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State interpretations of copyright's 'bundle of (drum) sticks': The dilemma of pre-1972 sound recordings

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The saying that copyright is a "bundle of sticks" has never been more true than it has been for music.

As the technology of creating and enjoying music has evolved, copyright law has attempted to keep pace — but has often lagged behind.

This uneven development has led to situations in which the same piece of music may have different copyright protections depending on when and where it was created.

To date, it appears that state laws across the country are coalescing around limiting the copyright protection of pre-1972 sound recordings with regard to any right not explicitly created by federal statute.

However, pending cases in Florida and California may create a circuit split on an issue that casts doubt on one of the foundations of the music industry's business model.

MUSICAL COPYRIGHTS

Within a given piece of music, there are two primary tangible or quasi-tangible portions of the work that are subject to copyright.

The first is the underlying musical compositions, which consist of the lyrics and melody of the song. These are typically owned by songwriters or music publishers pursuant to agreements.

The other is the sound recordings embedded in a phonorecord, which are often owned by record labels pursuant to agreements with the recording artists.

The federal copyright statute has provided broad protection for underlying musical compositions since 1831, but federal protection for sound recordings was not added until 1971 — a few decades after record players became widely available. This was when Congress enacted the Sound Recordings Act, later codified in the Copyright Act of 1976.

Prior to 1971, state laws protected sound recording owners from piracy either through statute, like in California, or through common law, as in New York.

The U.S. Supreme Court held in *Goldstein v. California*, 412 U.S. 546 (1973), that these state laws remain valid and are not preempted by federal law.

Congress ratified this decision in Section 301(c) of the 1976 Copyright Act, which states, "With respect to sound recordings fixed before Feb. 15, 1972, any rights or remedies under the common law or statutes of any state shall not be annulled or limited by this title until Feb. 15, 2067."

Thus, copyright protections for sound recordings fixed before Feb. 15, 1972, are governed exclusively by state law.

Pending cases in Florida and California may create a circuit split on an issue that casts doubt on one of the foundations of the music industry's business model.

Underlying musical compositions have protected public performance rights that usually allow owners to collect royalties if the owned composition is played for a nonprivate audience, such as when the composition is played on terrestrial radio.

On the other hand, federal law has never provided such a public performance right to sound recordings. Instead, sound recordings have received only rights in reproduction, adaptation and distribution.

In essence, copyright owners of a musical composition are protected against both piracy and unauthorized use, whereas copyright owners of a sound recording are protected against piracy only.

This inconsistency was caused by broadcast lobbyists who opposed the addition of such an expanded right for sound recordings prior to the passage the Sound Recordings Act.

However, under the Digital Performance Right in Sound Recording Act of 1995, Congress created a digital performance right for "digital audio transmissions" of sound recordings, which

includes airplay on digital radio, such as Sirius XM, Pandora and iHeart Radio.

Although the addition of a digital performance right appeared to have leveled the playing field between owners of sound recordings and musical compositions, it has left out owners of pre-1972 recordings.

Because those recordings do not enjoy federal protection, their owners are not legally entitled to receive digital performance royalties under the Copyright Act.

This shortcoming has precipitated numerous lawsuits in which sound recording owners have claimed a public performance right to sound recordings under various state laws. The owners further claim that they are entitled to licensing fees or penalties stemming from use of those sound recordings.

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Although some cases have settled, such as Pandora's $90 million settlement with major record labels in 2015, sound recording owners have mostly been unsuccessful in court.

CASES LIMITING PRE-1972 SOUND RECORDING RIGHTS

Illinois

Most recently, the U.S. District Court for the Northern District of Illinois dismissed a class action suit brought by Arthur and Barbara Sheridan, owners of pre-1972 jazz, doo-wop, and rhythm and blues sound recordings, against iHeartMedia Inc. In the suit, the Sheridans alleged that the internet radio service infringed their common law copyright.

The District Court held that Illinois' common law does not protect the copyright in sound recordings sold or broadcast. It said the common law protects only the copyright in unpublished works.

Once published or released, the common law copyright extinguishes.

Thus, since the plaintiffs' sound recordings had been released long ago, those recordings do not have a public performance right.

Based on the reasoning in this case, the District Court also dismissed companion cases brought by the plaintiffs against Sirius XM Radio Inc. and Pandora Media Inc.

Georgia

The Sheridans had also filed a class action against iHeartMedia in the U.S. District Court for the Middle District of Georgia, alleging a claim unrelated to copyright. In that case, they asserted that iHeartMedia's internet radio services violated a Georgia law that made it illegal to transfer sound recordings without consent.

If proven, this violation would result in criminal sanctions and be considered racketeering activity under the Georgia law.

The District Court certified the question to Georgia's highest court, which held that the statute's exemption for radio or TV broadcasts applied to iHeartMedia's internet service.

The court found that iHeartMedia's internet radio service essentially mirrors its AM/FM terrestrial radio offering, particularly with respect to its simulcast offering that concurrently broadcasts the AM/FM radio.

It further opined that the internet service does not store the music or allow for replaying and is broadcast for a single use, similar to AM/FM radio.

Because Georgia's highest court found that internet radio service was exempt from the statute, the District Court dismissed the Sheridans' case.

New York

In New York City, Flo & Eddie Inc., the owner of such sound recordings as "Happy Together" created by the 1960s band The Turtles, was also handed an unfavorable ruling.

In Flo & Eddie's class-action suit against Sirius XM, the 2nd U.S. Circuit Court of Appeals asked New York state's highest court to determine whether there is "a right of public performance for creators of sound recordings under New York law and, if so, ... the nature and scope of that right."

In December 2016 the state's high court ruled that New York law does not recognize a common law copyright protection for the public performance of pre-1972 sound recordings.

The New York decision explained that New York law protected pre-1972 sound recordings from copying and piracy, but had never provided copyright protection for a public performance of a pre-1972 sound recording that did not involve copying.

The court noted that the music business had proceeded for decades under the assumption that these public performance rights were not protected, and that it would be unwise for a court to unilaterally upend that long-held understanding.

The court, however, left the door open to pre-1972 sound recording copyright holders by indicating that other causes of action, such as unfair competition, might provide another avenue to protecting pre-1972 works.

PENDING CASES

California

Flo & Eddie pursued similar protection and payment for the public performance of its pre-1972 sound recordings in a California federal court.

In 2014 the U.S. District Court for the Central District of California granted Flo & Eddie a favorable ruling, indicating that under California state law, it is entitled to public performance protection for pre-1972 sound recordings.

The ruling noted that because certain portions of copyright law are explicitly left to state regulation, California statutes — and specifically California Civil Code Section 980 — govern.

Section 980 states that, with only a limited exception for "cover" songs, "exclusive ownership" resides with the author of a sound recording The court interpreted that exclusive ownership to include the public performance right.

But the legal battle did not end with the 2014 judgment.

> New York's highest court ruled that state law does not recognize a common law copyright protection for the public performance of pre-1972 sound recordings.

After a lengthy series of appeals and motions, the parties settled in November 2016, mere days before the appellate trial was set to take up the case.

The settlement grants a public performance license until 2028 to Sirius and other similarly situated satellite and digital stations, in return for payments into the settlement fund.

Notably, the settlement does not require either side to drop its central legal contentions, which means Flo & Eddie is free to continue its other lawsuits regarding public performance rights, including its ongoing case against Pandora.

In that line of cases, the District Court affirmed its conclusion from the Sirius case that pre-1972 sound recordings are subject to protection for public performances.

Pandora appealed to the 9th U.S. Circuit Court of Appeals, which has asked California's highest court to decide two interrelated questions of California state law: whether state common law grants copyright owners of pre-1972 sound records an exclusive public performance right, and whether those sound recordings sold to the public prior to 1982 possess an exclusive public performance right.

Given California's size and prominence in the entertainment industry, how the state's highest court and the 9th Circuit rule on this matter will likely have far-reaching effects.

Florida

Flo & Eddie also sought recompense in the Florida courts.

As in California, the 11th U.S. Circuit Court of Appeals in June 2016 certified several questions to the Florida state courts for their review of pertinent Florida state law.

The U.S. District Court for the Southern District of Florida had previously ruled that Florida common law does not recognize a performance right for pre-1972 sound recordings.

That decision noted that, unlike California and New York, Florida has neither a state statute on point nor a well-developed history of relevant court decisions.

The court said that, in the absence of any prior history to the contrary, accepting Flo & Eddie's argument in Florida would mean "creating a new property right." It declined to do so in the absence of new legislation.

Like the New York court, the Florida judge noted that a judicially created right would lead to widespread problems for the industry that are best settled by a comprehensive legislative or regulatory approach.

Flo & Eddie appealed the District Court's ruling.

The 11th Circuit asked Florida's highest court whether state common law recognizes a common law protection for either reproduction or public performance of sound recordings, and if so, whether Flo & Eddie's sale of its music constituted publication that essentially removed such protections from the pre-1972 songs at issue.

The publication question, which may turn out to be central to the resolution of the Florida matter, was also addressed by the previously mentioned Illinois and California rulings.

In the Flo & Eddie case, California held that providing protection only to unpublished works — works that had never been heard by the public — was so narrow as to be a useless right, and dismissed that argument.

Based on state precedent, including a 1943 case regarding magic tricks that the 11th Circuit discussed at length, Florida could potentially take the opposite view and hold that pre-1972 sound recordings are protected until the date of publication.

Given the disparity of importance between Florida and California in the entertainment industry, a circuit split in this situation would establish an interesting power dynamic, in which a small player may have outsized influence on the national music industry.

There could potentially be a new rash of claims by copyright owners for retroactive license fees for the unlicensed use of their pre-1972 sound recordings.

National broadcasters, digital transmitters and other large companies that use pre-1972 music would be faced with difficult strategic decisions about how to conduct their business.

Companies would need to create and negotiate new forms of licenses for these works, which is difficult because of the challenges inherent in attempting to establish geographic boundaries on digital transmissions.

Among the options would be to establish a technological solution to limit distribution only to those geographies that do not require a license fee, license the newly protected works for certain geographies, license the works for use in the entire country and try to work out a pro rata license fee only applicable to usage in certain states, or simply stop using pre-1972 sound recordings altogether.

Regardless, if such a circuit split materializes it is almost certain that the U.S. Supreme Court will eventually be asked to determine just how many drumsticks are in the bundle of rights held by owners of sound recordings.

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