2005); see ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1454 (7th Cir. 1996); H.R. Rep. No. 1476, 94th Cong., 2d Sess. 132 (1976) (“Nothing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract.…”).


See Benay v. Warner Bros. Entertainment, Inc., 607 F.3d 620, 629 (9th Cir. 2010), quoting Grosso v. Miramax Films, 383 F.3d 965, 968 (9th Cir. 2004); A Slice of Pie Prods., LLC v. Wayans Bros. Entm’t, 487 F. Supp. 2d 41, 51 n. 8 (D. Conn. 2007); see also Architectronics, 935 F. Supp. at 438-39 (requirement of contractual promise is the qualitatively different element for purposes of avoiding preemption).

See American Movie Classics, 922 F. Supp. at 931; see Lapine, 918 N.Y.S.2d at 325.
is the nature of the promise that is material in determining whether a contract claim is preempted.”

Here, the contract would probably not be preempted, regardless of which line of authority is followed. First, the “bilateral expectation of compensation” view would most likely find the contract between Music Publisher 2 and Songwriter not preempted because it is a contract that contains mutual promises of compensation. Second, the “always preempted if it asserts rights governed exclusively under federal copyright law” view would find that the promise Music Publisher 2 seeks to enforce is not a right guaranteed under federal copyright law. Rather, Music Publisher 2 seeks ownership of the musical compositions, which is a contract right in this case. Third, the “nature of the promise” view in this case would find that the promise was to transfer ownership of the musical compositions in exchange for money, which again is not one of the exclusive rights provided under federal copyright law. Therefore, Music Publisher 2’s breach of contract claim is most likely qualitatively different from rights provided under federal copyright law and thus not preempted.

On the other hand, legal or beneficial ownership is necessary to exercise the exclusive rights provided under federal copyright law. Songwriter could argue that although the basis of the dispute is ownership, that does not render it qualitatively different because ownership is

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208 See Lapine, 918 N.Y.S.2d at 325.
209 See Benay, 607 F.3d at 629; see Wayans Bros., 487 F. Supp. 2d at 51 n. 8.
210 See American Movie Classics, 922 F. Supp. at 931 (breach of contract claim is preempted if it asserts rights governed exclusively by copyright law); see 918 N.Y.S. 2d at 325.
211 While federal copyright law defines some aspects of ownership, see generally 17 U.S.C. § 201, the transfer of ownership in a copyright is a matter of contract, inheritance, or operation of law. See id. § 201(d)(1); H.R. Rep. No. 1476, 94th Cong., 2d Sess. 132 (1976) (“Nothing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract….”).
212 See 17 U.S.C. § 106; see 918 N.Y.S. 2d at 325; see Melville B. Nimmer & David Nimmer § 1.01[B][1][a][i] (“preemption should be found absent to the extent that a breach of contract action alleges more than simply reproduction (or adaptation, distribution, etc.) of a copyrighted work.”).
213 See 17 U.S.C. § 106; see Cortner v. Israel, 732 F.2d 267, 270-71 (2d Cir. 1984); see also Kling v. Hallmark Cards Inc., 225 F.3d 1030, 1038 (9th Cir. 2000) (ownership necessary to assert a copyright infringement claim).
necessary to exercise the exclusive rights provided under federal copyright law.\textsuperscript{214} Moreover, ownership is not solely a state law issue in this case, given that the 1976 Copyright Act specifically sets forth provisions governing ownership of copyrights.\textsuperscript{215}

Nevertheless, Music Publisher 2’s claim is most likely qualitatively different because ownership has previously been held to constitute a state law issue and thus not preempted.\textsuperscript{216} Moreover, other cases involving copyrights and patents have held that claims for royalties did not arise under their respective federal laws, but rather arose under state contract law.\textsuperscript{217} Furthermore, to say that the issue of ownership warrants preemption would arguably undermine Congress’s articulated policy objectives in enabling parties to enter into contracts conveying copyright interests.\textsuperscript{218} Otherwise, preemption would apply any time a party sued for failure to transfer ownership, thus leaving the plaintiff without a remedy, as the Copyright Act does not delineate remedies for failure to transfer ownership.\textsuperscript{219} Thus, Songwriter’s preemption defense with respect to breach of contract and promissory estoppel most likely would fail here.

2. Preemption of Restitution Claim

If Music Publisher 2 successfully establishes a prima facie case for restitution, Songwriter may again try to defend on grounds of preemption. Here, Music Publisher 2’s claim

\textsuperscript{214} See 17 U.S.C. § 106.
\textsuperscript{215} See generally 17 U.S.C. § 201.
\textsuperscript{218} H.R. Rep. No. 1476, 94th Cong., 2d Sess. 132 (1976) (“Nothing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract….”).
\textsuperscript{219} See generally 17 U.S.C. §§ 201-205, 501-513. If Congress intended federal copyright law to exclusively govern the issue of ownership, it could have clearly stated so, not to mention created procedures for transfer of ownership and a set of remedies for violations of those procedures.
for restitution is most likely qualitatively different from rights conferred under federal copyright law and thus not preempted.\textsuperscript{220} The typical restitution/preemption scenario involves a copyright owner suing for the unauthorized use of the owner’s exclusive rights and for failure to compensate the owner for that use, i.e. for being unjustly enriched.\textsuperscript{221} Restitution claims in these situations are usually similar to copyright infringement claims and deemed preempted.\textsuperscript{222} Conversely, restitution claims that do not allege violations of the exclusive rights provided by copyright law generally survive preemption defenses.\textsuperscript{223}

As mentioned above,\textsuperscript{224} the basis for the dispute between Music Publisher 2 and Songwriter is ownership, not unauthorized and uncompensated use of exclusive rights.\textsuperscript{225} Courts have previously held that the issue of ownership implicates state law and does not warrant preemption.\textsuperscript{226} Therefore, Music Publisher 2’s claim for unjust enrichment is most likely not preempted.

3. Preemption of Fraud and Fraud in the Inducement Claims


\textsuperscript{221} See, e.g. \textit{Briarpatch Ltd., L.P. v. Phoenix Pictures, Inc.}, 373 F.3d 296, 306 (2d Cir. 2004), \textit{cert. denied}, 544 U.S. 949 (2005) (unjust enrichment claim preempted regarding use of a novel and turning it into a movie); \textit{Systems XIX, Inc. v. Parker}, 30 F. Supp. 2d 1225, 1230-31 (N.D. Cal. 1998) (preemption of recording studio’s claim against record label based on use of concert recording); Thomas D. Selz et al., \textit{Entertainment Law 3d: Legal Concepts and Business Practices § 16:219}. One thing important to note, however, is that Music Publisher 2 is not the owner asserting its federal copyright interests.

\textsuperscript{222} See \textit{Uncle Jam Records & Tapes Intern., Inc. v. Warner Bros. Records, Inc.}, at *2 (S.D.N.Y. 1983) (quasi-contract claim not preempted with regards to expenses incurred in preparation of masters and preparing for album for marketing); see \textit{Schuchart & Associates, Professional Engineers, Inc. v. Solo Serve Corp.}, 540 F. Supp. 928, 945 (W.D. Tex. 1982) (quasi-contract claim not preempted with respect to seeking compensation for services rendered and not to enforce exclusive rights provided under federal copyright law).

\textsuperscript{223} See Section III(a)(ii)(1) of this article above.

\textsuperscript{224} See \textit{Levine v. Landy}, 832 F. Supp. 2d 176, 188 (N.D.N.Y. 2011) (unjust enrichment claim not preempted where photographer sought only payment for previously authorized use of one set of non-copyrighted photographs, not to vindicate the exclusive rights provided by copyright law); see \textit{Firoozye}, 153 F. Supp. 2d at 1126 (quasi-contract claim preempted when alleging improper use of copyrighted work).

\textsuperscript{225} See \textit{Dead Kennedys}, 37 F. Supp. 2d at 1154; see \textit{Dorsey}, 304 F. Supp. 2d at 861; see also 153 F. Supp. 2d at 1123.
As for preemption with respect to state actions for fraud and fraud in the inducement, Songwriter’s preemption defense would most likely fail here as well, as fraud claims are generally held not preempted because they contain the additional qualitatively different element of misrepresentation.\footnote{See, e.g. Valente-Kritzer Video, 881 F.2d at 776 (fraud claim not preempted because it requires the additional element of misrepresentation); Tracy v. Skate-Key, Inc., 697 F. Supp. 748, 751 (S.D.N.Y. 1988) (same); see Thomas D. Selz et al., Entertainment Law 3d: Legal Concepts and Business Practices § 16:212.50.} Songwriter’s claims for fraud and fraud in the inducement would be no different here because they allege the element of misrepresentation. Thus, preemption most likely would not apply here.

iii. Summary

To summarize Hypothetical 1, Music Publisher 2’s claims for breach of contract and promissory estoppel would most likely fail because they are based on the invalid pre-termination grant between Music Publisher 2 and Songwriter, and courts generally will not enforce illegal agreements.\footnote{See Richardson, 210 Cal. App. 2d at 606-07; see Darling, 241 A.D. at 59.} The claim for restitution would also be undermined by the underlying invalid pre-termination grant because it implicates the doctrine of unclean hands\footnote{See Cal. Civ. Code § 3517; see Cohn & Berk, 125 A.D.2d at 435-36.} and courts will not grant relief that effectively enforces invalid agreements.\footnote{See Richardson, 210 Cal. App. 2d at 608; see Darling, 241 A.D. at 59.} The claims for fraud and fraud in the inducement will most likely not succeed because a key element of a fraud claim is reasonable reliance,\footnote{See Hoe, 515 F. Supp. 2d at 1104; see Euryceleia Partners, LP, 12 N.Y.3d at 559.} which is difficult to establish when everyone is presumed to know the law invalidating pre-termination grants.\footnote{See Kiely, 105 F.3d at 736-37; cf. American Viking Contractors, Inc., 745 F.2d at 1372.} However, should Music Publisher 2 be able to establish prima facie cases for the aforementioned claims, they most likely would not be preempted because they do not seek to enforce any of the exclusive rights provided by copyright law.\footnote{See 17 U.S.C. § 301(a); see Montz, 649 F.3d at 979-80; see Briarpitch Ltd., L.P., 373 F.3d at 305-06.}
b. Hypothetical 2: Author Executes a Pre-Termination Grant with a Third Party Only

Having analyzed Hypothetical 1 in depth, Hypothetical 2 will now be addressed. The main factual difference in this hypothetical is that Songwriter executes a pre-termination grant only with Music Publisher 2 and does not execute a second pre-termination grant with anyone else. Assume again that Songwriter entered into an agreement to assign his musical compositions to Music Publisher 1 at the beginning of his career. These musical compositions later comprise a highly valuable catalog.

As the termination date for these musical compositions approaches, Songwriter decides to terminate his original grants and properly serves a termination notice on Music Publisher 1. Music Publisher 2, desiring to own this catalog, offers Songwriter a $2,000,000 advance and various other perks. Intrigued, Songwriter accepts Music Publisher 2’s offer and executes a further grant before the effective termination date with Music Publisher 2.

Meanwhile, Music Publisher 1, the original grantee, was hoping to maintain its longstanding fruitful relationship with Songwriter and execute a further grant with him. Music Publisher 1 was aware of Music Publisher 2’s overtures to Songwriter, but did not warn Songwriter that any agreements he made with other publishers before the effective termination date would be invalid. Music Publisher 1 also did not try to negotiate a further grant with Songwriter before the effective termination date. The effective termination date passes and

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234 For example, Songwriter can demand higher advances, see Donald S. Passman, All You Need to Know About the Music Business 269-70, can exercise greater control over Music Publisher’s uses of Songwriter’s musical compositions, see id. at 279, and/or can obtain an admin agreement, wherein Songwriter retains ownership of his/her musical compositions but gives Music Publisher a small percentage of the royalties derived from Music Publisher’s exploitation of these musical compositions. See id. at 293.

235 This failure to warn is important because some case law potentially supports the proposition that original grantees have an affirmative duty to warn authors against entering into invalid pre-termination grants with third parties if they want to later sue. See Bourne Co., 675 F. Supp. at 866. This matter will be discussed more in detail below.
Music Publisher 1 no longer owns the rights to Songwriter’s catalog. Notwithstanding the invalidity of the pre-termination grant with Music Publisher 2, Songwriter and Music Publisher 2 act in accordance with it and Songwriter does not negotiate a further grant with Music Publisher 1. Music Publisher 1 decides to sue Music Publisher 2 for being deprived of a business relationship and of its chance to negotiate a further grant with Songwriter.

i. Potential Causes of Action

1. Interference with Contractual Relations

Given that Music Publisher 1 lost its opportunity to negotiate a further grant with Songwriter, it might try to sue for interference with contractual relations. This cause of action requires the plaintiff to prove that (1) a valid contract exists between the plaintiff and a third party; (2) the defendant knew about the contract; (3) the defendant intentionally induced a breach of the contract; (4) actual disruption occurred; and (5) damage resulted to the plaintiff. While the first two elements would be easily proven, the remaining elements would most likely undermine Music Publisher’s claim.

Here, Music Publisher 1 would probably have difficulty proving that Music Publisher 2 intentionally induced a breach of contract. Songwriter had a statutory right to terminate and decided to terminate before even negotiating with Music Publisher 2. Even if Music Publisher 2 did urge Songwriter to terminate his original grants, it would not make sense to hold Music

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236 Note that even if Music Publisher 1 had a cause of action against Songwriter, it likely would not sue because in the entertainment industry, suing the talent is generally not good business practice, as companies usually want to maintain good relationships with the talent.

237 Note that many of the same potential causes of action analyzed in Hypothetical 1 could apply here as well, with the largely the same results. As such, their discussion is omitted here.

238 See Quelimane Co. v. Stewart Title Guaranty Co., 19 Cal. 4th 26, 55 (Cal. 1998); see Hornstein v. Podwitz et al., 254 N.Y. 443, 448 (N.Y. 1930).
Publisher 2 liable for Songwriter exercising his statutory right.\textsuperscript{239} Moreover, Music Publisher 1 would probably have difficulty proving that a breach or actual disruption occurred because Songwriter had a statutorily created right to terminate the original grant.\textsuperscript{240} Given that Congress created the termination right, it stands to reason that the legitimate exercise of that right does not constitute a breach of contract.\textsuperscript{241}

Finally, Music Publisher 1 will probably have difficulty proving that damage resulted because Music Publisher 1 in fact benefited from its original contract with Songwriter. Once original grantees are properly served with notice of termination, they can enter into new binding agreements with the grantors before the effective termination date.\textsuperscript{242} That is an advantage they have against all other parties.\textsuperscript{243} Therefore, a cause of action for interference with contractual relations would most likely fail here.

2. Interference with Prospective Economic Advantage

Given that Music Publisher 1 probably cannot successfully sue for interference with contractual relations, Music Publisher 1 might be able to sue Music Publisher 2 for interference with prospective economic advantage. Interference with prospective economic advantage occurs when a third party intentionally and improperly interferes with another’s prospective business relation.\textsuperscript{244}

\textsuperscript{239} See \textit{People v. Puentes}, 190 Cal. App. 4th 1480, 1484 (Cal. App. 2010) (people may not be punished for exercising a statutory or constitutional right); see also \textit{U.S. v. Tabi}, 2007 WL 582731, at *4 (S.D.N.Y. 2007) (punishment for exercise of a constitutional or statutory right is a denial of due process).
\textsuperscript{240} See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D).
\textsuperscript{241} See 190 Cal. App. 4th at 1484; see 2007 WL 582731, at *4.
\textsuperscript{243} See id.
\textsuperscript{244} See Restatement (Second) Torts § 766B; see Thomas D. Selz et al., Entertainment Law 3d: Legal Concepts and Business Practices § 14:21.
To establish this cause of action, the plaintiff must prove that (1) an economic relationship existed between the plaintiff and the third party wherein the plaintiff had a probable future economic benefit; (2) the defendant knew of that relationship; (3) the defendant intended to interfere with or disrupt that relationship; (4) actual interference or disruption resulted; and (5) the plaintiff was damaged as a result.245 The majority of states also require proof of an additional element of wrongfulness, as interference *per se* is insufficient.246

a. Economic Relationship With a Probable Expectation of Future Economic Benefit

The first element for this cause of action requires that a “colorable economic relationship” with the potential to become a contractual relationship exist between the plaintiff and the third party.247 Here, Music Publisher 1 almost certainly will be able to establish the existence of a colorable economic relationship between it and Songwriter. Music Publisher 1 is the original grantee of a number of Songwriter’s musical compositions. The purpose of this relationship was to exploit Songwriter’s musical compositions for monetary gain.248 Executing a further grant to Music Publisher 1 would merely continue this relationship into the next term of Songwriter’s copyrights. Thus, an economic relationship almost certainly exists here.

As to whether Music Publisher 1 had a probable expectation of future economic benefit from this relationship is less clear.249 Music Publisher must prove that executing the contract was

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245 See *Della Penna v. Toyota Motor Sales, U.S.A., Inc.*, 11 Cal. 4th 376, 412-13 (1995); see also *Kirch v. Liberty Media Corp.*, 449 F.3d 388, 400 (2d Cir. 2006) (plaintiff must prove that (1) it had a business relationship with the third party (2) the defendant knew of that relationship and intentionally interfered with it (3) the defendant had an improper motive and (4) actual injury resulted to the plaintiff).


247 See *Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 904 (9th Cir. 1983).


249 Worthy of note is that if Music Publisher 1 created any derivative works during the period of the original grant, Music Publisher 1 is entitled to continue exploiting those derivative works. See *Mills Music, Inc. v. Snyder*, 469 U.S.
more than a mere probability.\textsuperscript{250} Put another way, there must be reasonable certainty that the contract, i.e. the further grant in this case, would have been executed but for Music Publisher 2’s alleged interference.\textsuperscript{251}

Here, the probability of an economic benefit from a further grant with Songwriter appears unlikely. The prohibition against pre-termination grants between authors and third parties provides original grantees neither an exclusive period of negotiation, nor a statutory right of first refusal.\textsuperscript{252} While original grantees enjoy a competitive advantage in the form of an exception to the prohibition against pre-termination grants, that is not the same as an exclusive period of negotiation or a right of first refusal.\textsuperscript{253} Nothing in the statute forbids authors from negotiating further grants with third parties pre-termination.\textsuperscript{254} They are free to negotiate with whomever they choose whenever they choose, and have no obligation whatsoever to negotiate a further grant with original grantees.\textsuperscript{255} Accordingly, this likely undermines Music Publisher’s claim of

\textsuperscript{250} See \textit{Business Networks of New York, Inc. v. Complete Network Solutions, Inc.}, 265 A.D.2d 194, 195 (N.Y. App. 1999) (plaintiff must establish more than a mere probability that a contract would have been executed to state a cause of action); \textit{see also Youst v. Longo}, 43 Cal. 3d 64, 71-72 (Cal. 1987) (plaintiff must establish a reasonable probability of a business expectancy).


\textsuperscript{252} \textit{see Bourne Co.}, 675 F. Supp. at 865. Although the legislative history of the Copyright Act mentions the original grantee’s preferred competitive position as being “in the nature of a ‘right of first refusal,’” \textit{see} H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. at 127 (1976), the phrase “right of first refusal” is not found in the statute itself, \textit{see} 17 U.S.C. §§ 203, 304(c)-(d), and “the language of the statute is the best indication of legislative intent.” \textit{See} 675 F. Supp. at 866, \textit{quoting Meltzer v. Zoller}, 520 F. Supp. 847, 855 (D.N.J. 1981). Moreover, Professor Nimmer noted that this description in the legislative history was incorrect. \textit{See} \textit{Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 11.08[A]; see also William F. Patry, Patry on Copyright § 7:47 (referring to the original grantee’s “preferred competitive position” as a “right without a remedy”).}

\textsuperscript{253} \textit{see} 675 F. Supp. at 865-66.

\textsuperscript{254} \textit{See id.; cf.} 17 U.S.C. §§ 203, 304(c)-(d) (no mention of the word “negotiate” or a requirement that authors negotiate with original grantees).

\textsuperscript{255} \textit{See} 675 F. Supp. at 865-66.
reasonable certainty in obtaining a probable economic benefit from its relationship with Songwriter.

On the other hand, even without the exclusive period of negotiation or the statutory right of first refusal, original grantees may still have a probable future economic benefit. Congress specifically created an exception to pre-termination grants for authors and original grantees to confer a competitive advantage upon original grantees.\(^{256}\) This exception improves original grantees’ likelihood of negotiating further grants by preventing third parties from securing further grants before original grantees even get the chance to negotiate.\(^{257}\) Moreover, one could reasonably infer that parties to a successful longstanding business relationship would be more likely to continue that relationship than had they not had that relationship.\(^{258}\)

Nevertheless, Music Publisher 1’s preferred competitive position and longstanding business relationship with Songwriter are likely insufficient evidence to create a probable future economic benefit. While those facts increase the likelihood of a future economic benefit, they probably do not rise beyond the level of a mere probability.\(^{259}\) Songwriter’s freedom to negotiate with whomever he chose pre-termination prevails against Music Publisher 1’s preferred


\(^{257}\) See 675 F. Supp. at 864; H.R. Rep. 94-1476, supra note 256, at 127-28 (1976) ("[T]he bill seeks to avoid the situation that has arisen under the present renewal provision, in which third parties have bought up contingent future interests as a form of speculation.... An exception... would permit the original grantee or a successor of such grantee to negotiate a new agreement with the persons effecting the termination at any time after the notice of the termination has been served.").

\(^{258}\) The length of the relationship between Songwriter and Music Publisher 1 depends on when the original grant was secured or executed. Pre-1978 copyrights can first be terminated either 56 years or 75 years from the date the copyright was originally secured. See 17 U.S.C. §§ 304(c)(3), 304(d). Grants executed after 1978 can be terminated 35 years after the original grant. See id. § 203(a)(3). As such, Songwriter and Music Publisher 1 will have had a business relationship for at least 35 years.

\(^{259}\) See Business Networks, 265 A.D.2d at 195; see Youst, 43 Cal. 3d at 71-72.
competitive position. Additionally, a longstanding business relationship, even a successful one, likely does not guarantee, much less entitle anyone, to its continuance.

Moreover, notwithstanding the illegality of the pre-termination grant with Music Publisher 2, Songwriter still did not execute a further grant with Music Publisher 1. Songwriter was free to execute a further grant with Music Publisher 1, but did not do so. Therefore, Music Publisher 1 would likely not be able to establish this element.

b. Whether Music Publisher 2 Knew of the Relationship Between Music Publisher 1 and Songwriter

The second element of this cause of action requires that the defendant knew of the relationship between the plaintiff and the third party. Here, Music Publisher 2 either knew or should have known about the relationship between Songwriter and Music Publisher 1. Songwriter has a highly valuable catalog, and the acquisition of such a catalog is a very complex process that requires due diligence. Such due diligence would have revealed that Music Publisher 1 was the owner of those copyrights. Accordingly, Music Publisher 2 either knew or should have known of the relationship between Songwriter and Music Publisher 1.

261 See id.
263 Standard industry practice involving catalog acquisitions requires due diligence. See Jeffrey Brabec & Todd Brabec, Music Money and Success 7, 474-78.
264 See id. at 471-78.
265 Music publishers register with performing rights societies such as ASCAP, BMI and SESAC. Publishers can search those records to determine who owns which musical compositions. Additionally, registrations with the Copyright Office are a source of determining ownership. See id. at 7, 474-78.
c. Whether Music Publisher 2 Intended to Interfere with or Disrupt the Relationship Between Songwriter and Music Publisher 1

The third element of this cause of action requires that the defendant intended to interfere with or disrupt the relationship between the plaintiff and the third party.\textsuperscript{266} Generally, the plaintiff must establish that the defendant’s actions were designed to disrupt the relationship\textsuperscript{267} or that the defendant knew with substantial certainty that its actions would disrupt the relationship.\textsuperscript{268}

Here, Music Publisher 1 will probably have difficulty proving that Music Publisher 2 intended to disrupt the economic relationship between Music Publisher 1 and Songwriter as their relationship is defined by the original grant. Music Publisher 2’s desire to execute a further grant with Songwriter should be irrelevant because a further grant necessarily occurs post-termination of the original grant.\textsuperscript{269} Music Publisher 1, as original grantee, is still entitled to all rights provided by the original grant throughout its duration. For example, the further grant between Music Publisher 2 and Songwriter would not inhibit Music Publisher 1’s ability to continue to exploit derivative works previously licensed under the original grant, should any exist.\textsuperscript{270}

On the other hand, Music Publisher 2’s act of executing a pre-termination grant with Songwriter is potentially evidence of intent to disrupt because it arguably deprived Music Publisher 1 of a chance to negotiate a further grant with Songwriter. Despite the invalidity of the

\textsuperscript{266} See Della Penna, 11 Cal. 4th at 412-13; see also Kirch v. Liberty Media Corp., 449 F.3d at 400.
\textsuperscript{267} See Kasparian, 38 Cal. App. 4th at 261-62; see Snyder, 252 A.D.2d at 299-300.
\textsuperscript{268} See Reeves, 33 Cal. 4th at 1152.
\textsuperscript{269} See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D).
\textsuperscript{270} See id. § 304(c)(6)(A); see Mills Music, 469 U.S. at 173-74.
pre-termination grant at issue, Songwriter and Music Publisher 2 still act in accordance with it.\textsuperscript{271} Moreover, Music Publisher 1 cannot force Songwriter and Music Publisher 2 to abandon their agreement.\textsuperscript{272} As such, Music Publisher 1 would have lost its chance to negotiate a further grant and its continued business relationship with Songwriter.

Nevertheless, executing a pre-termination grant does not necessarily mean that Music Publisher 2 intended to disrupt the relationship between Music Publisher 1 and Songwriter.\textsuperscript{273} Music Publisher 2 most likely intended only to secure rights to Songwriter’s highly valuable catalog, as valuable catalogs like Songwriter’s are highly sought after by music publishers.\textsuperscript{274} Most importantly, Songwriter is free to negotiate with whomever he chooses, and that right prevails against Music Publisher 1’s preferred competitive position.\textsuperscript{275} Accordingly, this element most likely would not be met.

d. Actual Interference or Disruption Resulted

\textsuperscript{271} Note that the unenforceability of the further grant between Music Publisher 2 and Songwriter does not necessarily preclude them from performing under it. It just inhibits either party’s ability to enforce the agreement in court. \textit{Cf.} \textit{Fong v. Miller,} 105 Cal. App. 2d 411, 413 (Cal. App. 1951) (party to unlawful contract not entitled to recover performance rendered or damages incurred); \textit{cf.} \textit{General Dynamics Corp. v. U.S.,} 131 S.Ct. 1900, 1907 (2011) (courts will not grant plaintiff restitution for performance rendered under an illegal contract).

\textsuperscript{272} Music Publisher 1 would have no standing to sue regarding the invalidity of the further grant between Songwriter and Music Publisher 2 because it enjoys no privity of contract. \textit{See Windham at Carmel Mountain Ranch Assn. v. Superior Court,} 109 Cal. App. 4th 1162, 1176 (Cal. App. 2003); \textit{see DeRaffele v. 210-220-230 Owners Corp.,} 33 A.D.3d 752, 753 (N.Y. App. 2006). As such, Music Publisher 1 has no power to force Songwriter to do anything with Music Publisher 1.

\textsuperscript{273} \textit{See Ramona Manor Convalescent Hospital v. Care Enterprises,} 177 Cal. App. 3d 1120, 1130-31 (Cal. App. 1986) (defendant not liable if resultant harm was unintended); \textit{see also} \textit{Snyder,} 252 A.D.2d at 299-300 (interference must have been accomplished by “wrongful means” or solely to harm the plaintiff).

\textsuperscript{274} \textit{See Jeffrey Brabec & Todd Brabec,} Music Money and Success 460. Examples of famous catalogs are The Beatles, Led Zeppelin, and Pink Floyd. They are highly valuable because they have consistently earned vast sums of money since they were originally released decades ago. For example, in 2001, Sony/ATV, which owns the Beatles’ catalog, earned over nine million dollars just on sales of the Beatles Number One hits album, “1.” \textit{See Is the King of Pop going broke?}, Rolling Stone, April 5, 2002, 2002 WLNR 14203074.

\textsuperscript{275} \textit{See Bourne Co.,} 675 F. Supp. at 865-66.
The fourth element of this cause of action requires that actual interference or disruption resulted.276 Here, actual disruption probably cannot be established. On the one hand, Music Publisher 1 did not get to negotiate a further grant with Songwriter, despite its preferred competitive position provided by law.277 Moreover, the effective termination date has passed at this point and Music Publisher 1 no longer owns the rights to Songwriter’s musical compositions.278

On the other hand, not getting to negotiate a further grant does not necessarily mean that actual disruption resulted for purposes of interference with prospective economic advantage. While the termination of the original grant disrupted Music Publisher 1’s longstanding business relationship with Songwriter, that is not the same as disrupting Music Publisher 1’s chance of executing a further grant with Songwriter. Songwriter had a statutory right to terminate his original grants to Music Publisher 1.279 He was free to negotiate with anyone he chose prior to the effective termination date and had no obligation to continue his relationship with Music Publisher 1.280 As such, Songwriter is the one that ultimately chooses where the rights to his musical compositions will go.281

Moreover, if any disruption resulted, it was because Songwriter exercised his termination right, not because Music Publisher 2 executed a further grant with Songwriter. The pre-termination grant at issue was illegal, 282 and is thus void ab initio, which by definition means it

276 See Della Penna, 11 Cal. 4th at 412-13; see also Kirch v. Liberty Media Corp., 449 F.3d at 400.
278 See 17 U.S.C. §§ 203(b), 304(c)(6).
279 See id.
282 See id. §§ 203(b)(4), 304(c)(6)(D).
had no effect from its inception.\textsuperscript{283} A contract that is without effect necessarily could not have
effected any kind of disruption.\textsuperscript{284} Therefore, actual disruption most likely did not result.

\textbf{e. Music Publisher 1 Suffered Damages As a Result of the Disruption}

The fifth element of interference with prospective economic advantage requires the plaintiff to prove with reasonable certainty that it suffered damages as a result of the disruption.\textsuperscript{285} Additionally, \textit{Bourne Co. v. MPL Communications, Inc.} potentially stands for the proposition that original grantees have an affirmative duty to warn authors against entering into invalid pre-termination grants to support a claim for damages.\textsuperscript{286}

Here, Music Publisher 1 probably does not have a claim for damages. On the one hand, Songwriter’s catalog has a proven track record of earning large sums of money and Music Publisher 1 will no longer participate in those earnings. Moreover, business relationships themselves are important because they can lead to new business relationships.\textsuperscript{287} Losing a high profile artist like Songwriter can decrease a music publisher’s cachet and ability to draw business.\textsuperscript{288} Had Music Publisher 1 executed the further grant with Songwriter, it would have

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{283} \textit{See} Black’s Law Dictionary 1709 (9th ed. 2011) (“Null from the beginning, as from the first moment when a contract is entered into. • A contract is void ab initio if it seriously offends law or public policy, in contrast to a contract that is merely voidable at the election of one party to the contract”).
\item \textsuperscript{284} \textit{Cf. Range Road Music}, 76 F. Supp. 2d at 381 (invalid pre-termination grant was a nullity).
\item \textsuperscript{286} \textit{See} Bourne Co., 675 F. Supp. at 866, 866 n. 13.
\item \textsuperscript{287} This can also be referred to as “good will,” which is essentially the added value of a company beyond its assets, such as consistent customer base, location, reputation or “common celebrity.” \textit{See} Dawson v. White & Case, 88 N.Y.2d 666, 670 n. 2 (N.Y. 1996); \textit{see also} Cal. Bus. & Prof. Code § 14100 (“the expectation of continued public patronage”).
\item \textsuperscript{288} High profile artists bring prestige to music publishers and record labels, which can in turn lead to other artists wanting to be with the same music publisher or record label. One need only visit the websites of major publishers like Warner/Chappell Music, Universal Music Publishing and Sony/ATV to find them boasting of their impressive artist rosters. \textit{See also} \textit{The Doings in Durham}, Billboard, May 6, 2000, 2000 WLNR 9974962.
\end{itemize}
\end{footnotesize}
continued to participate in the earnings from Songwriter’s valuable catalog and enjoyed continued prestige with Songwriter’s name on its artist roster.

However, Music Publisher 1 likely cannot establish with reasonable certainty that it would have executed the further grant with Songwriter and obtained the economic benefits from that relationship. Songwriter had no obligation to execute a further grant with Music Publisher 1, let alone even negotiate.\(^{289}\) Songwriter had the freedom to execute a further grant with Music Publisher 1 after sending notice of termination, yet he executed a further grant with Music Publisher 2 instead.\(^{290}\)

Moreover, Music Publisher 1 did not communicate with Songwriter about the invalidity of his pre-termination grant with Music Publisher 2, nor did Music Publisher 1 try to negotiate a further grant with Songwriter after receiving notice of termination. Original grantees arguably should expend some effort to enforce their rights to support a claim for damages.\(^{291}\) Furthermore, Music Publisher 1’s preferred competitive position does not provide a private cause of action for damages.\(^{292}\)

Alternatively, even if Music Publisher 1 had proactively warned Songwriter against executing the pre-termination grant with Music Publisher 2 and attempted to negotiate with Songwriter pre-termination, that may not be dispositive of the issue of damages. First, since everyone is presumed to know the law,\(^ {293}\) it seems redundant to require original grantees to warn

\(^{289}\) See 675 F. Supp. at 865-66.

\(^{290}\) See id.

\(^{291}\) See id. at 866, 866 n.13.

\(^{292}\) See id. at 865-66; see also Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 11.08[A] n. 6 (stating that the Bourne court rejected claims of private actions by original grantees for damages against persons who induce authors to enter into necessarily invalid pre-termination grants, at least when the basis of the claim for damages is a violation of the original grantees’ “exclusive period of negotiation,” a mischaracterization of original grantees’ preferred competitive position).

\(^{293}\) See 142 N.Y.S.2d at 865; see 127 Cal. App. 4th at 748.
authors against entering into agreements they are presumed to know to be invalid. Second, the court in *Bourne* still held against the original grantee even after it produced evidence on rehearing of having attempted to negotiate with the author’s statutory heir pre-termination.\(^{294}\) Thus, Music Publisher 1 likely would not be able to establish a claim for damages.

f. Whether the Interference Was Improper

Finally, in a majority of states, the plaintiff must also prove that the interference was “wrongful,” “improper,” “illegal” or “independently tortious.”\(^{295}\) Mere interference alone is insufficient.\(^{296}\) An act or interference is improper if the law proscribes it\(^{297}\) or if the defendant’s sole purpose was to harm the plaintiff.\(^{298}\) Here, Music Publisher 1’s best argument would be that Music Publisher 2’s interference was improper because it was illegal. The facts do not support the claim that Music Publisher 2’s sole purpose was to harm Music Publisher 1. At most, they show that Music Publisher 2’s purpose was to own the rights to Songwriter’s musical compositions. Such a purpose is not improper, even if it causes Music Publisher 1 economic harm.\(^{299}\)

As for improper because of illegality, Music Publisher 2’s act of executing the pre-termination grant was likely improper because it was illegal. Congress created the prohibition against pre-termination grants with third parties, in part, to protect original grantees against third party interference during the pre-termination period by preventing speculation of future


\(^{295}\) See *Della Penna*, 11 Cal. 4th at 386; see also *Snyder*, 252 A.D.2d at 299-300 (interference must have been accomplished by “wrongful means” or solely to harm the plaintiff).

\(^{296}\) See 11 Cal. 4th at 392-93; cf. *ARB Upstate Communications LLC v. R.J. Reuter, L.L.C.*, 93 A.D.3d 929, 933 (N.Y. App. 2012) (the interference must have been done by improper means).


\(^{299}\) See *Ramona Manor*, 177 Cal. App. 3d at 1130-31; see 252 A.D.2d at 299-300.
copyright interests.\textsuperscript{300} If the interference were not improper to begin with, Congress most likely would not have created the protections for original grantees that it did.\textsuperscript{301} Congress simply could have prohibited all pre-termination grants during the pre-termination notice period, including ones between authors and original grantees, but it did not. Accordingly, Music Publisher 2’s act of executing the pre-termination grant is likely improper because it is conduct that the law was attempting to proscribe, namely speculation of future copyright interests.\textsuperscript{302}

On the other hand, Music Publisher 2 could counter that Music Publisher 1 did not have an exclusive period of negotiation or a statutory right of first refusal.\textsuperscript{303} Songwriter was free to negotiate with whomever he pleased during the pre-termination notice period.\textsuperscript{304} One of the primary purposes of the termination right, if not the primary purpose, is to liberate authors from unremunerative transfers.\textsuperscript{305} While the interests of original grantees are important, the termination right exists to benefit authors.\textsuperscript{306} Moreover, if the interference was truly improper, Congress could have conferred more explicit protections on original grantees, such as a statutory right of first refusal\textsuperscript{307} or a specific punishment for third parties that engage in speculation of future copyright interests. However, it did not. Congress only provided an exception for pre-termination grants between authors and original grantees.\textsuperscript{308}

\textsuperscript{300} See Bourne Co., 675 F. Supp. at 864; see H.R. Rep. 94-1476, 94th Cong., 2d Sess., at 127 (1976).
\textsuperscript{301} But see William F. Patry, Patry on Copyright § 7:47 n. 2 (questioning why Congress would want to prevent third party speculation of future copyright interests and thereby help original grantees when authors’ interest in receiving the best deal possible should be paramount and leave them free to entertain the best offers they receive, regardless of who the author comes from).
\textsuperscript{303} See 675 F. Supp. at 865-66.
\textsuperscript{304} See id.
\textsuperscript{306} See id.
\textsuperscript{307} A right of first refusal consists of “a potential buyer’s contractual right to meet the terms of a third party’s higher offer.” See Black’s Law Dictionary 1439 (9th ed. 2011).
\textsuperscript{308} See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D); see William F. Patry, Patry on Copyright § 7:47.
Nevertheless, pre-termination grants with third parties are illegal.\textsuperscript{309} This is the exact type of agreement that Songwriter and Music Publisher 2 executed. An illegal act is improper for purposes of interference with prospective economic advantage.\textsuperscript{310} As such, Music Publisher 2’s act of executing the pre-termination grant with Songwriter is most likely improper.

ii. Potential Defenses

1. Fair Competition

Assuming that Music Publisher 1 is able to establish a prima facie case of interference with prospective economic advantage, the first defense that Music Publisher 2 might be able to raise is fair competition. Music Publisher 2 will not be liable for interference with prospective economic advantage if it can prove that: (1) the business relationship concerns competition between the defendant and the plaintiff; (2) the defendant did not use wrongful means; (3) the defendant’s actions created no unlawful restraint on trade; and (4) the defendant’s purpose in part was to advance his or her own interests in competition with the plaintiff.\textsuperscript{311}

Here, most of the elements will likely be satisfied. First, the business relationship concerns competition between Music Publisher 2 and Music Publisher 1, as both seek to own rights to Songwriter’s catalog. Second, the facts do not indicate any attempts to create a monopoly, such as price fixing, tying products, or causing Songwriter to not deal with Music Publisher 1 for the purpose of restraining competition.\textsuperscript{312} Third, Music Publisher 2’s purpose was

\textsuperscript{310} See Nassau, 197 A.D.2d at 563-64; see Reeves, 33 Cal. 4th at 1152-53.
\textsuperscript{311} See Pacific Exp. Inc. v. United Airlines, Inc., 959 F.2d 814, 819 (9th Cir. 1992); see also Guard-Life Corp. v. S. Parker Hardware Mfg. Corp., 50 N.Y.2d 183, 191 (N.Y. 1980) (competition is a defense to claim of interference with prospective economic advantage if (1) interference was intended in part to advance competing interest of defendant (2) there was no unlawful restraint of trade (3) and no wrongful means were employed).
\textsuperscript{312} See Restatement (Second) Torts § 768 cmt. f.
at least in part to advance his interests by securing a highly valuable catalog of musical compositions. Thus, the main issue is whether Music Publisher 2 used improper means.

Music Publisher 2 almost certainly used improper means because it entered into an illegal contract with Songwriter. Fair competition is not a defense where the defendant engaged in illegal conduct when competing with the plaintiff. Congress deemed certain pre-termination grants improper because they interfered with the original grantees’ ability to negotiate further grants with authors. This is the very kind of agreement that Music Publisher 2 entered into with Songwriter. Therefore, Music Publisher 2 would most likely not be able to assert the defense of fair competition.

2. Preemption of Interference with Prospective Economic Advantage

If the defense of fair competition fails, Music Publisher 2 could possibly defend on grounds of preemption. Interference with prospective economic advantage in some cases has been held preempted if it improperly interferes with the rights conferred under federal copyright law. As stated before, the analysis for preemption involves two steps: (1) whether the rights asserted come within the subject matter of copyright law, and (2) whether those rights are

316 See, e.g., Motown Record Corp., 657 F. Supp. at 1239-40 (claim for interference with prospective economic advantage held to be preempted by federal copyright law to the extent it was equivalent to a copyright infringement claim); Aagard v. Palomar Builders, Inc., 344 F. Supp. 2d 1211, 1219 (E.D. Cal. 2004) (interference with prospective economic advantage held preempted because it was attempting to effect the exclusive right of distribution); but see Pmc, Inc. v. Saban Entertainment, 45 Cal. App. 4th 579, 594 n. 8 (Cal. App. 1996), disapproved on other grounds in Korea Supply Co. v. Lockheed Martin Corp., 29 Cal. 4th 1134, 1159 (Cal. 2003) (claim for interference with prospective economic advantage not preempted because hindering completion of a deal is qualitatively different from the exclusive rights provided by copyright law).
317 See Section III(a)(ii) of this article above.
equivalent to those provided by copyright law. This cause of action involves musical compositions, and thus falls within the subject matter of copyright law. Therefore, the dispositive inquiry is whether this cause of action is qualitatively different from the rights conferred under federal copyright law.

Here, a cause of action for interference with prospective economic advantage is likely qualitatively different from copyright and thus not preempted. The court in *Pmc, Inc. v. Saban Entertainment*, found that federal copyright law did not preempt the plaintiff’s claim for interference with prospective economic advantage. In that case, the plaintiff manufacturer, PMC, Inc. (“PMC”), and defendant copyright owner, Saban Entertainment, Inc. (“Saban”), had negotiated to enter into an exclusive licensing agreement for toiletry products based on the children’s television show, “Mighty Morphin Power Ranges.” After entering into the agreement, but before reducing it to writing, Saban withdrew from the agreement and entered into a new written agreement with the defendant manufacturer, Tsumura International, Inc. (“Tsumura”).

PMC subsequently sued both parties, and specifically sued Tsumura for interference with prospective economic advantage. The court denied Tsumura’s preemption defense because PMC’s claim did not attempt to confer any of the exclusive rights provided under federal

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319 See 17 U.S.C. § 301(a); see *Montz*, 649 F.3d at 979-80; see *Briarpatch*, 373 F.3d 305-06.
320 See 17 U.S.C. § 102(a)(2) (musical works fall within the subject matter of copyright law).
321 See 649 F.3d at 980; see 373 F.3d at 305-06.
322 See *Pmc, Inc.*, 45 Cal. App. 4th at 594 n. 8.
323 See *Pmc, Inc.*, 45 Cal. App. 4th at 587.
324 A transfer of copyright ownership requires a writing to be valid. See 17 U.S.C. § 204; but see *Effects Associates, Inc. v. Cohen*, 908 F.2d 555, 558 (9th Cir. 1990) (nonexclusive licenses are not transfers of ownership and thus need not be in writing to be valid). The absence of a written agreement in *Pmc, Inc.* vitiated the plaintiff’s claims for breach of contract and interference with contractual relations. See 45 Cal. App. 4th at 606.
325 See 45 Cal. App. 4th at 588.
326 See id.
rather, the focus of the claim was on the interference that disrupted the deal between the PMC and Saban.328

This hypothetical has some similarities to the facts in Pmc.329 Here, the focus of Music Publisher 1’s claim is that Music Publisher 2’s actions allegedly deprived Music Publisher 1 of its chance to execute a further grant with Songwriter. Moreover, the facts do not indicate that Music Publisher 2 reproduced the copyrighted work in any way, prepared a derivative work, distributed it, publicly performed it, displayed it, or performed it digitally. In other words, Music Publisher 1 is not seeking to enforce any of the exclusive rights provided under federal copyright law.330

On the other hand, the purpose of the transaction at issue here is for the uses that come with ownership of copyright interests. As stated before,331 ownership of copyright interests is necessary to use any of the exclusive rights conferred under federal copyright law.332 Music Publisher 2 paid Songwriter so that it could own and use those exclusive rights. Music Publisher 1 is possibly using this cause of action to effectively extract a licensing fee, or even to punish Music Publisher 2 for the use of those exclusive rights that Music Publisher 1 would have enjoyed had Music Publisher 1 executed a further grant with Songwriter.333

Nevertheless, as explained earlier in Hypothetical 1,334 transfers of ownership are issues of state contract law, not federal copyright law.335 An argument about ownership would fail to

327 See 45 Cal. App. 4th at 594 n. 8.
328 See id.
329 See id.
331 See Section III(a)(ii)(1) of this article above.
333 See Motown Record Corp., 657 F. Supp. at 1240 (C.D. Cal. 1987) (cause of action for interference with prospective economic advantage preempted where claim was based on use of copyrighted work without a license).
334 See Section III(a)(ii)(1) of this article above.
support a preemption defense for the same reasons as it did before. Moreover, the true purpose of this cause of action is for Music Publisher 1 to recover against Music Publisher 2 for the damages it incurred as a result of Music Publisher 2’s alleged interference. No genuine issue exists as to whether Music Publisher 2 used any of the exclusive rights of Songwriter’s musical compositions. Accordingly, federal copyright law most likely would not preempt Music Publisher 1’s claim of interference with prospective economic advantage.

a. Summary

In summary, Music Publisher 1 most likely will not be able to successfully sue for interference with prospective economic advantage. First, Music Publisher 1 would likely not be able to establish a probable future economic benefit because its preferred competitive position provides no guarantee that Songwriter will negotiate or execute a further grant with Music Publisher 1. Second, Music Publisher 1 will have difficulty proving Music Publisher 2 intended to disrupt Songwriter’s relationship with Music Publisher 1 because the pre-termination grant does not affect the relationship between Songwriter and Music Publisher 1 as defined under the original grant.

Third, Music Publisher 1 will have difficulty proving actual disruption resulted because Songwriter was not obligated to negotiate or execute a further grant with Music Publisher 1. Finally, Music Publisher 1 will have difficulty proving that damages resulted because it most likely cannot establish with reasonable certainty that damages resulted from Music Publisher 2’s

336 See Section III(a)(ii)(1) of this article above.
338 See Bourne, 675 F. Supp. at 865-66.
alleged interference\textsuperscript{341} and because it failed to warn Songwriter of the invalidity of the pre-
termination grant with Music Publisher 2.\textsuperscript{342}

However, if Music Publisher 1 successfully establishes a prima facie case for its claim, Music Publisher 2’s defenses would fail. Music Publisher 2 likely cannot establish a defense of fair competition because it used improper means, i.e. executing an illegal contract.\textsuperscript{343} The claim for interference with prospective economic advantage most likely would not be preempted either because Music Publisher 1 seeks to recover damages for Music Publisher 2’s alleged disruption, not to enforce any of the exclusive rights provided under federal copyright law.\textsuperscript{344}

iii. Chain of Title

The final major problem addressed in this hypothetical is chain of title. In real property, chain of title is the history of ownership of a piece of land from the first owner to the current owner.\textsuperscript{345} In copyright law, owners must also establish a valid chain of title to assert any of their exclusive rights.\textsuperscript{346} Any invalid grants in the chain of title void a subsequent grantee’s claim of ownership.\textsuperscript{347} Without a valid chain of title, the injured party cannot establish the standing necessary to enforce the exclusive rights conferred by copyright.\textsuperscript{348} Here, an invalid chain of title

\textsuperscript{341} See Business Networks, 265 A.D.2d at 195; see also Youst, 43 Cal. 3d at 71-72.
\textsuperscript{342} See 675 F. Supp. at 866, 866 n. 13.
\textsuperscript{343} See Gemini Aluminum Corp., 95 Cal. App. 4th at 1256.
\textsuperscript{344} See 17 U.S.C. § 301(a); see Montz, 649 F.3d at 979-80; see Briarpatch Ltd., L.P., 373 F.3d at 305-06.
\textsuperscript{345} See Black’s Law Dictionary 260 (9th ed. 2011).
\textsuperscript{347} See Range Road Music, 76 F. Supp. 2d at 381.
\textsuperscript{348} See 17 U.S.C. 501(b); see Fleischer Studios, 654 F.3d at 965.
would injure Music Publisher 2 because it would nullify its ability to enforce the rights purportedly conveyed under the pre-termination grant with Songwriter.\textsuperscript{349}

Hypothetical 2 is similar to the facts in \textit{Range Road Music, Inc. v. Music Sales Corp.},\textsuperscript{350} where composer Jimmy Van Heusen ("Van Heusen") executed a pre-termination grant with a third party music publisher nine years before the effective termination date. That music publisher, Bienstock Publishing ("Bienstock"), subsequently executed a grant to the plaintiff publisher, Range Road Music.\textsuperscript{351} The court held that the grant between Van Heusen and Bienstock Publishing was invalid because it was executed before the effective termination date.\textsuperscript{352} Consequently, the grant between Bienstock and Range Road Music was also invalid because Bienstock had nothing to grant.\textsuperscript{353} Similarly, Songwriter’s pre-termination grant to Music Publisher 2 would constitute a break in the chain of title because it was an invalid grant.\textsuperscript{354} As a result, Music Publisher 2, and any subsequent grantee, owns no rights in the copyrights Songwriter conveyed under the pre-termination grant.\textsuperscript{355}

The best way for Music Publisher 2 to resolve the chain of title problem would be to have Songwriter execute a new further grant on or after the effective termination date. In \textit{Range Road Music}, Van Heusen’s widow executed a confirmation agreement of the original grant to

\textsuperscript{349}See 17 U.S.C. §§ 203(a)(5), 203(b)(4), 304(c)(5), 304(c)(6)(D). Note also that the invalidity of the pre-termination grant would undermine Music Publisher 2’s ability to sue Songwriter for contract related and restitutionary remedies. \textit{See Cramer}, 255 F.3d at 695 (illegal contracts or illegal provisions within a contract are unenforceable); \textit{see Dodge}, 10 A.D.2d at 16 (same); \textit{see Lothar’s of California, Inc.}, 601 N.Y.S. 2d at 232-33 ("Where an arrangement is illegal, the law will not extend its aid to either party or listen to their complaints against each other, but will leave them where their own acts have placed them," citing \textit{United Calendar Mfg. Corp. v. Huang}, 94 A.D.2d 176, 180; \textit{see De Garmo}, 123 P.2d at 6 (illegality bars equitable relief). Please also see Sections III(a)(i)(1)-(2) above for more in depth analyses regarding contract and restitution issues caused by invalid pre-termination grants.

\textsuperscript{350}See \textit{Range Road Music}, 76 F. Supp. 2d at 377.

\textsuperscript{351}See \textit{id}.

\textsuperscript{352}See \textit{id.} at 381.

\textsuperscript{353}See \textit{id}.


\textsuperscript{355}See 76 F. Supp. 2d at 381.
Bienstock on the effective termination date. The court held that this would otherwise constitute a valid new grant but for the existence of genuine issues of material fact regarding whether she had the right to execute the grant. Music Publisher 2 could resolve this same chain of title problem by having Songwriter execute a new valid grant on or after the effective termination date. Accordingly, whether a chain of title issue exists most likely depends on whether Music Publisher 2 and Songwriter execute a new grant on or after the effective termination date. Otherwise, Music Publisher 2 will have paid Songwriter a large sum of money for nothing.

c. Hypothetical 3: Songwriter Executes Competing Pre-termination Grants

Having addressed issues of interference with contractual relations and prospective economic advantage, chain of title, and the defenses of fair competition and preemption in Hypothetical 2, we now turn our attention to Hypothetical 3. Hypothetical 3 has many of the same facts as Hypothetical 2, but differs from Hypothetical 2 in that it deals with competing pre-termination grants. Assume again that Songwriter executes grants of his musical compositions to Music Publisher 1 at the start of his career. Songwriter proceeds to have a successful career that earns both Songwriter and Music Publisher 1 large sums of money.

Several decades later, as Songwriter’s termination window approaches, he starts to receive various offers from competing music publishers to sell his valuable catalog to their companies. Songwriter decides to terminate his prior grants and properly serves a termination

356 See Range Road Music, 76 F. Supp. 2d at 381.
357 See id.
358 See id. at 381-82.
360 See 76 F. Supp. 2d at 381-82 (plaintiff unable to enforce copyright because of break in the chain of title); see also Fleischer Studios, Inc., 654 F.3d at 965 (infringement claim denied for failure to establish proper chain of title).
notice on Music Publisher 1. Songwriter then executes a further grant with Music Publisher 2 before the effective termination date in exchange for a $2,000,000 advance and many other perks. Songwriter proceeds to execute another pre-termination grant with yet another music publisher, Music Publisher 3, in exchange for a $1,500,000 advance received before the effective termination date.

Music Publisher 2 and Music Publisher 3 learn of Songwriter’s grants to both publishers, and both confront him about this matter. Songwriter simply laughs and taunts them to sue him over an illegal agreement. Meanwhile, Music Publisher 1 is unable to negotiate or execute a further grant with Songwriter. The effective termination date passes, and Music Publisher 1 no longer owns the rights to Songwriter’s catalog. Music Publisher 1 then decides to sue Music Publisher 2 and Music Publisher 3 for depriving it of its chance to negotiate and execute a further grant with Songwriter. Music Publisher 2 in turn decides to sue Music Publisher 3 as well.

i. Potential Causes of Action for Invalid Pre-termination Grants

a. Breach of Contract, Promissory Estoppel, Unjust

Enrichment/Restitution, and Fraud or Fraud in the Inducement

Here, Music Publisher 2 and Music Publisher 3 could possibly try to sue Songwriter for breach of contract, promissory estoppel, restitution, and fraud or fraud in the inducement, but the results are likely to be the same as they were in Hypothetical 1. Music Publisher 3 would most

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361 For example, Songwriter can demand higher advances, see Donald S. Passman, All You Need to Know About the Music Business 269-70, can exercise greater control over Music Publisher’s uses of Songwriter’s musical compositions, see id. at 279, and/or can obtain an admin agreement, wherein Songwriter retains ownership of his/her musical compositions but gives Music Publisher a small percentage of the royalties derived from Music Publisher’s exploitation of these musical compositions. See id. at 293.

362 See Section III(a) of this article above.
likely have the same chances of success as Music Publisher 2 did in Hypothetical 2. Thus, those analyses are omitted here.

b. Music Publisher 1: Interference with Prospective Economic Advantage

Music Publisher 1 may have a cause of action against Music Publisher 3 for interference with prospective economic advantage.\textsuperscript{363} Interference with prospective economic advantage occurs when a third party intentionally and improperly interferes with another’s prospective business relation.\textsuperscript{364} The analysis for this should be similar to the analysis in Hypothetical 2.\textsuperscript{365} However, the addition of Music Publisher 3 to this hypothetical may affect Music Publisher 1’s ability to prove intent to disrupt the prospective business relationship. The existence of multiple publishers entering into invalid pre-termination grants likely makes it harder to pinpoint which party intended to disrupt which relationship or even if that party intended to disrupt it at all, if not both.

For example, Music Publisher 3 may have actually intended to disrupt the relationship between Songwriter and Music Publisher 2. Alternatively, Music Publisher 3 may have not intended to disrupt the relationship between Music Publisher 1 and Songwriter because it knew about Songwriter’s further grant to Music Publisher 2.\textsuperscript{366} Moreover, if even more third party grantees other than Music Publisher 2 and Music Publisher 3 exist, finding intent to disrupt will become increasingly difficult. Subsequent third party grantees could possibly enter into these

\textsuperscript{363} Music Publisher 1 could still try to sue Music Publisher 2 for interference with contractual relations and interference with prospective economic advantage in this hypothetical, but the analyses would be the same as they were for Hypothetical 2. \textit{See} Section III(b)(i)(2). Accordingly, that analysis is omitted here.

\textsuperscript{364} \textit{See} Restatement (Second) Torts § 766B; \textit{see} Thomas D. Selz et al., Entertainment Law 3d § 14:21.

\textsuperscript{365} \textit{See} Section III(b)(i)(2) of this article above.

\textsuperscript{366} To be honest though, this is an unlikely argument because it could possibly undermine any potential claim that Music Publisher 3 might have against Songwriter, such as reasonable reliance in a fraud claim or promissory estoppel claim.
agreements under the belief that they were not disrupting agreements that were already disrupted.  

Then again, if the third party grantee knew or was substantially certain that its actions would result in disruption of the economic relationship between the original grantee and the author, intent would be inferred. However, that would likely be difficult to prove. A third party grantee’s desire to execute a further grant is irrelevant because a further grant is valid only post-termination and neither affects the original grant or the relationship defined under it. This means that Music Publisher 3’s intent to execute the pre-termination grant is irrelevant because it cannot affect the original grant. Accordingly, a claim for interference with prospective economic advantage would most likely fail here.

c. Music Publisher 2: Interference with Contractual Relations

The interesting thing about this hypothetical is that it possibly creates a cause of action for Music Publisher 2 against Music Publisher 3 for interference with contractual relations. A person who intentionally and improperly interferes with the performance of a contract between the plaintiff and a third party and causes the third party to breach the contract is liable to the plaintiff for resulting damages. To establish this cause of action, the plaintiff must prove: (1) existence of a valid contract between the plaintiff and the third party; (2) the defendant knew

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367 Again, this is a counter intuitive and unlikely argument.
368 See Reeves, 33 Cal. 4th at 1148.
369 See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D). More specifically, it’s the author that terminates the original grant, not the further grant.
about the contract; (3) the defendant intended to disrupt the contract; (4) actual disruption resulted; and (5) damages resulted to the plaintiff. 371

i. Valid Contract

First, the primary issue with this cause of action would be proving the existence of a valid contract. Songwriter and Music Publisher 2 entered an invalid agreement because it was a further grant between an author and third party executed before the effective termination date. 372 Without a valid agreement, Music Publisher 2 would have no cause of action. Thus, this is almost certainly the most fatal aspect to Music Publisher 2’s claim.

ii. Knowledge of the Contract

Second, Music Publisher 2 would need to prove that Music Publisher 3 knew of the contract. 373 Music Publisher 2 would likely have difficulty proving that Music Publisher 3 knew of the contractual relationship between Music Publisher 2 and Songwriter. Due diligence would probably not reveal the contract between Music Publisher 2 and Songwriter because it was an illegal agreement that is likely not registered with the Copyright Office or performing rights organizations. 374

Moreover, at the time of the agreement with Music Publisher 3, the agreement with Music Publisher 2 had not even gone into effect yet. Music Publisher 2 will not have had the

374 Music publishers register with performing rights societies such as ASCAP, BMI and SESAC. Publishers can search those records to determine who owns which musical compositions. Additionally, registrations with the Copyright Office are a source of determining ownership. See Jeffrey Brabec & Todd Brabec, Music Money and Success 7, 474-78.
benefit of exploiting the copyrighted works at issue for the same duration as Music Publisher 1. The longer someone exploits a copyrighted work, the more likely people will know administers those works.

Furthermore, Songwriter would probably want this information withheld during negotiations with Music Publisher 3. Otherwise, Music Publisher 3 would likely not execute a further grant with Songwriter if it knew that Songwriter had already entered into a pre-termination grant with Music Publisher 2. Therefore, Music Publisher 2 probably would not be able to prove that Music Publisher 3 knew about the contract.

iii. Music Publisher 3 Intended to Disrupt the Contract

Third, Music Publisher 2 would have to prove that Music Publisher 3 intended to disrupt the contract\(^{375}\) or was substantially certain that disruption would result from its conduct.\(^{376}\) Music Publisher 3’s best argument is that it did not know of the contract. If Music Publisher 3 did not know the contract existed, Music Publisher 3 could not know or be substantially certain that its conduct would disrupt the contract.\(^{377}\) Thus, Music Publisher 2 would probably be unable to prove intent to disrupt.

iv. Actual Disruption Resulted

Fourth, Music Publisher 2 will most likely have a problem in establishing actual disruption. Songwriter executed invalid further grants with both Music Publisher 2 and Music

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\(^{375}\) See Sebastian International, Inc., 162 F. Supp. 2d at 1203; see Miller, 92 A.D.3d at 651.

\(^{376}\) See Reeves, 33 Cal. 4th at 1148.

\(^{377}\) Cf. Kasparian, 38 Cal. App. 2d 242, 261 (Cal. App. 1995) (defendant must have intended to cause the result itself, not just the acts that caused the result); see Neider v. Franklin, 844 So. 2d 433, 437 (Miss. 2003) (intent to disrupt can be inferred when the defendant knows of the contract and engages in conduct that the defendant knows or is reasonably certain will disrupt the contract).
Publisher 3. Music Publisher 2 would likely have difficulty proving that Music Publisher 3’s invalid agreement with Songwriter was what disrupted Music Publisher 2’s invalid agreement with Songwriter. Music Publisher 2 and Music Publisher 3 received nothing from their further grants with Songwriter. It seems difficult to fathom how an invalid further grant could affect an entirely different agreement, let alone another invalid agreement. If anything, Music Publisher 2 and Songwriter are the ones who disrupted their own agreement by entering into an agreement expressly prohibited by law. Thus, Music Publisher 2 most likely will not be able to prove actual disruption resulted.

v. Music Publisher 2 Suffered Damages as a Result

Fifth, Music Publisher 2 will also most likely have difficulty proving that it suffered actual damages as a result of Music Publisher 3’s alleged interference. Songwriter executed invalid further grants with both Music Publisher 2 and Music Publisher 3. An invalid further grant by definition is unenforceable. As such, Music Publisher 3 most likely could not have injured Music Publisher 2’s contractual interest in its relations with Songwriter when no interest was conveyed in either contract. If anything, Music Publisher 2 injured itself by knowingly entering into an illegal contract. Music Publisher 2 accepted the risk that the agreement would be unenforceable and leave Music Publisher 2 without legal recourse when it entered into the agreement. Thus, Music Publisher 2 most likely will not be able to prove that it suffered

380 See id.
381 See id.; see 76 F. Supp. 2d at 381.
382 See id.
383 See Alfaro, 142 N.Y.S.2d at 865 (everyone is presumed to know the law); see Hagedorn, 127 Cal. App. 4th at 748 (same).
384 See Hallidie v. First Federal Trust Co., 177 Cal. 600, 604 (Cal. 1918) (courts will not protect people merely because they entered into bad agreements); see Mandel v. Liebman, 303 N.Y. 88, 93 (N.Y. 1951) (same).
damages as a result of Music Publisher 3’s alleged interference, and ultimately cannot establish a claim for interference with contractual relations.

d. Music Publisher 2: Interference with Prospective Economic Advantage

Music Publisher 2 could also sue Music Publisher 3 for interference with prospective economic advantage. Music Publisher 2 must prove that (1) an economic relationship existed between the plaintiff and the third party wherein the plaintiff had a probable future economic benefit; (2) the defendant knew of that relationship; (3) the defendant intended to interfere with or disrupt that relationship; (4) actual interference or disruption resulted; and (5) the plaintiff was damaged as a result.\footnote{The majority of states also require proof of an additional element of wrongfulness, as interference \textit{per se} is insufficient.} The majority of states also require proof of an additional element of wrongfulness, as interference \textit{per se} is insufficient.\footnote{See Della Penna \textit{v. Toyota Motor Sales, U.S.A., Inc.}, 11 Cal. 4th 376, 412-13 (1995); see also Kirch \textit{v. Liberty Media Corp.}, 449 F.3d 388, 400 (2d Cir. 2006) (plaintiff must prove that (1) it had a business relationship with the third party (2) the defendant knew of that relationship and intentionally interfered with it (3) the defendant had an improper motive and (4) actual injury resulted to the plaintiff).}

a. Economic Relationship With a Probable Expectation of Future Economic Benefit

The first element for this cause of action requires that a “colorable economic relationship” with the potential to become a contractual relationship exist between the plaintiff and the third party.\footnote{See 11 Cal. 4th at 386; see Singleton Management, \textit{Inc. v. Compere}, 243 A.D.2d 213, 218 (N.Y. App. 1998).} Music Publisher 2 can possibly establish a colorable economic relationship because the purpose of its relationship with Songwriter was to exploit his musical compositions for the financial benefit of both parties. However, this relationship is defined by an illegal agreement.\footnote{See Aydin Corp. \textit{v. Loral Corp.}, 718 F.2d 897, 904 (9th Cir. 1983).} If the agreement is illegal, then a legally cognizable relationship likely should not flow from that relationship.

\footnote{See 17 U.S.C. §§ 203(b)(4), 304(c)(6)(D).}
Thus, Music Publisher 2 probably cannot establish the existence of a colorable economic relationship here.

But, even if Music Publisher 2 could establish a colorable economic relationship, it probably could not establish a probability of economic benefit. On the one hand, Music Publisher 2 has already entered into a contract with Songwriter, albeit an illegal one. The fact that they have already entered into one agreement potentially makes it more likely that they would enter into a new one. The parties could simply execute a new further grant on or after the effective termination date.

On the other hand, the illegal nature of this particular contract renders it a nullity, i.e. it is as though Music Publisher 2 and Songwriter had never entered into the agreement. Executing one invalid agreement does not necessarily make it any more likely that the same parties will later execute a valid one. If anything, the facts at most indicate that Songwriter was interested in selling the same copyrights to Music Publisher 2 and Music Publisher 3 to get their money. Moreover, whether the parties execute a new further grant on or after the effective termination grant is mostly speculative at this point, especially given Songwriter’s transferring of the same copyrights multiple times. Thus, Music Publisher 2 probably cannot establish this element.

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389 Cf. Marathon Entertainment, Inc. v. Blasi, 42 Cal. 4th 974, 992 (Cal. 2008) (court has power to preserve a contractual relationship, provided doing so does not promote illegality).
390 See Business Networks, 265 A.D.2d at 195 (plaintiff must establish more than a mere probability that a contract would have been executed); see also Youst, 43 Cal. 3d at 71-72 (plaintiff must establish a reasonable probability of a business expectancy).
392 See, e.g., Range Road Music, 76 F. Supp. at 381-82 (confirmation agreement contained new language that constituted a “fresh grant” of rights, despite the invalidity of the pre-termination grant).
393 See Range Road Music, 76 F. Supp. at 381.
394 If a mistake was made in executing a contract, then it is reasonable to believe that the parties would execute a new valid one at a later time. However, there was no mistake made in the execution of this contract. The parties knew that the contract they were executing was illegal. See Alfaro, 142 N.Y.S.2d at 865 (everyone is presumed to know the law); see Hagedorn, 127 Cal. App. 4th at 748 (same).
b. Whether Music Publisher 3 Knew of the Relationship Between Music Publisher 2 and Songwriter

The second element of this cause of action requires that the defendant knew of the relationship between the plaintiff and the third party. For many of the same reasons stated in Music Publisher 2’s claim for interference with contractual relations, Music Publisher 2 probably cannot prove that Music Publisher 3 knew of the relationship between Music Publisher 2 and Songwriter. Specifically, the relationship between Music Publisher 2 and Songwriter is defined by an illegal agreement and not legally cognizable. Moreover, records of this relationship, outside of the contract itself, are likely unavailable for research via due diligence.

Furthermore, even if the contract was legal, it had not even gone into effect when Songwriter executed a further grant to Music Publisher 3. Music Publisher 2 did not have any time to exploit the musical compositions in connection with its name. Finally, Songwriter would likely want to withhold information about having executed a pre-termination grant with Music Publisher 2 from Music Publisher 3. Otherwise, if Music Publisher 3 knew about the prior pre-termination grant, it likely would not enter into one with Songwriter. Thus, Music Publisher 2 most likely cannot prove that Music Publisher 3 knew about the relationship.

c. Whether Music Publisher 3 Intended to Interfere with or Disrupt the Relationship Between Songwriter and Music Publisher 2

396 See Section III(c)(i)(c)(ii) of this article above.
397 Probably the only way for Music Publisher 3 to know about the relationship between Songwriter and Music Publisher 2 in this situation would have been word of mouth. However, such facts are absent from this hypothetical and thus will not be addressed.
398 Cf. Marathon, 42 Cal. 4th at 992 (court has power to preserve contractual relationship, provided doing so does not promote illegality).
The third element of this cause of action requires that the defendant intended to interfere with or disrupt the relationship between the plaintiff and the third party.\textsuperscript{399} Given that Music Publisher 3 most likely did not know about the relationship between Songwriter and Music Publisher 2, it could not have intended to disrupt the relationship. It is difficult to intend to disrupt a relationship one does not know about.\textsuperscript{400} Therefore, Music Publisher 2 likely cannot prove this element.

d. Actual Interference or Disruption Resulted

The fourth element of this cause of action requires that actual interference or disruption resulted.\textsuperscript{401} Actual disruption most likely did not result here because the act of executing an invalid pre-termination grant is a nullity.\textsuperscript{402} Music Publisher 3’s act of executing an invalid pre-termination grant with Songwriter thus cannot affect Music Publisher 2’s relationship with Songwriter, which is based on a void contract.\textsuperscript{403} Thus, this element most likely is not proven.

e. Music Publisher 2 Suffered Damages As a Result of the Disruption

The fifth element of interference with prospective economic advantage requires the plaintiff to prove with reasonable certainty that it suffered damages as a result of the disruption.\textsuperscript{404} Music Publisher 2 most likely cannot establish damages because Music Publisher 3’s act of executing a pre-termination grant with Songwriter had no effect on Music Publisher

\textsuperscript{399} See Della Penna, 11 Cal. 4th at 412-13; see also Kirch v. Liberty Media Corp., 449 F.3d at 400.
\textsuperscript{400} See Neider, 844 So. 2d at 437 (intent to disrupt can be inferred from knowledge and action).
\textsuperscript{401} See 11 Cal. 4th at 412-13; see also 449 F.3d at 400.
\textsuperscript{402} See Range Road Music, 76 F. Supp. 2d at 381.
\textsuperscript{403} C.f. id. (invalid pre-termination grant was without effect and conveyed no rights).
2’s relationship with Songwriter. Music Publisher did not cause Music Publisher 2 to lose money or rights in Songwriter’s musical compositions. Rather, Music Publisher 2 damaged itself by paying a large sum of money for an invalid transfer of copyright interests from Songwriter. Therefore, Music Publisher 2 most likely would not be able to prove damages.

f. Whether the Interference Was Improper

Finally, in a majority of states, the plaintiff must also prove that the interference was “wrongful,” “improper,” “illegal” or “independently tortious.” Mere interference alone is insufficient. An act or interference is improper if the law proscribes it or if the defendant’s sole purpose was to harm the plaintiff. Assuming an interference occurred, Music Publisher 3 could plausibly argue that Music Publisher 3 engaged in improper behavior because it executed an illegal contract. This constitutes illegal conduct for purposes of an improper interference. Therefore, this element would likely be met. Overall, however, Music Publisher 2’s claim for interference with prospective economic advantage would most likely fail because of an inability to establish all of the other preceding elements.

ii. Potential Defenses

a. Fair Competition

Assuming that Music Publisher 2 is able to establish a prima facie case of interference with prospective economic advantage, the first defense that Music Publisher 3 might be able to
raise is fair competition. Music Publisher 3 will not be liable for interference with prospective economic advantage if it can prove that: (1) the business relationship concerns competition between the defendant and the plaintiff; (2) the defendant did not use wrongful means; (3) the defendant’s actions created no unlawful restraint on trade; and (4) the defendant’s purpose in part was to advance his or her own interests in competition with the plaintiff.  

Here, Music Publisher 3 can establish most of the necessary elements of this defense. Music Publisher 2 and Music Publisher 3 are in competition with each other to obtain valuable catalogs of musical compositions, namely Songwriter’s. The facts do not show Music Publisher 3 engaging in any anti-competitive practices. Also, Music Publisher 3’s desire to execute a pre-termination grant with Songwriter was also in part to exploit Songwriter’s musical compositions for mutual financial gain. This interest competed with Music Publisher 2’s interest in exploiting the same catalog for the same reasons.

However, as was the case in Hypothetical 2, Music Publisher 3’s act of executing an invalid pre-termination grant would most likely undermine a defense of fair competition. Fair competition does not tolerate illegal conduct on the part of the defendant. Congress explicitly invalidated pre-termination grants with third parties. This is the very kind of agreement that Music Publisher 3 entered into with Songwriter. Therefore, Music Publisher 3’s defense of fair competition would most likely fail.

b. Preemption of Interference with Contractual Relations

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411 See Pacific Exp. Inc., 959 F.2d at 819; see also Guard-Life Corp., 50 N.Y.2d at 191 (competition is a defense to claim of interference with prospective economic advantage if (1) interference was intended in part to advance competing interest of defendant (2) no unlawful restraint of trade (3) and no wrongful means employed).
412 See Section III(b)(ii)(1) of this article above.
413 See Gemini Aluminum Corp., 95 Cal. App. 4th at 1256.
Assuming Music Publisher 2 successfully establishes its respective prima facie case of interference with prospective interference with contractual relations, respectively, Music Publisher 3 may defend on grounds of preemption.\(^{415}\) As mentioned above,\(^{416}\) the elements of a preemption analysis are: (1) whether the rights asserted come within the subject matter of copyright law,\(^{417}\) and (2) whether those rights are equivalent to those provided by copyright.\(^{418}\) The first requirement is satisfied here because this hypothetical involves musical compositions, which clearly come within the subject matter of copyright law.\(^{419}\) Again, the dispositive issue is whether the rights asserted by the state law cause of action are equivalent to those provided by copyright.\(^{420}\)

Here, Music Publisher 2’s claim for interference with contractual relations most likely is not preempted because Music Publisher 2 is suing Music Publisher 3 executing a further grant with Songwriter, not for exercising any of the exclusive rights of federal copyright law.\(^{421}\) State law governs claims of ownership, not federal copyright law.\(^{422}\) Thus, federal copyright law most likely does not preempt Music Publisher 2’s claim for interference with contractual relations.

c. Preemption of Interference with Prospective Economic Advantage

\(^{415}\) If Music Publisher 1 successfully establishes a claim for interference with prospective economic advantage, Music Publisher 3 could also defend on grounds of preemption. The analysis for that would be the same as it was between Music Publisher 1 and Music Publisher 2 in Hypothetical 2, substituting Music Publisher 3 for Music Publisher 2. See Section III(b)(i)(2) of this article above. As such, that analysis is omitted here.

\(^{416}\) See Section III(b)(ii)(2) of this article above.

\(^{417}\) See 17 U.S.C. § 301(a); see Selby, 96 F. Supp. 2d at 1057; see Katz Dochrermann & Epstein, Inc., 1999 WL 179603, at *2.

\(^{418}\) See 17 U.S.C. § 301(a); see Montz, 649 F.3d at 979-80; see Briarpatch Ltd., L.P., 373 F.3d at 305-06.

\(^{419}\) See 17 U.S.C. § 102(a)(2); see Bridgeport Music, Inc., 154 F. Supp. 2d at 1334.

\(^{420}\) See H.R. Rep. No. 94-1476, 94th Cong., 2d Sess., at 132 (1976) (“to the extent that the unfair competition concept known as ‘interference with contract relations’ is merely the equivalent of copyright protection, it would be preempted.”)


\(^{422}\) See 17 U.S.C. § 201(d)(1); see Dead Kennedys, 37 F. Supp. 2d at 1154; see Dorsey, 304 F. Supp. 2d at 861; see also Firoozye, 153 F. Supp. 2d at 1123 (claim is state law when ownership is the only issue).
Assuming Music Publisher 2 successfully establishes a claim for interference with prospective economic advantage, Music Publisher 3 could try to defend again on grounds of preemption. However, that would likely fail for the same reasons elucidated in the preemption analysis of Music Publisher 2’s claim for interference with contractual relations. Specifically, Music Publisher 3 was not exercising any of the exclusive rights provided under federal copyright law. Rather, it was seeking ownership, which is a state law issue. Thus, this claim most likely is not preempted.

iii. Summary

Music Publisher 1’s claim for interference with prospective economic advantage most likely would fail for the same reasons in it would in Hypothetical 2. The presence of Music Publisher 3 would likely further undermine Music Publisher 1’s claim because pinpointing intent disrupt becomes more difficult. Music Publisher 2’s claim for interference with contractual relations requires a valid contract, which does not exist here. The invalid pre-termination grant also undermines Music Publisher 2’s claim for interference with prospective economic advantage. However, if any of those claims were successfully asserted, they would survive preemption because none of them seek to enforce any of the exclusive rights provided under federal copyright law.

IV. Conclusion

423 See Section III(c)(ii)(b) of this article above.
425 See id. § 201(d)(1); see Dead Kennedys, 37 F. Supp. 2d at 1154; see Dorsey, 304 F. Supp. 2d at 861; see also Firoozye, 153 F. Supp. 2d at 1123 (claim is state law when ownership is the only issue).
426 See Section III(b)(ii)(2) of this article above.
When Congress created the termination right, it did so largely to help authors who had inferior bargaining power when they originally assigned their copyright interests to their respective content exploiting companies. However, in creating this right, Congress seems to have overlooked the possibility that authors could use the illegal nature of pre-termination grants with third parties to their advantage. Authors of copyrighted works have nothing other than their morals to deter them from executing invalid pre-termination grants, taking the money paid for their copyrighted works, and avoiding any sort of punishment for abusing this right.

Concordantly, third party grantees that enter into invalid pre-termination grants with authors are engaging in seriously risky behavior. Understandably, the desire to own the rights to valuable catalogs may be difficult to resist, but disobeying the law exposes such parties to the risk of losing all money and rights involved in the underlying deal without any form of redress. In turn, original grantees are left without remedy against authors and third parties for any harm they may incur as a result of them executing invalid pre-termination grants.

Congress likely did not intend for these abuses to happen. One would think that where the law clearly makes a certain type of contract unenforceable that people would generally avoid entering into one. However, this is not the case, as evidenced in Bourne Co. and Range Road Music. As such, until this problem is addressed and the law amended accordingly, this will remain a loophole for authors to exploit. What constitutes a proper solution to this problem and amendment to the law, however, is the subject of another discussion for a later time.

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428 See H.R. Rep. No. 94-1476, 94th Cong., 2d Sess., at 124 (1976). Also, as noted before, the prohibition against pre-termination grants with third parties serves to prevent third party speculation of future copyright interests and thereby facilitate original grantees’ chance to renegotiate with authors. See id. at 127-28.
429 See 675 F. Supp. at 861.
430 See 76 F. Supp. 2d at 381.