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Copyright System for Sound
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Brian G. Shaffer*

I. Introduction: A (Hazy) Dual System of Copyright
Protection

February 15, 1972 is a landmark date in the history of copyright protection for sound recordings in the United States. In response to a growing movement toward criminalizing music “piracy,” Congress amended the Copyright Act of 1909 to include “sound recordings” under the wing of federal protection.¹ Congress, however, extended copyright protection to sound recordings only *prospectively*; thus, all recordings created before February 15, 1972, the effective date of the 1971 amendments, were left outside the scope of the Copyright Act.² Pre-1972 sound recordings have consequently been protected by a variety of property protections at the state level, creating a legal standard that “is inconsistent from state to state, often vague, and sometimes difficult to discern.”³

The inconsistency in copyright protection may serve as an

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1. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 830 N.E.2d 250, 260 (N.Y. 2005). The *Naxos* case is considered the “most notable case in recent years involving pre-1972 sound recordings.” Michael I. Rudell & Neil J. Rosini, *Pre-1972 Sound Recordings-A Legal Breed Apart*, 250-82 N.Y. L.J., Oct. 25, 2013, at 3 (quoting U.S. COPYRIGHT OFFICE, FEDERAL COPYRIGHT PROTECTION FOR PRE-1972 SOUND RECORDINGS (2011), *available at* <http://www.copyright.gov/docs/sound/pre-72-report.pdf>).

2. *Naxos*, 830 N.E.2d at 260.

3. Rudell & Rosini, *supra* note 1.

incentive for radio services to maximize profits by reducing or eliminating royalty payments related to pre-1972 recordings. Sirius XM, which serves some 25 million subscribers, is currently the only satellite radio provider in the United States.⁴ In 2012, “the company had \$3.4 billion in revenue and paid 8 percent of its gross revenue in royalties to record companies and performers, according to its annual report.”⁵ Over a period of five weeks, different plaintiffs filed three separate lawsuits naming Sirius XM as defendant, alleging improper use of sound recordings fixed prior to February 15, 1972.⁶ Two of the lawsuits were filed in California,⁷ a state with a long history of protecting artists’ property rights to pre-1972 sound recordings.⁸ A third lawsuit, however, filed in the United States District Court for the District of Columbia, set out causes of action based in federal laws and regulations regarding copyrights and payment of royalties.⁹

This article observes the surviving gap between state and federal protection of music recordings through the lens of the current litigation against Sirius XM. Part II sets out a history of copyright protection in the music industry. Part III outlines the relevant provisions of the federal Copyright Act and the Digital Millennium Copyright Act and the role played in the federal system by the Copyright Royalty Board. Part IV examines the pertinent statutory property protection of music recordings in the state of California. Part V then discusses the merits of the current lawsuits against Sirius XM. After

4. Ben Sisario, *Record Labels Sue Sirius XM Over the Use of Older Music*, N.Y. TIMES, Sept. 11, 2013, at B4.

5. *Id.*

6. *Id.*

7. Capitol Records, LLC v. Sirius XM Radio, Inc., No. BC520981 (Cal. Super. filed Sept. 11, 2013); Flo & Eddie, Inc. v. Sirius XM Radio, Inc., No. 2:13CV05693 (C.D. Cal. filed Aug. 6, 2013). Plaintiffs in the latter case have applied for class action status, *see* Sisario, *supra* note 4, and their claims are addressed in this paper only insofar as they may impact the treatment of the plaintiffs’ claims in the *Capitol Records* case.

8. *See* Complaint ¶ 1, Capitol Records, LLC v. Sirius XM Radio, Inc., No. BC520981 (Cal. Super. filed Sept. 11, 2013) [hereinafter *Capital Records v. Sirius XM Complaint*] (“For over 40 years, sound recordings have been protected by California common law, and for over 30 years they have been provided protection under Section 980 of the California Civil Code.”).

9. SoundExchange, Inc. v. Sirius XM Radio, Inc., No. 1:13CV01290 (D.D.C. filed Aug. 26, 2013).

considering the potential legal and economic ramifications of the current lawsuits, Part VI then concludes by advocating for a unified federal system of copyright protection for all sound recordings regardless of the date on which they were originally fixed.

II. A History of Copyright Protection in the Music Industry

Prior to the 20th century, when the music recording industry began to take a commercial foothold, the seminal copyright law case in the United States was *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591 (1834), in which the plaintiff, an official reporter for the U.S. Supreme Court, sought “to prevent his successor from copying and republishing material contained in the volumes published by the first three official reporters.”¹⁰ In a thorough discussion of the history of American copyright law, the Court of Appeals of New York noted that “[t]he lasting effect of the *Wheaton* decision was that it ‘became accepted, and in most cases unquestioned, doctrine that . . . it was the act of publication which divested common law rights.’”¹¹ Since copyright statutes were “created with sole reference to the written word,” however, the issue of how to apply such statutes to music was left unresolved until the early 1900’s.¹²

The United States Supreme Court first passed upon the issue of the federal Copyright Act’s application to forms of communication other than the written word in 1908.¹³ “Although acknowledging that the federal statute had been amended as far back as 1831 to include ‘musical composition[s],’ the Court believed that only written works that could be ‘see[n] and read’ met the requirement for filing with the Library of Congress—a prerequisite to securing federal copyright protection.”¹⁴ Congress at this time had begun to revise the

10. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 830 N.E.2d 250, 257 (N.Y. 2005) (citation omitted); *see also* *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591 (1834). A great deal of thanks is owed to the Court of Appeals of New York, whose outline of the history of American copyright law in the *Naxos* case is both extensive and informative.

11. *Naxos*, 830 N.E.2d at 257-58 (citation omitted).

12. *Id.* at 258.

13. *Id.*

14. *Id.* (quoting *White-Smith Music Publ’g Co. v. Apollo Co.*, 209 U.S. 1,

copyright statutes “but decided to wait for the Supreme Court’s decision.”¹⁵ Once this decision was handed down, Congress passed the Copyright Act of 1909, which reflected the Supreme Court’s ruling in *White-Smith* by excluding audio recordings, which could not be “published,” from federal copyright protection.¹⁶ In section 2 of the 1909 Act, however, “Congress explicitly stated that the Act ‘shall [not] be construed to annul or limit the right of the author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication, or use of such unpublished work without his consent, and to obtain damages therefor,’” thus preserving states’ power to offer common-law copyright protection to unpublished sound recordings.¹⁷

Following Congress’ affirmation of this “dual system of copyright protection[,]” the Supreme Court of Pennsylvania ruled that phonograph recordings of an orchestra’s performances were entitled to state common-law protection, stating “that a performer who transforms a musical composition into a sound product creates ‘something of novel intellectual or artistic value [and] has undoubtedly participated in the creation of a product in which he is entitled to a right of property.’”¹⁸ The court further held that “the sale of records was not a publication of the work that operated to divest the orchestra of its common-law property right”¹⁹ a position echoed by the Supreme Court of New York, New York County, more than a decade later.²⁰ The United States Court of Appeals for the Second Circuit subsequently reconsidered an earlier decision in which it held that “the sale of a record to the public . . . ends common-law copyright protection[,]”²¹ stating that the act of putting “records

17 (1908)).

15. *Id.* at 258 n.6.

16. *Id.* at 258.

17. *Id.* (quoting 17 U.S.C. § 2 (repealed 1978)).

18. *Id.* at 258-59 (quoting *Waring v. WDAS Broad. Station*, 194 A. 631, 635 (Pa. 1937)).

19. *Id.* at 259.

20. *Id.* (quoting *Metro. Opera Ass’n v. Wagner-Nichols Recorder Corp.*, 101 N.Y.S.2d 483, 494 (Sup. Ct. 1950) (“At common law the public performance of a play, exhibition of a picture or sale of a copy of the film for public presentation did not constitute an abandonment nor deprive the owner of his common-law rights.”)).

21. *Id.* (citing *RCA Mfg. Co. v. Whiteman*, 114 F.2d 86 (2d Cir. 1940)).

on public sale . . . does not constitute a dedication of the right to copy and sell the records.”²²

When Congress, in response to unrest among the states in their attempts to combat the growing ease of unlawful reproduction of recordings, amended the Copyright Act of 1909, sound recordings for the first time were included among the categories of works protected by federal law, excluding those created before the effective date of the amendment (February 15, 1972).²³ In passing this amendment, the Senate and the House of Representatives “eventually reached a compromise, deciding that existing state common-law copyright protection for pre-1972 recordings would not be preempted by the new federal statute until . . . 75 years after the effective date of the 1971 amendment.”²⁴ The new amendment presented the music industry with new challenges, including “uncertainty as to how claims of copyright infringement would be treated in different jurisdictions” and “concern that the amendments could be read as abrogating existing state statutes proscribing music piracy,” as well as the fact that the amendment failed to “include a technical definition of the term ‘publication,’ which clouded the meaning of that term of art in the recording industry.”²⁵

The challenges presented by the 1971 amendments were first addressed by the Supreme Court of the United States in *Goldstein v. California*, 412 U.S. 546 (1973). In upholding California’s music piracy statute against an assertion that the state law conflicted with and was therefore preempted by the Copyright Act, the Court:

acknowledged that the states were free to act with regard to sound recordings precisely because Congress had not, and in the absence of conflict between federal and state law, the Supremacy Clause was not a barrier to a state’s provision of copyright protection to a work not covered under

22. *Id.* at 260 (quoting *Capitol Records v. Mercury Records Corp.*, 221 F.2d 657, 663 (2d Cir. 1955)).

23. *Id.*

24. *Id.* at 260-61 (citing 17 U.S.C. § 301(c) (2012)).

25. *Id.* at 261.

federal copyright law.²⁶

As noted by the Court of Appeals of New York in *Naxos*,

The effect of *Goldstein* was more than an affirmation of the states' right to enact criminal laws prohibiting music piracy. Its rationale clearly deviated from the *Wheaton* view—that publication divests common-law rights even in the absence of statutory protection. Instead, the Court relied on the rule that state common-law copyright protection can continue beyond the technical definition of publication in the absence of contrary statutory authority.²⁷

Further revision of the Copyright Act went into effect in 1978, this time including a definition of “publication,”²⁸ but still applying only prospectively and thus “continuing to exclude pre-1972 recordings from the scope of the statute” and again leaving “to the states the decision how to handle the meaning and effect of ‘publication’ for pre-1972 sound recordings.”²⁹

After a long string of apparent victories for state-law-based rights, the music industry suffered a temporary setback when the Ninth Circuit ruled in 1995 that “public sale of a pre-1972 sound recording is a publication that divests the owner of common-law copyright protection[,]” directly conflicting with the

26. *Id.* (citing *Goldstein v. California*, 412 U.S. 546, 569-70 (1973)).

27. *Id.* at 261-62 (citing 1 NIMMER ON COPYRIGHT § 4.02(c), at 4-17 n.23).

28. 17 U.S.C. § 101 (2012). This section of the Copyright Act reads, in relevant part:

“Publication” is the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies or phonorecords to a group of persons for purposes of further distribution, public performance, public display, constitutes publication. A public performance or display of a work does not of itself constitute publication.

Id.

29. *Naxos*, 830 N.E.2d at 262 (citing 17 U.S.C. § 101 (2012)).

rationale adopted in earlier cases by the Second Circuit.³⁰ This divergent view was met with criticism in Congress, which subsequently amended the Copyright Act “to clarify that ‘[t]he distribution before January 1, 1978, of a phonorecord shall not for any purpose constitute a publication of the musical work embodied therein.’”³¹ The Ninth Circuit then “acknowledged that the intent of Congress was to ‘restore national uniformity on this important issue by confirming the wisdom of the custom and usage of the affected industries and of the Copyright Office for nearly 100 years.’”³²

After laying out its detailed history of American copyright law, the Court of Appeals of New York turned to the certified questions presented to it in *Naxos*. Before answering three questions certified to it by the Second Circuit, the court noted that, in contrast to the general rule regarding literary works that publication terminates common-law protection:

in the realm of sound recordings, it has been the law in this state for over 50 years that, in the absence of federal statutory protection, the public sale of a sound recording otherwise unprotected by statutory copyright does not constitute a publication sufficient to divest the owner of common-law copyright protection.³³

The thorough and reasoned opinion of the Court of Appeals faithfully tracks the history of state copyright protection of sound recordings and contributes substantially to the foundation upon which this article develops the position that the current litigation against Sirius XM is not without merit and that Congress should, in the interest of preventing future uncertainty, amend the Copyright Act to extend federal copyright protection to all sound recordings regardless of the date on which they were fixed.

30. *Id.* (citing *La Cienega Music Co. v. ZZ Top*, 53 F.3d 950 (9th Cir. 1995)).

31. *Id.* (quoting 17 U.S.C. § 303(b) (2012)).

32. *Id.* (quoting *ABKCO Music, Inc. v. LaVere*, 217 F.3d 684, 690 (9th Cir. 2000) (quoting 143 Cong. Rec. S11301 (statement of Sen. Hatch))).

33. *Id.* at 264 (citations omitted).

III. Federal Protections: The Copyright Act, Digital Millennium Copyright Act, and the Copyright Royalty Board

A. *The Copyright Act, Title 17 of the United States Code*

The Copyright Act distinguishes between a “musical work” and a “sound recording.”³⁴ A musical work includes a transcribed musical arrangement as well as “any accompanying words.”³⁵ A sound recording is a work “that result[s] from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.”³⁶ As noted by the Court of Appeals of New York, sound recordings were first brought under the wing of federal copyright protection in the 1971 amendment to the Copyright Act, effective February 15, 1972.³⁷

The Copyright Act preempts all state laws pertaining to rights within the general scope of copyright.³⁸ The Act does not,

34. 17 U.S.C. § 102 (2012). This section of the Copyright Act reads, in relevant part:

- (a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:
. . .
- (2) musical works, including any accompanying words; . . .
- (7) sound recordings; . . .

Id.

35. *Id.* § 102(a)(2).

36. *Id.* § 101.

37. See *Naxos*, 830 N.E.2d at 260.

38. 17 U.S.C. § 301. This section of the Copyright Act reads, in relevant part:

- (a) On and after January 1, 1978, all legal and equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of

however, extend its preemptive powers to state statutory and common-law rights in sound recordings fixed prior to February 15, 1972 until the same date in 2067, at which time all state protection for such recordings will cease to exist.³⁹ This section also explicitly states that, despite the expiration of state protections for pre-1972 sound recordings in 2067, no such recording “shall be subject to copyright under this title before, on, or after February 15, 2067.”⁴⁰ This period of 95 years is equivalent to the duration of protection that would have been afforded such works under the Copyright Act had they been initially fixed on the effective date of the 1971 amendments.⁴¹

B. *The Digital Millennium Copyright Act, 17 U.S.C. § 512*

The Digital Millennium Copyright Act contains “safe harbor” provisions that protect certain categories of internet service providers who would otherwise be subject to liability for copyright infringement relating to post-1972 recordings posted on their networks by users.⁴² While the safe harbor provision

copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State. . . .

(c) With respect to sound recordings fixed before February 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 February 15, 2067. The preemptive provisions of subsection (a) shall apply to any such rights and remedies pertaining to any cause of action arising from undertakings commenced on and after February 15, 2067. Notwithstanding the provisions of section 303, no sound recording fixed before February 15, 1972, shall be subject to copyright under this title before, on, or after February 15, 2067.

Id.

39. *See id.* § 301(a).

40. *See id.* § 301(c).

41. *Id.* § 303.

42. *Id.* § 512. This “safe harbor” provision, found in subsection (a), states that, if certain conditions regarding the manner in which copyrighted material is transmitted and/or stored are met:

does not apply to satellite radio services such as Sirius XM, its treatment in courts is instructive with regard to the manner in which state-law-based property rights to pre-1972 sound recordings may be enforced. In New York, the Supreme Court, Appellate Division has held that the safe harbor provision does not preclude the assertion of a common-law copyright claim.⁴³ This holding stands as an explicit contradiction of a prior holding in a federal court in New York, which ruled that the DMCA was not affected by section 301(c) of the Copyright Act and thus could be read as precluding a common-law copyright claim against a qualifying service provider.⁴⁴

A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider's transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections

Id. § 512(a).

43. See *UMG Recordings, Inc. v. Escape Media Grp., Inc.*, 964 N.Y.S.2d 106 (App. Div. 2013), which reads, in relevant part:

Congress explicitly, and very clearly, separated the universe of sound recordings into two categories, one for works 'fixed' after February 15, 1972, to which it granted federal copyright protection, and one for those fixed before that date, to which it did not. Defendant has pointed to nothing in the Copyright Act or its legislative history which prevents us from concluding that Congress meant to apply the DMCA to the former category, but not the latter.

Id. at 111.

44. *Capitol Records, Inc. v. MP3tunes, LLC*, 821 F. Supp. 2d 627 (S.D.N.Y. 2011), which reads, in relevant part:

Read in context, section 301(c) is an anti-preemption provision ensuring that the grant of federal copyright protection did not interfere with common law or state rights established prior to 1972. But section 301(c) does not prohibit all subsequent regulation of pre-1972 recordings. . . . The plain meaning of the DMCA's safe harbors, read in light of their purpose, covers both state and federal copyright claims. Thus, the DMCA applies to sound recordings fixed prior to February 15, 1972.

The analysis employed by the Appellate Division in *Escape Media Group* is both logical and thorough. The court reasoned that the safe harbor provision of the DMCA must be read and interpreted in light of section 301(c) of the Copyright Act.⁴⁵ As such, the court noted, interpreting the DMCA as applying to sound recordings fixed before February 15, 1972 would entail “an implicit modification of the plain language of section 301(c).”⁴⁶ Section 301(c) states, “With respect to sound recordings fixed before February 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 February 15, 2067.”⁴⁷ As the court astutely recognized, allowing the DMCA to bar actions for infringement on an owner’s rights to a pre-1972 sound recording would in fact be (at least) a limitation of those rights, and “[a]ny material limitation, especially the elimination of the right to assert a common-law infringement claim, is violative of section 301(c) of the Copyright Act.”⁴⁸

Additionally, the court in *Escape Media Group* discussed (but did not opine as to the authoritative effect of) a report from the Copyright Office to the House of Representatives “recommending that Congress extend federal copyright protection to sound recordings fixed on or before February 15, 1972, and that the safe harbor provisions of § 512 be applicable to such recordings.”⁴⁹ As noted by the court, “the report took the position that *Capitol Records, Inc. v. MP3Tunes* was wrongly decided and that congressional action was necessary before pre-1972 recordings were embraced by the DMCA.”⁵⁰ This report bases its recommendation on the principle “that bringing pre-1972 sound recordings into the federal copyright system serves the interests of consistency and certainty . . .” as “there are a variety of legal regimes governing protection of pre-1972 sound

Id. at 641-42.

45. See *Escape Media Group*, 964 N.Y.S.2d at 111.

46. *Id.*

47. 17 U.S.C. § 301(c) (2012).

48. *Escape Media Group*, 964 N.Y.S.2d at 111.

49. *Id.* at 109-12 (citing U.S. COPYRIGHT OFFICE, FEDERAL COPYRIGHT PROTECTION FOR PRE-1972 SOUND RECORDINGS (2011), available at <http://www.copyright.gov/docs/sound/pre-72-report.pdf>).

50. *Id.* at 109.

recordings in the various states, and the scope of protection and of exceptions and limitations to that protection is unclear.”⁵¹ Indeed, if pre-1972 sound recordings are afforded federal copyright protection, much litigation will be avoided and the process of securing broadcast rights to such recordings will be greatly simplified, to the substantial benefit of copyright owners, radio services, and the public generally.⁵²

C. *The Copyright Royalty Board*

The Copyright Royalty Board (CRB) is “a panel of federal judges that regulates some forms of licensing.”⁵³ Under the Copyright Act, satellite digital audio radio services (SDARS) like Sirius XM Radio need not negotiate licenses with individual copyright owners; instead, the Act affords such services a statutory license for which the service must pay a fee.⁵⁴ The CRB periodically promulgates regulations that establish the royalties that statutory license holders must pay.⁵⁵ “The CRB has designated SoundExchange as the sole entity in the United States to collect digital performance royalties from statutory license users and to distribute those royalties to performing artists and copyright owners.”⁵⁶ The regulations promulgated by the CRB regarding calculation and payment of statutory royalties are directly at issue in one of the current lawsuits against Sirius XM.⁵⁷

51. U.S. COPYRIGHT OFFICE, *supra* note 49.

52. *See infra* Part VI.

53. Sisario, *supra* note 4.

54. Complaint ¶¶ 13-14, *SoundExchange, Inc. v. Sirius XM Radio, Inc.*, No. 1:13CV01290 (D.D.C. filed Aug. 26, 2013) [hereinafter *SoundExchange v. Sirius XM Complaint*]; *see* 17 U.S.C. §114(d)(2) (2012).

55. *See SoundExchange v. Sirius XM Complaint*, *supra* note 54, at ¶ 2.

56. *Id.* ¶ 10.

57. *See infra* Part V. The plaintiffs in the *SoundExchange* case allege that Sirius XM has improperly reduced the revenue base against which it calculates royalties owed to SoundExchange according to the regulations promulgated by the CRB. *See SoundExchange v. Sirius XM Complaint*, *supra* note 54, at ¶¶ 42-47.

IV. California's Protection of Property Rights in Pre-1972 Sound Recordings

California has traditionally protected property rights, both via statute and at common law, to sound recordings fixed prior to February 15, 1972.⁵⁸ California courts have long recognized that the separation in the federal Copyright Act of sound recordings from musical compositions allows states to protect those examples of the former, fixed prior to February 15, 1972, that are not within the scope of federal protection.⁵⁹ California has codified its longstanding common-law protection of property rights to sound recordings.⁶⁰ It is settled policy in California that

58. See *Capital Records v. Sirius XM Complaint*, *supra* note 8, at ¶ 1 (“For over 40 years, sound recordings have been protected by California common law, and for over 30 years they have been provided protection under Section 980 of the California Civil Code.”).

59. See, e.g., *A & M Records, Inc. v. Heilman*, 142 Cal. Rptr. 390 (Ct. App. 1977), which reads, in relevant part:

A recorded performance embodies two distinct bundles of legal rights: (1) rights in the musical composition itself, the tune and lyrics, and (2) rights in the recording “fixing” the performance of that musical composition. Recorded performances, however, cannot legally exist without the right to reproduce mechanically the underlying musical compositions. Early in this century it was recognized that if composers had an unlimited right to control the “mechanical reproduction” of musical compositions there was a danger of “establishing a great musical monopoly” in the mechanical reproduction of music. Congress therefore incorporated into the 1909 Copyright Act a comprehensive plan to recognize the rights of composers yet “prevent the establishment of a great trade monopoly.” A key element of this plan is the compulsory licensing provision.

Id. at 562-63 (citations omitted).

60. CAL. CIVIL CODE § 980 (1984). This section reads, in relevant part:

(a) . . . (2) The author of an original work of authorship consisting of a sound recording initially fixed prior to February 15, 1972, has an exclusive ownership therein until February 15, 2047, as against all persons except one who independently makes or duplicates another sound recording that does not directly or indirectly recapture the actual sounds fixed in such prior sound recording, but consists entirely of an independent fixation of other sounds, even

the need to foster “invention and free competition” necessitates legal protection of the ownership interest in sound recordings.⁶¹

A. *The Copyright Act and Preemption*

The United States Supreme Court has explicitly held that the individual states remain free to regulate the copying of pre-1972 sound recordings as they see fit, drawing a distinction between the copyright realm and that of patents, in which federal law preempts contrary state statutes.⁶² The distinction, for Supremacy Clause purposes, appears to derive from the nature and purpose of federal protection:

In regard to mechanical configurations, Congress had balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. The standards established for granting federal patent protection to machines thus indicated not only which articles in this category Congress wished to protect, but which configurations it wished to remain free. The application of state law in these cases to prevent the copying of articles which did not meet

though such sounds imitate or simulate the sounds contained in the prior sound recording.

Id. § 980(a)(2).

61. *See, e.g.*, *Capitol Records, Inc. v. Erickson*, 82 Cal. Rptr. 798 (Ct. App. 1969), which reads, in relevant part:

It is reasonable to conclude that permitting such appropriation would discourage invention and free competition—and that those engaged in the recording industry would be inclined not to utilize their skill and efforts, and expend large amounts of money, in producing unique recordings, but would wait for a recording to be produced, and then duplicate it and sell it, at maximum profit and with minimum effort and expense.

Id. at 806.

62. *Goldstein v. California*, 412 U.S. 546, 569-70 (1973).

the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way under the Supremacy Clause of the Constitution. No comparable conflict between state law and federal law arises in the case of recordings of musical performances. In regard to this category of 'Writings,' Congress has drawn no balance; rather, it has left the area unattended, and no reason exists why the State should not be free to act.⁶³

Congress saw fit to protect certain types of products with patent law, to the exclusion of state protection of other types, while the Copyright Act protects products of the same type differently depending on the date of production, leaving the door open for the states to extend protection to the same type of product regardless of the date of production.⁶⁴

Courts in California have found that Civil Code Section 980(a)(1) fits within the federal scheme of allowing state protections that do not conflict with the Copyright Act. "The Supreme Court has held that states retain concurrent power under the Copyright Clause of the Constitution to afford copyright protection to the works of authors as long as such protection does not conflict with federal law."⁶⁵ "Thus, state laws are subject to federal preemption only if they create 'legal or equitable rights that are equivalent to any of the exclusive rights' within the general scope of federal copyright law."⁶⁶ These courts have employed a two-part test utilized by the Ninth Circuit to determine whether state protection is preempted by the Copyright Act.⁶⁷ "Preemption occurs when: (1) the work at issue comes within the subject matter of copyright and (2) the

63. *Id.*

64. *Id.*

65. *Trenton v. Infinity Broad. Corp.*, 865 F. Supp. 1416, 1422-23 (C.D. Cal. 1994) (citing *Goldstein*, 412 U.S. 546) (finding "not fixed in any tangible medium of expression" language in CAL. CIV. CODE § 980(a)(1) "provides copyright protection outside the scope of that found in the federal statute").

66. *Id.* at 1423 (quoting 17 U.S.C. § 301(a) (2012)).

67. *Selby v. New Line Cinema Corp.*, 96 F. Supp. 2d 1053, 1057 (C.D. Cal. 2000).

rights granted under state law are ‘equivalent to any of the exclusive rights within the general scope of copyright’ set forth in the Act.”⁶⁸ Like subsection (a)(1), subsection (a)(2) does not conflict with the Copyright Act.

While the second prong of the Ninth Circuit’s two-part test states that, in order to avoid preemption, the state claim must contain an “extra element,”⁶⁹ this prong comes into play only if subsection (a)(2) does not provide “protection outside the scope of that found in the federal statute.”⁷⁰ As in the case of subsection (a)(1), the plain language of subsection (a)(2) places the protection offered by the statute outside the scope of the federal Copyright Act. While the Copyright Act protects only sound recordings fixed after February 15, 1972, Civil Code Section 980(a)(2) protects the “exclusive ownership” right of “[t]he author of an original work of authorship consisting of a sound recording initially fixed prior to February 15, 1972”⁷¹ As an aside, by the language of this test, subsection (a)(2) may (if extended) arguably continue to offer protection outside the scope of the Copyright Act even after February 15, 2067, the date on which the Act extinguishes all previously-enjoyed state common-law and statutory protections for pre-1972 sound recordings.⁷² The continued validity (or lack thereof) of this test after 2067, however, is irrelevant to the current litigation and therefore outside the scope of this article. For the purposes of this discussion, the federal statute can be viewed as a mere acknowledgement that state protections for pre-1972 sound recordings are indeed outside the scope of federal copyright protection and therefore not subject to preemption.

B. *Defining Publication – Does it Matter?*

As observed above, when Congress initially amended the Copyright Act, it failed to include a definition of the act of “publication,” which was seen as the act “which divested

68. *Id.* (quoting *Del Madera Props. v. Rhodes & Gardner, Inc.*, 820 F.2d 973, 976 (9th Cir. 1987)).

69. *Id.*

70. *Trenton*, 865 F. Supp. at 1423.

71. CAL. CIV. CODE § 980(a)(2) (West 2014).

72. *See* 17 U.S.C. § 301(c) (2012).

common law rights” as far back as 1834.⁷³ In California, as in other states, this ambiguity found its way to the forefront of much litigation. The United States Court of Appeals for the Ninth Circuit, applying California law, ruled in 1995 that publication occurred, and common-law protection ceased, when the owner of a recording sold copies of that recording.⁷⁴ This decision stood in contrast to earlier rulings by the Second Circuit that sale of recordings did not constitute publication,⁷⁵ which contradicted a previous ruling by the same court that sale of recordings *did* in fact constitute publication.⁷⁶

Faced with the multitude of interpretations of what did and did not constitute publication, Congress amended the Copyright Act once again in 1997, adopting the rationale of the more recent Second Circuit cases at least for some recordings, depending on when they were sold to the public.⁷⁷ The Ninth Circuit then revisited the issue, recognizing that “the result of our holding in *La Cienega* has been subsequently changed by Congress’ passage and enactment of [the amendment].”⁷⁸ In passing and enacting this amendment, Congress recognized a strong interest in establishing uniform standards in this area of law: “overturning the *La Cienega* decision will restore national uniformity on this important issue by confirming the wisdom of the custom and usage of the affected industries and of the Copyright Office for nearly 100 years.”⁷⁹

The issue of publication, while important under state laws to determine whether the owner of a recording has abandoned his or her common-law rights, does not factor into the

73. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 830 N.E.2d 250, 257-58 (2005); *see also* *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591 (1834).

74. *La Cienega Music Co. v. ZZ Top*, 53 F.3d 950, 953 (9th Cir. 1995).

75. *Capitol Records v. Mercury Records Corp.*, 221 F.2d 657 (2d Cir. 1955); *see* *Rosette v. Rainbo Record Mfg. Corp.*, 354 F. Supp. 1183 (S.D.N.Y. 1973), *aff’d per curiam*, 546 F.2d 461 (2d Cir. 1976).

76. *RCA Mfg. Co. v. Whiteman*, 114 F.2d 86 (2d Cir. 1940).

77. 17 U.S.C. § 303(b) (2012) (“[D]istribution before January 1, 1978, of a phonorecord shall not for any purpose constitute a publication of any musical work . . . embodied therein.”).

78. *ABKCO Music, Inc. v. LaVere*, 217 F.3d 684, 689 (9th Cir. 2000) (quoting *Batjac Prods., Inc. v. GoodTimes Home Video Corp.*, 160 F.3d 1223, 1235 (9th Cir. 1998)).

79. *Id.* at 690 (quoting 143 Cong. Rec. S11301 (1997) (statement of Senator Hatch)).

determination of whether state copyright protection for pre-1972 sound recordings is preempted by federal law.⁸⁰ One may wonder, then, why the issue of publication must be passed upon at all in a discussion of the validity of state protection for pre-1972 recordings. It is precisely that need for national uniformity touted by Congress in the passage of its 1997 amendment that makes this issue material to any discussion of property rights in pre-1972 sound recordings. With each state individually left to decide what protections (if any) to offer to owners of pre-1972 sound recordings and what acts (if any) by those owners terminate those protections, it is no wonder that the issue of the rights of owners of pre-1972 recordings is far from settled.

V. The Lawsuits: Is Sirius XM Doomed?

A. *SoundExchange, Inc. v. Sirius XM Radio, Inc. and the Doctrine of Primary Jurisdiction*

Plaintiff SoundExchange is “an independent nonprofit organization” designated by the CRB “as the sole entity in the United States to collect digital performance royalties from statutory license users and to distribute those royalties to performing artists and copyright owners.”⁸¹ SoundExchange alleges four separate counts in its complaint.⁸² Counts two and three, which allege underpayment of royalties based on exclusion of revenue from certain subscription packages,⁸³ and count four, which alleges failure to make late fee payments,⁸⁴ are outside the scope of this article. Count one, though, alleges “Violation of 37 C.F.R. § 382.13(a) and 17 U.S.C. § 114(f)(1)(B) – Underpayment Based on Reduction of Revenue Purportedly Corresponding to Use of Pre-1972 Sound Recordings[,]”⁸⁵ placing the lawsuit squarely within the framework of this discussion.

Under the Copyright Act, users of the statutory license⁸⁶ are

80. 1 NIMMER ON COPYRIGHT § 4.06(B) (citing 17 U.S.C. § 301(e) (2012)).

81. SoundExchange v. Sirius XM Complaint, *supra* note 54, at ¶ 10.

82. *Id.* ¶¶ 42-63.

83. *Id.* ¶¶ 48-59.

84. *Id.* ¶¶ 60-63.

85. *Id.* ¶¶ 42-47.

86. 17 U.S.C. § 114(d)(2) (2012).

required to pay royalties to copyright owners at a rate set periodically by the CRB.⁸⁷ “The . . . rates and terms determined by the Copyright Royalty Judges shall . . . be binding on all copyright owners of sound recordings and entities performing sound recordings affected by this paragraph”⁸⁸ This section also includes an opt-out clause that allows copyright owners and those who perform sound recordings to negotiate their own licensing agreements.⁸⁹ Since Sirius XM has taken advantage of the statutory license and does not negotiate individual licensing agreements, it is required to pay royalties to SoundExchange at the rate set by the CRB for its use of all covered sound recordings.⁹⁰ The issue that must be resolved, then, is whether that category of recordings for which Sirius XM must pay royalties includes pre-1972 sound recordings or, stated more precisely, whether Sirius XM may lawfully reduce its royalty payments for revenues purportedly connected to the performance of such recordings.

Counsel for SoundExchange took care in its complaint not to allege that the pre-1972 sound recordings in question are protected by federal copyright, a wise move considering that the Copyright Act plainly excludes such recordings from federal protection⁹¹ and its statutory licensing provisions can reasonably be read to apply only to recordings protected by federal copyright.⁹² Instead, SoundExchange relies on language in the regulations promulgated by the CRB to bolster its claim that Sirius XM did not properly exclude pre-1972 recordings from its calculation of royalty payments.⁹³ The crux of SoundExchange’s first cause of action is the claim that Sirius XM has been improperly applying to its calculation an exclusion

87. *Id.* § 114(f)(1)(B).

88. *Id.*

89. *Id.* § 114(f)(3) (“License agreements voluntarily negotiated at any time between 1 or more copyright owners of sound recordings and 1 or more entities performing sound recordings shall be given effect in lieu of any decision by the Librarian of Congress or determination by the Copyright Royalty Judges.”).

90. *Id.* § 114(f)(1)(B).

91. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 830 N.E.2d 250, 260 (N.Y. 2005) (citing Pub. L. 92-140 § 3 (1971)).

92. *See* 17 U.S.C. § 114(d)(2), (f)(1)(B) (2012).

93. *See* SoundExchange v. Sirius XM Complaint, *supra* note 54, at ¶¶ 16-24.

not recognized as legitimate under the regulations promulgated by the CRB.⁹⁴

Under the scheme of statutory license and royalty payments administered by the CRB, “Sirius XM’s payments to SoundExchange are calculated as a percentage of Sirius XM’s Gross Revenues, a term defined in 37 C.F.R. § 382.11.”⁹⁵ As alleged by the plaintiff, “[n]one of the regulatory exclusions in effect during the relevant time period permitted Sirius XM to reduce its reported Gross Revenues by an amount purportedly attributable to its performances of pre-1972 sound recordings.”⁹⁶

The plaintiffs allege, and Sirius XM does not dispute, that during the relevant period (2007-2012) Sirius XM “had reduced its reported Gross Revenues by between 10% and 15% of its subscription revenue on the theory that it corresponded to performances of pre-1972 sound recordings.”⁹⁷ According to the CRB, “[t]he current Gross Revenues definition does not expressly recognize such an exclusion, which is not surprising given that there is no revenue recognition for the performance of pre-1972 works.”⁹⁸ The CRB did acknowledge that reduction of royalty payments for pre-1972 recordings may be appropriate moving forward, prescribing a method of calculation quite different from that employed by Sirius XM:

94. *Id.* ¶¶ 21-24.

95. *Id.* ¶ 44; see 37 C.F.R. § 382.11 (2015), which reads, in relevant part:

- (1) Gross Revenues . . . shall be comprised of the following:
 - (i) Subscription revenue recognized by Licensee directly from U.S. subscribers for Licensee’s SDARS . . .
- (3) Gross Revenues shall exclude: . . .
 - (vi) Revenues recognized by Licensee for the provision of . . .
 - (D) Channels, programming, products and/or other services for which the performance of sound recordings . . . is exempt from any license requirement or is separately licensed, including by a statutory license

Id.

96. SoundExchange v. Sirius XM Complaint, *supra* note 54, at ¶ 21.

97. *Id.* ¶ 23 (citing Determination of Rates and Terms of Preexisting Subscription Services and Satellite Digital Audio Radio Services, 78 Fed. Reg. 23,054, 23,080 (Apr. 17, 2013)).

98. Determination of Rates and Terms of Preexisting Subscription Services and Satellite Digital Audio Radio Services, 78 Fed. Reg. 23,054, 23,073 (Apr. 17, 2013).

As with directly licensed works, pre-1972 recordings are not licensed under the statutory royalty regime and should not factor into determining the statutory royalty obligation. But, . . . revenue exclusion is not the proper means . . . Rather, the proper approach is to calculate a deduction from the total royalty obligation . . . The question then becomes how to calculate the correct deduction. . . To be allowable, a deduction for pre-1972 recordings must be precise and the methodology transparent. . . To be eligible for a deduction of the Pre-1972 Recording Share, Sirius XM must, on a monthly basis, identify to SoundExchange by title and recording artist those recordings for which it is claiming the deduction.⁹⁹

Sirius XM filed a motion to dismiss this action pursuant to Federal Rule of Civil Procedure 12(b)(6) or, in the alternative, to stay the action.¹⁰⁰ Sirius XM argues essentially that the district court should either dismiss or stay the claim under the doctrine of primary jurisdiction.¹⁰¹ “That doctrine permits a court to ‘refer’ actions to an administrative agency when the core questions raised in a lawsuit ‘require[] the resolution of issues which, under a regulatory scheme, have been placed within the special competence of an administrative body.’”¹⁰² Sirius XM argues that answering the questions presented in this case “requires an understanding of the proper interpretation and application of the CRB’s own regulations . . .” placing the issue “squarely within the scope and purposes of the primary jurisdiction doctrine”¹⁰³

In response to Sirius XM’s request that the district court

99. *Id.*

100. Defendant’s Motion to Dismiss at 1, SoundExchange, Inc. v. Sirius XM Radio, Inc., No. 1:13CV01290 (D.D.C. filed Oct. 16, 2013).

101. Memorandum in Support of Defendant’s Motion to Dismiss at 6, SoundExchange, Inc. v. Sirius XM Radio, Inc., No. 1:13CV01290 (D.D.C. filed Oct. 16, 2013).

102. *Id.* at 2 (quoting United States v. W. Pac. R.R. Co., 352 U.S. 59, 64 (1956)).

103. *Id.*

apply the doctrine of primary jurisdiction, SoundExchange argues that the doctrine “has no application to the claims at issue.”¹⁰⁴ The plaintiff points out that “courts have declined to refer matters to agencies where a case calls for the application of regulations that are unambiguous.”¹⁰⁵ According to SoundExchange, this is the sort of function that occurs “in the vast majority of cases that fall ‘within the conventional competence of courts[,]’”¹⁰⁶ and as such, this matter should not be referred back to the CRB for further interpretation of the pertinent regulations. SoundExchange points to the CRB’s own language in support of its argument that, not only are the regulations in question unambiguous, but the CRB has already considered the issue of Sirius XM’s interpretation of those regulations and held the defendant’s revenue-reduction scheme to be improper.¹⁰⁷ According to SoundExchange, “it has long been recognized that referral to an agency on primary jurisdiction grounds is improper where the relevant agency has already addressed the question at issue or otherwise clarified how its regulations should be applied in a given context.”¹⁰⁸

Counsel for Sirius XM counters with the argument that the regulations promulgated by the CRB “unambiguously” support their client’s nonpayment of royalties “for programming ‘exempt from any license requirement’ . . .” a category of programming that includes “performances of pre-1972 recordings”¹⁰⁹ Furthermore, Sirius XM states that the CRB “prescribed a method for calculating such exemptions that is nearly

104. Memorandum in Opposition to Defendant’s Motion to Dismiss at 1, SoundExchange, Inc. v. Sirius XM Radio, Inc., No. 1:13CV01290 (D.D.C. filed Dec. 2, 2013).

105. *Id.* at 8 (citing *Farley Transp. Co. v. Santa Fe Trail Transp. Co.*, 778 F.2d 1365, 1370-71 (9th Cir. 1985)).

106. *Id.* (quoting *United States v. Phillip Morris USA Inc.*, 686 F.3d 832, 838 (D.C. Cir. 2012)).

107. *Id.* at 9-10 (quoting *Determination of Rates and Terms of Preexisting Subscription Services and Satellite Digital Audio Radio Services*, 78 Fed. Reg. 23,054, 23,073 (Apr. 17, 2013)).

108. *Id.* at 8 (citing *United States v. W. Pac. R.R. Co.*, 352 U.S. 59, 64 (1956)).

109. Defendant’s Reply Memorandum in Further Support of its Motion to Dismiss at 1, SoundExchange, Inc. v. Sirius XM Radio, Inc., No. 1:13CV01290 (D.D.C. filed Dec. 20, 2013) (quoting *Determination of Rates and Terms of Preexisting Subscription Services and Satellite Digital Audio Radio Services*, 78 Fed. Reg. 23,054, 23,073 (Apr. 17, 2013)).

identical, both in approach and economic consequence, to the methodology utilized by Sirius XM for the period in dispute.”¹¹⁰ According to Sirius XM, the claims made by SoundExchange are based “on a meritless accounting quibble . . .”¹¹¹ and the essential dispute comes down to Sirius XM calculating its royalty payments using the same formula as that prescribed by the CRB with the numbers in a different order and thus reaching the same ultimate calculation.¹¹²

Interestingly, what counsel for Sirius XM fails to address in either of its memoranda is the language of the CRB prescribing the method by which the service provider may properly calculate and obtain a deduction from its royalty obligation related to pre-1972 sound recordings.¹¹³ The CRB stated that the method by which Sirius XM calculated such a deduction was both incomplete and improper.¹¹⁴ “To be allowable, a deduction . . . must be precise and the methodology transparent To be eligible for a deduction of the Pre-1972 Recording Share, *Sirius XM must, on a monthly basis, identify to SoundExchange by title and recording artist those recordings for which it is claiming the deduction.*”¹¹⁵

What the CRB did not expressly determine was whether Sirius XM’s incorrect method resulted in actual underpayment of royalties. Even if the CRB had made such a determination, though, SoundExchange would still need to turn to the court system to obtain a remedy. As the plaintiffs outline in their memorandum, the CRB, which has no power to enforce the regulations it promulgates, “cannot award SoundExchange damages Rather, to obtain a damages award, SoundExchange would have to return to this Court.”¹¹⁶ In such

110. *Id.* at 2.

111. *Id.*

112. *Id.* at 7 (“In short, Sirius XM’s approach . . . was mathematically equivalent to what the [CRB] made explicit . . . except that rather than multiplying A x B x C, the [CRB] determination calls for multiplying A x C x B. . . . [T]he economic results are substantively identical.”).

113. See *supra* note 98, and accompanying text.

114. Determination of Rates and Terms of Preexisting Subscription Services and Satellite Digital Audio Radio Services, 78 Fed. Reg. 23,054, 23,073 (Apr. 17, 2013) (“[R]evenue exclusion is not the proper means . . .”).

115. *Id.* (emphasis added).

116. Memorandum in Opposition to Defendant’s Motion to Dismiss, *supra* note 104, at 16.

circumstances, SoundExchange argues, where the controversy falls “within the conventional competence of courts[.]” application of the doctrine of primary jurisdiction is not proper.¹¹⁷

In a memorandum opinion filed August 26, 2014, United States District Judge Richard J. Leon granted Sirius XM’s motion and stayed the action pending a decision by the CRB.¹¹⁸ As Judge Leon stated:

It is true that the *Satellite II* panel set forth a different mechanism for dealing with pre-1972 sound recordings than Sirius XM had used previously, but whether Sirius XM’s approach was improper such that it owes SoundExchange additional fees for times past is an open question of interpretation and policy.¹¹⁹

Judge Leon noted that, if the CRB rules that Sirius XM did in fact reach an improper calculation of royalties, “SoundExchange can seek damages in this court.”¹²⁰ The CRB, which has already determined that Sirius XM’s method of calculation was not proper, must now determine whether that method means Sirius XM owes Sound Exchange any additional royalties for the period in question.

Sirius XM’s argument that its method of calculation will lead to “economic results [that] are substantively identical”¹²¹ to those that will be achieved by the method prescribed by the CRB may very well be sound. This article takes no position on the accounting accuracy of the parties to this litigation. Of course, if the pre-1972 sound recordings for which Sirius XM seeks a royalty reduction were included under the protections of the federal Copyright Act, their performance would be subject to the

117. *Id.* at 8 (quoting *United States v. Phillip Morris USA Inc.*, 686 F.3d 832, 838 (D.C. Cir. 2012)).

118. Memorandum Opinion at 12, *SoundExchange, Inc. v. Sirius XM Radio, Inc.*, No. 1:13CV01290 (D.D.C. filed Dec. 20, 2013).

119. *Id.* at 10-11.

120. *Id.* at 11.

121. Defendant’s Reply Memorandum in Further Support of its Motion to Dismiss, *supra* note 109, at 7.

statutory licensing scheme, and we would have no “accounting quibble”¹²² and, in all likelihood, this litigation would have been avoided altogether.

B. Capitol Records, LLC v. Sirius XM Radio, Inc.

The plaintiffs in the *Capitol Records* case (Capitol Records, Sony Music Entertainment, UMG Recordings, Warner Music Group, and ABKCO Music & Records) collectively “own the majority of commercially exploited recorded music in the United States[]”¹²³ Among the artists whose pre-1972 recordings are owned by the plaintiffs are “the Beatles, the Beach Boys, the Rolling Stones, Bob Dylan, Jimi Hendrix, the Eagles, Led Zeppelin, the Temptations, the Supremes, Stevie Wonder, Buddy Holly, Chuck Berry, Marvin Gaye, Nat King Cole, Otis Redding, Aretha Franklin, Simon & Garfunkel, Patsy Cline, and Louis Armstrong.”¹²⁴ The plaintiffs allege that Sirius XM “publicly performs thousands . . .” of their pre-1972 recordings each day and that the plaintiffs “have never authorized Sirius XM . . .” to do so.¹²⁵ The plaintiffs claim five separate causes of action: violation of California Civil Code section 980(a)(2), common law misappropriation, statutory and common law unfair competition, conversion, and declaratory relief.¹²⁶ It is the plaintiffs’ first cause of action, based on California’s statutory protection of ownership rights in pre-1972 sound recordings, that is central to this discussion.

California Civil Code section 980(a)(2) provides an “exclusive ownership” right for the “author of an original work of authorship consisting of a sound recording initially fixed prior to February 15, 1972 . . . until February 15, 2047[]”¹²⁷ The plaintiffs therefore claim that they “have all the exclusive rights to exploit those recordings, including, but not limited to, the rights to manufacture, copy, sell, distribute, broadcast, and publicly perform their Pre-72 Recordings, including by digital

122. *See id.* at 2.

123. *Capitol Records v. Sirius XM Complaint*, *supra* note 8, at ¶¶ 3-7, 10.

124. *Id.* ¶ 10.

125. *Id.* ¶¶ 19-20.

126. *Id.* ¶¶ 29-56.

127. CAL. CIV. CODE § 980(a)(2) (West 2014).

transmission[]”¹²⁸ and that “Defendants do not have the right to reproduce or publicly perform [Plaintiffs’] Pre-72 Recordings and have never compensated Plaintiffs for Defendants’ exploitation of their Pre-72 Recordings.”¹²⁹ In addition to actual damages and injunctive relief, the plaintiffs seek to recover “exemplary and punitive damages” because “Defendants are guilty of oppression, fraud or malice[]”¹³⁰

The plaintiffs note that California’s protection of property rights in pre-1972 sound recordings is not identical to that initially offered to post-1972 recordings under the federal Copyright Act.¹³¹ As noted by the California Court of Appeal, Second District, Division 1, record companies “expend[] substantial effort, skill and money in selecting performing artists and obtaining the exclusive right to record their performances[]”¹³² As noted by the plaintiffs:

[The] broad protection . . . is consistent with the recognition . . . of critical, important public policy interests . . . includ[ing] . . . ensuring that record companies receive compensation . . . as well as ensuring that the owners of sound recordings possess powerful . . . remedies against those who seek to unfairly appropriate and profit from such

128. Capitol Records v. Sirius XM Complaint, *supra* note 8, at ¶ 30.

129. *Id.* ¶ 31.

130. *Id.* ¶ 34.

131. *Id.* ¶ 24, which reads, in relevant part:

Unlike the inclusive scope of protection afforded to Pre-Recordings (*sic*) by California state law, Congress initially limited the federal sound recording copyright to include certain of the exclusive rights conferred on other works . . . and to exclude the right to publicly perform sound recordings. California law, by contrast, has never delimited, either expressly or implicitly, the scope of common law or statutory protection of Pre-72 Recordings, and did not exclude the right of public performance from the rights of “exclusive ownership” in Pre-72 Recordings.

Id.

132. Capitol Records, Inc. v. Erickson, 82 Cal. Rptr. 798, 805 (Cal. Ct. App. 1969).

artistic performances.¹³³

The interests touted by the plaintiffs are quite similar to those recognized by Congress when, in 1995, it granted to the owners of copyrighted sound recordings the exclusive right to broadcast such recordings.¹³⁴

Interestingly, the text of Civil Code Section 980(a)(2) does not contain language similar to that found in subsection (1) that seems to reserve such an exclusive performance right. Subsection (1) reserves “an exclusive ownership *in the representation or expression . . .*” of an “original work of authorship that is not fixed in any tangible medium of expression . . .” to the author of the work.¹³⁵ Subsection (2), however, while reserving “an exclusive ownership” to “the author of an original work of authorship consisting of a sound recording initially fixed prior to February 15, 1972,” is written in more general terms and does not include the “representation or expression” qualifier found in subsection (1).

Reading these two subsections together, as courts often will, one may reasonably come to the conclusion that the California legislature deliberately omitted the “representation or expression” language from subsection (2) with the intent of not reserving such an exclusive performance right for pre-1972 sound recordings. If the statute is to be interpreted in this manner, Sirius XM’s broadcasting of such recordings in California may not give rise to civil liability for infringement on the exclusive ownership right of the plaintiffs. This reading of Section 980, however, would not be proper, for it would implicitly endorse the previously dispelled notion that the act of selling copies of such recordings constitutes “publication” and divests their owner of exclusive property rights.¹³⁶ Following this analysis, the language of subsection (2) would seem to support the plaintiffs’ claim that Sirius XM’s broadcasting of the

133. Capitol Records v. Sirius XM Complaint, *supra* note 8, at ¶ 25 (citing *Erickson*, 82 Cal. Rptr. at 805-06).

134. See 17 U.S.C. § 106(6) (2012); H.R. Rep. No. 104-274 (1995).

135. CAL. CIV. CODE § 980(a)(1) (West 2014) (emphasis added).

136. See *ABKCO Music, Inc. v. LaVere*, 217 F.3d 684, 689 (9th Cir. 2000) (quoting *Batjac Prods., Inc. v. GoodTimes Home Video Corp.*, 160 F.3d 1223, 1235 (9th Cir. 1998)); see also Part IV.B., *supra*.

recordings in question without the plaintiffs' permission is unlawful. The plaintiffs point to the issues highlighted by Congress when it passed the Digital Performance Rights in Sound Recordings Act¹³⁷ as evidence of the need to continue to recognize the exclusive ownership rights held under California law.¹³⁸

On September 23, 2014, the plaintiffs requested that the court take judicial notice of an order issued by Judge Philip S. Gutierrez of the United States District Court for the Central District of California in *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*¹³⁹ in connection with the plaintiffs' motion for jury instruction.¹⁴⁰ The plaintiffs had previously requested that the court issue the following jury instruction:

137. 17 U.S.C. § 106(6) (2012). This section of the Copyright Act states that "the owner of copyright . . . has the exclusive rights . . . in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission." *Id.*

138. Capitol Records v. Sirius XM Complaint, *supra* note 8, at ¶ 27. The plaintiffs quote at length from H.R. Rep. No. 104-274 (1995):

Trends within the music industry, as well as the telecommunications and information services industries, suggest that digital transmission of sound recordings is likely to become a very important outlet for the performance of recorded music in the near future. . . . These new digital transmission technologies may permit consumers to enjoy performances of a broader range of higher-quality recordings than has ever before been possible. . . . However, in the absence of appropriate copyright protection in the digital environment, the creation of new sound recordings and musical works could be discouraged, ultimately denying the public some of the potential benefits of the new digital transmission technologies. Current copyright law is inadequate to address all of the issues raised by these new technologies dealing with the digital transmission of sound recordings and musical works and, thus, to protect the livelihoods of the recording artists, songwriters, record companies, music publishers and others who depend upon revenues derived from traditional record sales.

Capitol Records v. Sirius XM Complaint, *supra* note 8, at ¶ 27 (quoting H.R. Rep. No. 104-274 (1995)).

139. No. 2:13CV05693 (C.D. Cal. filed Aug. 6, 2013).

140. Court's Ruling on Submitted Matter, Plaintiffs' Motion for Jury Instruction, Capitol Records, LLC v. Sirius XM Radio, Inc., No. BC520981 (Cal. Super. Ct. Oct. 14, 2014).

The owner of a sound recording “fixed” (*i.e.*, recorded) prior to February 15, 1972, possesses a property interest and exclusive ownership rights in that sound recording. This property interest and the ownership rights under California law include the exclusive right to publicly perform, or authorize others to perform, the sound recording by means of digital transmission—whether by satellite transmission, over the Internet, through mobile smartphone applications, or otherwise.¹⁴¹

After the plaintiffs’ motion for jury instruction in *Capitol Records* was argued and under submission, the court in *Flo & Eddie* issued an order granting summary judgment to the plaintiffs, ruling that the exclusive ownership right in a sound recording under Civil Code Section 980 includes a public performance right.¹⁴²

On October 14, 2014, California Superior Court Judge Mary H. Strobel, taking judicial notice of the summary judgment order in *Flo & Eddie*, granted the plaintiffs’ motion for jury instruction, ruling that Civil Code Section 980 does afford the owner of a sound recording an exclusive public performance right.¹⁴³ Judge Strobel found “significant that the California legislature specifically adopted one exception to exclusive ownership for recording ‘covers’ found in federal copyright law, ‘nearly word-for-word’ but did not specifically adopt the other exception found in that law for public performance rights.”¹⁴⁴ Judge Strobel thus concluded that the legislature intended this “cover” exception to be the only exception to Section 980’s exclusive ownership rights. Since a public performance right was not “specifically excluded,” the court ruled that such a right is included in the exclusive ownership rights of pre-1972 sound recordings.¹⁴⁵

Sirius XM is expected to appeal the district court’s ruling in

141. *Id.*

142. *Id.*

143. *Id.*

144. *Id.*

145. *Id.*

Flo & Eddie.¹⁴⁶ In light of the fact that the court in *Capitol Records* was persuaded to change its initial “tentative ruling” on the plaintiffs’ motion for jury instruction,¹⁴⁷ a ruling on Sirius XM’s anticipated appeal in *Flo & Eddie* has the potential to significantly impact the progress of the litigation in the *Capitol Records* case. In any event, the end of the recent flourish of litigation against Sirius XM for its use of pre-1972 sound recordings does not appear imminent.

VI. Conclusion: The Ramifications of Enforcing Property Rights to Pre-1972 Recordings

As noted by the U.S. Supreme Court in *Goldstein*, because a state’s copyright protection is effective only within the borders of that state, it is less valuable from an economic standpoint than federal protection, as residents may simply cross state lines to obtain copies of works that would be unlawful in their home state. The Court, however, opined that this lesser value does not remove from states the power to offer whatever limited protection they can to sound recordings not protected by the Copyright Act:

The interests of a State which grants copyright protection may . . . be adversely affected by other States that do not; individuals who wish to purchase a copy of a work protected in their own State will be able to buy unauthorized copies in other States where no protection exists. However, this conflict is neither so inevitable nor so severe as to compel the conclusion, that state power has been relinquished to the exclusive jurisdiction of the Congress. Obviously when some States do not grant copyright protection – and most do not – that circumstance reduces the economic value of a state copyright, but it will hardly render the

146. See Ben Sisario, *Sirius XM Loses Suit on Royalties for Oldies*, N.Y. TIMES, Sept. 24, 2014, at B3.

147. Court’s Ruling on Submitted Matter, Plaintiffs’ Motion for Jury Instruction, *Capitol Records, LLC v. Sirius XM Radio, Inc.*, No. BC520981 (Cal. Super. Ct. Oct. 14, 2014).

copyright worthless.¹⁴⁸

Much has changed, though, in the many years since the *Goldstein* decision. As pointed out by counsel for the plaintiffs in the *Capitol Records* case, “music consumption habits have changed, and greater numbers of people listen to music via digital radio channels in lieu of purchasing music on CDs or digital music files”¹⁴⁹ It is this fundamental change in the way many of us consume this product that necessitates greater protection for the owners of pre-1972 sound recordings.

While the wisdom of extinguishing all state protections for pre-1972 sound recordings in 2067¹⁵⁰ is not central to this discussion, there is a greater consideration in play. With the advent of new methods of music consumption, state protections are already considerably less valuable than they were in 1973 when the Supreme Court in *Goldstein* acknowledged that state protections were of lesser economic value than that offered by the Copyright Act.¹⁵¹ Whereas a person who wished to consume unauthorized reproductions in 1973 had to travel to a state that did not offer copyright protection to sound recordings in order to do so, the same person today need only turn on his or her satellite radio. If the transmissions received by that radio are protected only in some states and not in others, we will continue to see disputes arise between SDARS who argue they are only doing what the law allows, owners of sound recordings who argue they are only protecting their creations, investments, and sources of income, and consumers of music who stand to be the ultimate losers, whether due to increased subscription fees (if for nothing else than to cover the cost of litigation) or decreased access to some of the most popular music ever recorded.

Bringing all sound recordings, regardless of the date on which they were originally fixed, under the wing of federal protection would go a long way toward alleviating those concerns. As noted by the CRB, “pre-1972 recordings are not licensed under the statutory royalty regime”¹⁵² Thus, even

148. *Goldstein v. California*, 412 U.S. 546, 558 (1973).

149. *Capitol Records v. Sirius XM Complaint*, *supra* note 8, at ¶ 13.

150. See 17 U.S.C. § 301(c) (2012).

151. *Goldstein*, 412 U.S. at 558.

152. Determination of Rates and Terms of Preexisting Subscription

if state copyright protections are in place for such recordings, the owners of the recordings and SDARS are left with unattractive options: negotiate independent licensing/royalty agreements, continue to periodically litigate their differences, or remove the recordings from satellite radio broadcasts altogether. Amending the Copyright Act to embrace all sound recordings would allow SDARS to take advantage of the ease and convenience of the statutory license, thereby eliminating the need to litigate issues of state-law-based rights and damages or spend time and other valuable resources negotiating licensing agreements with individual holders (or collectives thereof) of state-protected copyrights.

When it endeavored to define for the first time the term “publication” for copyright purposes, Congress touted as a motivating force the need for consistency and “national uniformity” in the copyright realm.¹⁵³ It is precisely this need for consistency that warrants amending the Copyright Act once more to eliminate the distinction between sound recordings fixed before February 15, 1972 and those fixed from that date forward. The Copyright Office, in fact, has cited specifically “the interests of consistency and certainty[] . . .” in recommending that “sound recordings made before February 15, 1972 be brought into the federal copyright regime.”¹⁵⁴ The Copyright Office notes that, with pre-1972 recordings protected at the state level, “the scope of protection and of exceptions and limitations to that protection is unclear.”¹⁵⁵

Examples of the uncertainty bemoaned in the Copyright Office’s report abound in the current litigation against Sirius XM Radio. The United States District Court for the District of Columbia recently stayed a case that, depending on one’s point of view, can in good faith be framed as either a “meritless accounting quibble”¹⁵⁶ or a concerted scheme to systematically defraud a nonprofit organization tasked by the federal

Services and Satellite Digital Audio Radio Services, 78 Fed. Reg. 23,054, 23,073 (Apr. 17, 2013).

153. *ABKCO Music, Inc. v. LaVere*, 217 F.3d 684, 690 (9th Cir. 2000) (quoting 143 Cong. Rec. S11301 (1997) (statement of Senator Hatch)).

154. *Federal Copyright Protection for Pre-1972 Sound Recordings*, U.S. COPYRIGHT OFFICE, <http://copyright.gov/docs/sound/> (last visited Apr. 26, 2015).

155. *Id.*

156. *See supra* note 110.

government with the collection and distribution of royalty payments. While the parties to the action are in substantial agreement as to what authority governs the controversy, each party has interpreted the language of that authority as unambiguous against its opponent. The parties are unable even to agree as to what governing body should preside over the matter.

Regrettably, resolution of this matter, whether by the CRB or the court in favor of one party or by extrajudicial settlement, is unlikely to curb future conflict. A number of issues would remain to be determined in future litigation. If Sirius XM must settle (or pay damages), is the Copyright Act's distinction between sound recordings fixed prior to February 15, 1972 and those fixed from that date forward essentially meaningless? Must the CRB expressly rule on each conflict, or could the courts become the exclusive forum for the resolution of royalty disputes? If owners of pre-1972 sound recordings are unable to vindicate their claimed rights under federal regulations, do they then follow the lead of the plaintiffs in the *Capitol Records* case in asserting their claims under state laws? The interplay between the issues in *Capitol Records* and the *SoundExchange* case will come to the forefront in the event that the plaintiffs are unable to prevail on their federal claims.

On the opposite coast, the Superior Court of California, Los Angeles County finds itself in an equally unattractive position. California's common-law and statutory protection of ownership rights in pre-1972 sound recordings is longstanding and does not conflict with the federal scheme of copyright protection.¹⁵⁷ Failure to enforce the rights claimed by the plaintiffs would upset decades of settled state law. Conversely, by continuing to enforce such ownership rights, the court may open a virtual Pandora's Box of consequences. Would Sirius XM alter its broadcasting scheme to avoid making royalty payments? If so, would the service suffer a substantial blow to its bottom line in the form of reduced subscribership? If Sirius XM continued broadcasting such recordings and paid royalties, would not the cost of those royalties be passed along to its subscribers? If so, would all subscribers have to pay, or only those who live in

157. *See supra* Part IV.

California and other states with protections for owners of pre-1972 sound recordings? How *fair* would it be for Sirius XM to impose the costs associated with California's state law and public policy on subscribers in other states?

Fortunately, confrontation of the myriad issues that would be left unsettled even after resolution of the lawsuits discussed herein need not be left to the many state and federal courts. These issues can be substantially resolved (avoided?) by amending the federal Copyright Act to include protection for sound recordings fixed prior to February 15, 1972. As noted by the Copyright Office, “[b]ringing pre-1972 sound recordings into the federal copyright system completes the work Congress began in 1976 when it brought most works protected by state common law copyright into the federal statutory scheme.”¹⁵⁸ Ironically, the Copyright Office has expressed some confusion as to why Congress did not include all such works under the federal scheme in the first instance.¹⁵⁹

In light of the potential for extensive future uncertainty if the current federal copyright scheme for sound recordings remains intact, the potential for such uncertainty to be avoided by adopting the recommendations of the Copyright Office, and Congress’ “articulated goal of a unitary system of copyright,”¹⁶⁰ a further amendment of the Copyright Act to extend federal protection to sound recordings fixed before February 15, 1972 is warranted.

158. *Federal Copyright Protection*, *supra* note 154.

159. U.S. COPYRIGHT OFFICE, FEDERAL COPYRIGHT PROTECTION FOR PRE-1972 SOUND RECORDINGS 17 (2011), *available at* <http://www.copyright.gov/docs/sound/pre-72-report.pdf> (“It is apparent from the legislative reports concerning the Sound Recording Amendment and the 1976 Copyright Act that Congress well understood it was leaving in place the state law regime for pre-1972 sound recordings, rather than bringing them under federal law. However, nowhere does Congress explain the considerations that, in its view, supported this result. This omission is particularly curious in light of Congress’s articulated goal of a unitary system of copyright and its decision to implement that goal by bringing essentially all other works protected by state law copyright regimes into the federal system.”).

160. *Id.*