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PERSPECTIVE

Does MMA preempt Turtles' California state law claim?

By Bruce Isaacs

On Oct. 17, the 9th U.S. Circuit Court of Appeals ruled in an unpublished decision that the issue of whether or not the Turtles have a state law claim for violation of their exclusive streaming rights with regard to pre-1972 sound recordings must be remanded back to the district court for certain findings. In light of the 2018 Music Modernization Act, does this state law issue matter anymore? Perhaps not moving forward, but, as explained below, it sure does matter to the Turtles (and the putative class of copyright holders of sound recordings) and Pandora, Spotify and Sirius/ XM, who have been fighting this question of first impression for many years.

The Pre-1972 Sound Recordings Loophole and the Reliance on State Law for a Monetary Remedy

For a variety of reasons, when Congress passed the 1976 Copyright Act, Congress did not provide copyright protection for pre-Feb. 15, 1972 sounding recordings on a retroactive basis. As streaming services like

Pandora and Spotify and terrestrial radio companies like Sirius/ XM have risen to prominence, this loophole became a source of controversy between copyright holders of sound recordings and the streaming services and satellite radio. Pandora, Spotify and Sirius/ XM were able to stream / play these

(2) of the California Civil Code) remains an open question.

The 2018 MMA, the Closing of the Loophole and Preemption

In 2018, Congress amended the Copyright Act and, for all practical purposes, closed

payment of statutory royalties within 270 days of enactment of the MMA; (iii) the payments must cover reproductions and transmissions within the prior three year time period; (iv) proper identification of all pre-1972 sound recordings reproduced or transmitted; and (v) notice of use of the pre-1972 sound recordings within 270 days of enactment of the MMA. If the Section 1401 requirements are satisfied, then the state law claim is preempted, i.e., it disappears altogether and cannot be asserted even if the state law claim arose before the enactment of the MMA.

Why are the Turtles (and their putative class) continuing to fight the issue of whether California state law gives rise to a claim for appropriation of their public performance right?

pre-1972 sound recordings without paying a license fee and without any fear of losing a copyright infringement claim.

In order to address this loophole and the apparent injustice resulting therefrom, the Turtles' counsel formed a class action and asserted claims based on state law (since the federal statutory scheme provided no protection). The efforts to rely on state claims ultimately failed under New York law and under Florida law — but the issue of whether or not it would prevail under California law (see Section 980(a)

the pre-1972 loophole. Under the MMA, pre-1972 sound recordings are now protected under federal law. Moreover, the MMA clarified that any state law claim seeking payment of a license fee for digital audio transmissions like a streaming license for pre-1972 sound recordings are preempted by federal law, and thus the state law claim is barred even if the state law claim arose before the passage of the MMA, if certain requirements are met. See 17 U.S.C. Section 1401(e). These requirements include: (i) satisfaction of statutory licensing requirements; (ii)

The Pre-Existing Settlement, the Public Report that Possible Enhanced Settlement Payments Have Been Negotiated and the 9th Circuit Ruling

Given that the MMA provides protection for pre-1972 sound recordings, and given that the MMA sets a statutory scheme by which a streaming service or a satellite radio company can negate/preempt any state law claim, why are the Turtles (and their putative class) continuing to fight the issue of whether California state law gives rise to a claim

for appropriation of their public performance right?

In the fourth quarter of 2016, the Turtles (and the potential class) reached a settlement with Sirius/ XM satellite radio. As reported in the press, the settlement amount was \$25 million, an amount that can be enhanced to \$99 million if certain conditions are met. These conditions including appellate court rulings in favor of the Turtles in New York (which did not happen), in Florida (which did not happen) and in California (which may or may not happen and which remains to be seen). In addition, according to press reports, as part of the settlement, Sirius/ XM was granted a 10-year license and the amount of the license fee would be increased based upon the outcome of the various court rulings (and, if so,

it has been reported that the resulting license would be valued in the \$45 to \$60 million range).

In this respect, demonstrating that the state claim under California law was indeed valid and not preempted by the MMA is certainly worth the fight because if the Turtles can make the requisite showing and rebut some or all of the Section 1401 Requirements, then the satellite radio companies like Sirius/XM and presumably the streaming services like Pandora will have to pay more, perhaps significantly more, for the right to play and stream the pre-1972 sound recordings.

As part of the briefing before the 9th Circuit in *Flo & Eddie v. Pandora Media*, 2019 WL 5268624 (9th Cir. 2019), Pandora attached

documents in an attempt to show that the Section 1401 Requirements were indeed satisfied and, therefore, according to Pandora, the state law claim was preempted and not available to the Turtles (and their putative class). However, the 9th Circuit ruled that these documents which purported to make this showing were not yet a part of the official record on appeal and could not be considered and, in addition, because preemption is an affirmative defense Pandora had to be given the opportunity to amend its pleadings. Accordingly, the 9th Circuit ruled that the issue of the validity of the state law claim and the issue of preemption had to be remanded to the district court for determination, a determination which most likely will result in the

swing of millions of dollars in either direction depending upon the outcome of the proceedings before the court based on the enhancement provisions of the 2016 settlement agreement between the Turtles and Sirius/XM. Stay tuned for the proceedings before the central district of California. ■

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