

December 2016

New York's Landmark Ruling on Pre-1972 Sound Recordings Brings Digital Music Providers Holiday Cheer and Leaves Recording Artists with a Lump of Coal

On Dec. 20, 2016, the New York Court of Appeals issued its decision in *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*¹, holding, by a 4-2 vote, that New York law does not recognize a public performance right in sound recordings fixed before Feb. 15, 1972. *Flo & Eddie* dealt a setback to recording artists and record companies seeking royalty payments from digital music services that perform their sound recordings over the internet. However, the full impact of the Court's decision remains to be seen.

The Legal Framework for Pre-1972 Recordings

Copyright in original works of authorship is governed *almost* exclusively by federal law. The Copyright Act of 1976 sets forth a number of exclusive rights for owners of copyrightable works including, in most cases, the right to reproduce, distribute, make derivative works of, publicly perform, and publicly display those works.² But for sound recordings—the recorded performance of a series of musical, spoken, or other sounds—those exclusive rights are more limited. Most notably, sound recordings do not enjoy a general right of public performance under the Copyright Act.³ In 1995, with the advancement of computer technology, Congress enacted the Digital Performance Right in Sound Recordings Act (DPRA), adding to the copyright statute an exclusive right to perform sound recordings, but only “by means of a digital audio transmission.”⁴ This addition was saddled with a number of exemptions, qualifications, limited compulsory licenses, and statutorily mandated royalty rates, set by a governmental body and collected by what is essentially a royalty

¹ Appeal No. 172 (N.Y. Dec. 20, 2016) (slip op.) (*Flo & Eddie III*).

² 17 U.S.C. § 106(1)-(6).

³ *Id.* §§ 106(4), 114(a).

⁴ See Pub. L. No. 104-39 § 2, 109 Stat. 336 (1995) (DPRA); 17 U.S.C. § 106(6).

clearinghouse for distribution to relevant stakeholders.⁵

The Copyright Act only protects sound recordings created on or after Feb. 15, 1972. Sound recordings created before that date (“pre-1972 sound recordings”) are not subject to federal copyright protection.⁶ Rather, pre-1972 sound recordings are governed by an amalgam of state laws, both statutory⁷ and at common law.⁸ The scope of those state law copyrights has not been well-defined. For instance, it was clear that state laws protected against copying (i.e., reproducing) pre-1972 sound recordings.⁹ However, whether state law copyrights included a right of public performance had not come into question—at least until recently.

The Flo & Eddie Litigation

Flo & Eddie is a corporation owned by two of the original members of the band The Turtles—best known for its hit song “Happy Together”—and the owner of copyrights in the band’s sound recordings. Beginning in August 2013, Flo & Eddie sued Sirius XM Radio in putative class actions in New York, California, and Florida, alleging that Sirius infringed Flo & Eddie’s state law copyrights in its pre-1972 sound recordings by broadcasting them in digital media (via satellite or the internet) without authorization.¹⁰ Sirius, in response, asserted that its broadcasts of The Turtles’ recordings did not amount to infringement, because pre-1972 recordings did not enjoy a right of public performance under state law.

In the Southern District of New York, Judge Colleen McMahon denied Sirius’s motion for summary judgment and held, among other things, that New York recognized a public performance right in pre-1972 sound recordings.¹¹ Judge McMahon recognized that she was deciding an issue “of first impression,” that broadcasters “have adapted to an environment in which they do not pay royalties for broadcasting pre-1972 sound recordings,” and that Flo & Eddie’s lawsuit “threatens to upset those settled expectations.”¹² Yet, Judge McMahon observed that New York had “long afforded public performance rights to holders of common law copyrights in works such as plays ... and films,” and did not attach significance to the fact that no case law explicitly recognized a public performance right in sound recordings, nor in the fact that sound recording copyright owners had failed to act on whatever common law performance rights existed (leaving broadcasters to avoid paying royalties).¹³

Sirius then filed an interlocutory appeal to the Second Circuit, which held that (1) the New York Court of Appeals had not ruled on whether a public performance right in sound recordings exists; (2) the question of whether such a right exists was determinative of Flo & Eddie’s infringement claim; and (3) the recognition of such a right was a public policy choice appropriately resolved by a state court.¹⁴ Thus, the Second Circuit certified to the New York Court of Appeals the following question: “Is there a right of public performance for creators of sound recordings under New York law and, if so, what is the nature and scope of that right?”¹⁵

⁵ See generally DPRA § 3; 17 U.S.C. § 114.

⁶ 17 U.S.C. §§ 102(a)(7), 301(c).

⁷ See, e.g., Cal. Civ. Code 980(1)(2).

⁸ See *Capitol Records, Inc. v. Naxos of Am., Inc.*, 4 N.Y.3d 540, 559-61 (2005).

⁹ See *id.*

¹⁰ *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 13-cv-5784 (S.D.N.Y. Aug. 1, 2013); *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 13-cv-5693 (C.D. Cal. 2013); *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 13-cv-23182 (S.D. Fla. Sept. 3, 2013).

¹¹ *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 62 F. Supp. 3d 325, 338-44 (S.D.N.Y. 2014) (*Flo & Eddie I*). As no appellate court in New York had spoken on this precise issue, it was necessary that Judge McMahon attempt to predict how the Court of Appeal would rule on this question. *Id.* at 338-39.

¹² *Id.* at 338, 352.

¹³ *Id.* at 339-41.

¹⁴ *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 821 F.3d 265, 270-71 (2d Cir. 2016) (*Flo & Eddie II*).

¹⁵ *Id.* at 272.

The Court of Appeals' Decision

The Court of Appeals accepted the certified question, and a four-judge majority answered that question in the negative.¹⁶ The Court reviewed the pertinent decisions on copyright protection under New York state law, and concluded that rather than recognize an “inseparable bundle of rights,” New York copyright recognized “separate rights addressing copying and performing, with the former based in common law and the latter based in statute.”¹⁷ With respect to sound recordings, the Court held that “copyright prevents copying of a work, but does not prevent someone from using a copy, once it has been lawfully procured, in any other way the purchaser sees fit.”¹⁸

In addition, the Court observed that representatives of the recording industry, themselves, indicated in their lobbying efforts for a *federal* performance right their previous understanding that no public performance right existed under *any* law (federal or state), and that sound recording rightsholders took no action to assert common-law protection for at least the past four decades (i.e., since the advent of federal protection for sound recordings). The Court of Appeals then observed that it was within the ambit of the state Legislature to conduct the delicate balancing of interests that would be necessary if a new performance right, with significant economic consequences, were to be created.¹⁹

Finally, the Court of Appeals explained that creation of a public performance right would involve questions of “line drawing” as to what types of performances would be subject to it—for example, if the public performance right would encompass only performance for “commercial purposes,” if it would exempt over-the-air radio (as the federal Copyright Act does), if it would extend to performances involving indirect payment (such as to a bar that imposes a cover charge), and so on.²⁰ The Court also noted that other causes of action may be available, even in the absence of a common-law right of public performance.²¹

Two judges on the Court of Appeals dissented, expressing the view that New York’s “broad and flexible common-law copyright protections for sound recordings encompass a public performance right that extends to the outer boundaries of current federal law” (i.e., exempting traditional AM/FM radio stations).²² And in a concurring opinion, one judge agreed with the majority that there was no public performance right, but argued separately that “on demand” streaming of recordings should not be classified as performance, but rather, publication (and thus, falls within the bundle of rights under common law granted to pre-1972 sound recordings).²³

Potential Impact on Performance of Pre-1972 Sound Recordings

The New York Court of Appeals’ decision marks the first time that the highest court of any state has weighed in on whether state law recognizes a public performance right in pre-1972 sound recordings. But courts in other jurisdictions are considering similar questions. In California, Flo & Eddie won a ruling against Sirius XM that California law recognizes a performance right in pre-1972 sound recordings under that state’s copyright statute.²⁴ But Flo & Eddie’s counterpart lawsuit against digital music giant Pandora has been appealed and is pending in the Ninth Circuit.²⁵ In Florida, the opposite result occurred; the district court ruled that Florida law does *not* recognize a performance right in pre-1972 sound recordings.²⁶ Flo & Eddie appealed that decision, and the 11th Circuit—much like the Second Circuit did here—certified the question of whether a public performance right exists to the Florida Supreme Court, where it is pending.²⁷

¹⁶ *Flo & Eddie III*, slip op. at 1-2.

¹⁷ *Id.* at 12.

¹⁸ *Id.* at 23.

¹⁹ *Id.* at 24-31.

²⁰ *Id.* at 31-34.

²¹ *Id.* at 35.

²² *Id.* (Rivera, J., dissenting).

²³ *Id.* (Fahey, J., concurring).

²⁴ *Flo & Eddie Inc. v. Sirius XM Radio Inc.*, 2014 WL 4725382 (C.D. Cal. Sept. 22, 2014).

²⁵ See *Flo & Eddie, Inc. v. Pandora Media, Inc.*, No. 15-55287 (9th Cir.).

²⁶ *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 2015 WL 3852692, at *4-5 (S.D. Fla. June 22, 2015).

²⁷ *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 827 F.3d 1016 (11th Cir. 2016).

Given the timing of the Court of Appeals’ decision and the historical importance of New York jurisprudence to both the recording industry and digital music services, the *Flo & Eddie* opinion from New York may be influential in both outstanding cases in California and Florida. On the other hand, the courts in those jurisdictions may steer clear of reliance on the New York case, or they may be more convinced by the Court’s highly persuasive concurring and dissenting opinions. And, even in New York, the fight is not over; the Second Circuit, armed with the Court of Appeals’ answer to its question, must now turn to Sirius’ allegedly illicit *reproductions* of those same pre-1972 sound recordings, the question of whether those reproductions constitute non-infringing fair use, and Flo & Eddie’s claims of unfair competition.²⁸

On the legislative front, the Court of Appeals’ opinion invited stakeholders to turn their attention to the New York legislature for any changes that might be warranted to the scope of copyright in pre-1972 sound recordings. Given the decline in revenue that artists and record labels are facing, one might expect that the recording industry will be sending their representatives to Albany in full force. Not to be outdone, one might also expect that users of sound recordings—both digital music services and traditional broadcasters—will follow suit, in an effort to obtain exemptions and other statutory limits on the public performance right akin to those present in federal law. Finally, *Flo & Eddie* is bound to have caught the eye of Congress and the United States Copyright Office, which has explored bringing pre-1972 sound recordings within the ambit of the federal Copyright Act for the past several years.²⁹ After this most recent decision, those efforts may well intensify.

One thing is certain: 2017 will bring a flurry of new developments for old recordings.

This *GT Alert* was prepared by **Ian C. Ballon** and **Justin A. MacLean**. Questions about this information can be directed to:

- > [Ian C. Ballon](#) | +1 650.289.7881 | +1 310.586.6575 | ballon@gtlaw.com
- > [Justin A. MacLean](#) | +1 212.801.3137 | macleanj@gtlaw.com
- > Or your [Greenberg Traurig](#) attorney

Albany +1 518.689.1400	Delaware +1 302.661.7000	New York +1 212.801.9200	Silicon Valley +1 650.328.8500
Amsterdam + 31 20 301 7300	Denver +1 303.572.6500	Northern Virginia +1 703.749.1300	Tallahassee +1 850.222.6891
Atlanta +1 678.553.2100	Fort Lauderdale +1 954.765.0500	Orange County +1 949.732.6500	Tampa +1 813.318.5700
Austin +1 512.320.7200	Houston +1 713.374.3500	Orlando +1 407.420.1000	Tel Aviv^ +03.636.6000
Berlin~ +49 (0) 30 700 171 100	Las Vegas +1 702.792.3773	Philadelphia +1 215.988.7800	Tokyo& +81 (0)3 4510 2200
Berlin-GT Restructuring~ +49 (0) 30 700 171 100	London* +44 (0)203 349 8700	Phoenix +1 602.445.8000	Warsaw~ +48 22 690 6100
Boca Raton +1 561.955.7600	Los Angeles +1 310.586.7700	Sacramento +1 916.442.1111	Washington, D.C. +1 202.331.3100
Boston	Mexico City+	San Francisco	Westchester County

²⁸ See *Flo & Eddie III*, slip op. at 35 (citing *Flo & Eddie II*, 821 F.3d at 270 n.4, 272).

²⁹ See, e.g., United States Copyright Office, *Federal Copyright Protection for Pre-1972 Sound Recordings* (Dec. 2011), available at <https://www.copyright.gov/docs/sound/pre-72-report.pdf>.

+1 617.310.6000

+52 55 5029.0000

+1 415.655.1300

+1 914.286.2900

Chicago

+1 312.456.8400

Miami

+1 305.579.0500

Seoul[∞]

+82 (0) 2.369.1000

West Palm Beach

+1 561.650.7900

Dallas

+1 214.665.3600

New Jersey

+1 973.360.7900

Shanghai

+86 (0) 21.6391.6633

*This Greenberg Traurig Alert is issued for informational purposes only and is not intended to be construed or used as general legal advice nor as a solicitation of any type. Please contact the author(s) or your Greenberg Traurig contact if you have questions regarding the currency of this information. The hiring of a lawyer is an important decision. Before you decide, ask for written information about the lawyer's legal qualifications and experience. Greenberg Traurig is a service mark and trade name of Greenberg Traurig, LLP and Greenberg Traurig, P.A. –Greenberg Traurig's Berlin office is operated by Greenberg Traurig Germany, an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. ˘ Berlin - GT Restructuring is operated by Köhler-Ma Geiser Partnerschaft Rechtsanwälte, Insolvenzverwalter. *Operates as a separate UK registered legal entity. **Greenberg Traurig is not responsible for any legal or other services rendered by attorneys employed by the strategic alliance firms. +Greenberg Traurig's Mexico City office is operated by Greenberg Traurig, S.C., an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. ∞Operates as Greenberg Traurig LLP Foreign Legal Consultant Office. ^Greenberg Traurig's Tel Aviv office is a branch of Greenberg Traurig, P.A., Florida, USA. xGreenberg Traurig Tokyo Law Offices are operated by GT Tokyo Horitsu Jimusho, an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. ~Greenberg Traurig's Warsaw office is operated by Greenberg Traurig Grzesiak sp.k., an affiliate of Greenberg Traurig, P.A. and Greenberg Traurig, LLP. Certain partners in Greenberg Traurig Grzesiak sp.k. are also shareholders in Greenberg Traurig, P.A. Images in this advertisement do not depict Greenberg Traurig attorneys, clients, staff or facilities. No aspect of this advertisement has been approved by the Supreme Court of New Jersey. ©2016 Greenberg Traurig, LLP. All rights reserved.*