

To be Argued by:
PHILIP ALLEN LACOVARA
(Time Requested: 30 Minutes)

U.S. Court of Appeals for the Second Circuit Docket No. 03-7859

**Court of Appeals
of the
State of New York**

CAPITOL RECORDS, INC.,

Plaintiff-Appellant,

– against –

NAXOS OF AMERICA, INC.,

Defendant-Respondent.

ON CERTIFIED QUESTIONS FROM THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

**REPLY BRIEF FOR PLAINTIFF-APPELLANT
CAPITOL RECORDS, INC.**

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TABLE OF CONTENTS

	Page
TABLE OF AUTHORITIES	iii
INTRODUCTION	1
RESTATEMENT OF FACTS	2
I. CAPITOL HAS CONTINUOUSLY OFFERED VERSIONS OF THE WORKS, INCLUDING ITS OWN RESTORATIONS, FOR SALE TO THE PUBLIC.....	2
II. THE SECOND CIRCUIT HELD THAT NAXOS HAS NOT ESTABLISHED ABANDONMENT.....	3
III. NAXOS’S ACTUAL COST TO COPY AND “RESTORE” THE RECORDINGS WAS NEGLIGIBLE.....	5
ARGUMENT	6
I. NEW YORK COMMON LAW PROVIDES “COPYRIGHT” PROTECTION FOR PUBLISHED SOUND RECORDINGS AND PROHIBITS ANY UNAUTHORIZED COPYING FOR A COMMERCIAL PURPOSE	7
A. New York, Like Other States, Applies Copyright Principles To Protect The Owners Of Property Rights In Sound Recordings	7
B. This Is Not A Case Of “Innocent Infringement.”	8
C. “Publication” Of A Recording Does Not Extinguish A Copyright Owner’s Rights Against A Third Party’s Unauthorized Copying.....	12
D. Providing Broad Copyright Protection Against Unauthorized Commercial Distribution To Post- Publication Sound Recordings Is The National And International Norm.....	17
II. NEW YORK COMMON LAW PROTECTS THE OWNERS OF PRE-1972 SOUND RECORDINGS AGAINST ANY UNAUTHORIZED, DELIBERATE COMMERCIAL COPYING, WITHOUT REQUIRING A SEPARATE SHOWING OF SUBJECTIVE BAD FAITH.....	21

TABLE OF CONTENTS
(continued)

	Page
A. No “Bad Faith” Is Necessary Beyond Deliberate, Unauthorized Copying	21
B. Copying A Competitor’s Recordings Is Unlawful Even If Sound Quality Is Different From the Original.....	28
III. CAPITOL’S PROPERTY RIGHTS UNDER NEW YORK COMMON LAW ARE INDEPENDENT OF THE DURATION OF U.K. COPYRIGHTS AND EXIST UNTIL PREEMPTED BY FEDERAL LAW IN 2067.....	30
CONCLUSION	35

TABLE OF AUTHORITIES

Page

CASES

<i>Agee v. Paramount Communications, Inc.</i> , 853 F. Supp. 778 (S.D.N.Y. 1994), aff'd in part, rev'd in part, 59 F.3d 317 (2d Cir. 1995)	1
<i>Apple Corps Ltd. v. Adirondack Group</i> , 124 Misc.2d 351, 476 N.Y.S.2d 716 (Sup. Ct. N.Y. County 1983)	26, 29
<i>Arista Records, Inc. v. MP3 Board, Inc.</i> , No. 00 CIV 4660, WL 1997918 (S.D.N.Y. Aug. 29, 2002)	18, 27, 28
<i>Bingham v. New York City Transit Auth.</i> , 99 N.Y.2d 355, 86 N.E.2d 28 (2003)	12
<i>Capitol Records, Inc. v. Greatest Records, Inc.</i> , 43 Misc.2d 878, 252 N.Y.S.2d 553 (Sup. Ct. N.Y. County 1964)	passim
<i>Capitol Records, Inc. v. Mercury Records Corp.</i> , 109 F. Supp. 330 (S.D.N.Y. 1952)	27
<i>Capitol Records, Inc. v. Mercury Records Corp.</i> , 221 F.2d 657 (2d Cir. 1955)	14
<i>Eldred v. Ashcroft</i> , 537 U.S. 186 (2003)	34
<i>Firma Melodiya v. ZYX Music GmbH</i> , 882 F. Supp. 1306 (S.D.N.Y. 1995)	14, 24
<i>Fonotipia Ltd. v. Bradley</i> , 171 F. 951 (C.C.E.D.N.Y. 1909)	29
<i>Goldstein v. California</i> , 412 U.S. 546 (1973)	8, 10, 16, 32
<i>Greater Recording Co. v. Stambler</i> , 144 U.S.P.Q. 547 (Sup. Ct. N.Y. County 1965)	10, 26

TABLE OF AUTHORITIES

(continued)

	Page
<i>Hasbro Bradley, Inc. v. Sparkle Toys, Inc.</i> , 780 F.2d 189 (2d Cir. 1985)	31
<i>Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.</i> , 199 Misc. 786, 101 N.Y.S.2d 483 (Sup. Ct. N.Y. County 1950) , aff'd, 279 A.D.2d 632, 107 N.Y.S.2d 795 (1 st Dep't 1951).....	passim
<i>People v. Winley</i> , 105 Misc. 2d 474, 432 N.Y.S.2d 429, (Sup. Ct. N.Y. County 1980)	15
<i>Radio Corp. of Am. v. Premier Albums, Inc.</i> , 19 A.D.2d 62, 240 N.Y.S.2d 995 (1st Dep't 1963).....	15, 26
<i>Rostropovich v. Koch Int'l Corp.</i> , 34 U.S.P.Q.2d 1609 (S.D.N.Y. 1995).....	15
<i>Roy Export Co. v. Columbia Broad. Sys., Inc.</i> , 672 F.2d 1095 (2d Cir. 1982)	26
<i>Smith v. Little, Brown & Co.</i> , 360 F.2d 928 (2d Cir. 1966)	18
<i>Subafilms, Ltd. v. MGM-Pathe Communications Co.</i> , 24 F.3d 1088 (9th Cir. 1994).....	33
<i>UMG Recordings, Inc. v. MP3.Com, Inc.</i> , 92 F. Supp. 2d 349 (S.D.N.Y. 2000).....	26, 29
<i>Universal City Studios, Inc. v. T-Shirt Gallery, Ltd.</i> , 634 F. Supp. 1468 (S.D.N.Y. 1986)	28

STATUTES & TREATIES

17 U.S.C. § 301(c)	17
17 U.S.C. §§ 302(a); 303(a).....	31, 34
N.Y. PENAL LAW § 15.05	11

TABLE OF AUTHORITIES
(continued)

	Page
N.Y. PENAL LAW §§ 275.05-.10, 275.25-.30.....	11, 16
N.Y. PENAL LAW art. 275.....	32
Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms, October 29, 1971, 25 U.S.T. 309.....	19

OTHER AUTHORITIES

1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 4.06[B] (2004).....	13
2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8C.02 (1996).....	18
3 PAUL GOLDSTEIN, COPYRIGHT § 15.5 (2d ed. 1996 & Supp. 2001).....	7, 13, 18
4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 17.05[A] (2002).....	31, 33
H.R. Rep. No. 94-1476, 1976 WL 14045 (Sept. 3, 1976).....	20, 34

INTRODUCTION

Despite Naxos's sometimes convoluted arguments and its skewed recitation of the record, this case turns on the following crucial points, which Naxos cannot obscure or blink away:

- The creative recording industry depends on state legal doctrines, confirmed by common law court decisions and parallel criminal statutes, that protect an owner's property rights in sound recordings against all forms of unauthorized copying or exploitation. "The ability of the owner of a [sound recording] to maintain the *exclusive right to reproduce it* for public distribution is the economic key to the sound recording industry." *Agee v. Paramount Communications, Inc.*, 853 F. Supp. 778, 787 (S.D.N.Y. 1994) (emphasis added).
- In adopting federal copyright protection for sound recordings, Congress expressly recognized that the states provide extensive and permanent protection to such recordings through both criminal statutes and the common law; Congress was, therefore, careful to preserve those existing rights by exempting from preemption all state-law rights in pre-1972 recordings until 2067.
- *No* court in New York or in any other jurisdiction, state or federal, ever has permitted *any* commercial competitor to copy a sound recording without the authorization of the rights owner, whether or not the copy was of allegedly greater quality than the original and whether or not the recording was protected in a foreign jurisdiction.
- For decades, the New York Penal Law has recognized the existence of permanent property rights in sound recordings, which may not knowingly be copied "without the consent of the owner."
- As even Naxos concedes, federal copyright protection for post-1972 recordings prohibits *all* deliberate commercial *copying or use* of sound recordings without consent of the rights owner, without regard to alleged good faith or alleged enhancements in sound quality; there is no reason to create a divergence between the scope of state and federal protection.

Naxos would have this Court depart from the well-established common-law principles protecting owners' exclusive reproduction rights and would create new dichotomies between the protection afforded sound recordings by federal and state copyright law. This Court should reject Naxos's attempt to rewrite the law and should certify that Naxos is liable for its unauthorized copying and commercial use of Capitol's sound recordings.

RESTATEMENT OF FACTS

Before turning to a discussion of Naxos's arguments about the law, Capitol responds to several of the factual assertions in Naxos's brief that the record belies.

I. CAPITOL HAS CONTINUOUSLY OFFERED VERSIONS OF THE WORKS, INCLUDING ITS OWN RESTORATIONS, FOR SALE TO THE PUBLIC.

Naxos repeatedly asserts that the recordings in question were "lost in antiquity" and "long-neglected" and that Naxos did "nothing to market or develop" its rights to these historic performances in this era. (See Naxos Br. 3, 7, 9, 21, 28, 51). However, as Richard C. Lyttleton, President, Classics and Jazz, of EMI Recorded Music, explained:

"The Subject Works are extremely important to EMI and Capitol. They are of enormous historical and artistic value and are among the main cornerstones, indeed *are the 'crown jewels,' of EMI's classical music catalog distributed in the U.S. by Capitol.*" (A144) (emphasis added).

Accordingly, EMI and its international licensees, including Capitol, *continuously* have offered the recordings for sale in the format of greatest contemporary interest to consumers, from the original 78 r.p.m. shellac records, to vinyl LPs, cassette tapes, and now digital compact discs. EMI has re-mastered each performance several times (except for the Menuhin/Bruch recording, which was replaced by a later Menuhin recording of the same work). (A145).

Moreover, implementing the contracts with the artists whose talented performances are captured in the recordings, Capitol and EMI have paid *and continue to pay* royalties to all three artists' estates based on Capitol's *continuing* sales of their recordings in the United States. (A143-47). There is thus no truth to Naxos's persistent claim that it "created the market for" these historically significant recordings.

II. THE SECOND CIRCUIT HELD THAT NAXOS HAS NOT ESTABLISHED ABANDONMENT.

Naxos also repeatedly asserts that Capitol has "abandoned" its rights in the original recordings, "disavowed any rights in recordings such as the original shellac discs," and "stood by while multiple re-issue publishers distributed restorations of the Source Recordings." (Naxos Br. 3, 15, 23, 45, 50 n.32). Naxos claims these "facts supporting Naxos's defense of abandonment" are "relevant to whether a New York court should protect the Source Recordings from the type of restorations at issue here." (Naxos Br. 14-15).

The Second Circuit has already rejected Naxos’s arguments, explaining that “failure to pursue third-party infringers has regularly been rejected as a defense to copyright infringement or as an indication of abandonment.” (A26). The appeals court reversed the district court’s abandonment ruling, not only holding that Naxos failed to “establish an intent to abandon to the degree of persuasiveness sufficient to warrant summary judgment” but also questioning whether “Naxos ha[d] produced enough evidence” even to create a “genuine issue of disputed fact concerning such intent.” (A25-26).¹ Therefore, the Second Circuit asked this Court to answer the certified questions “*without regard to the issue of abandonment.*” (A26) (emphasis added).

In any event, Capitol has promoted and exploited these recordings continuously both internationally and here in the United States. (A143-47). In doing so, Capitol carefully reserved “all rights” pertaining to those recordings. (Capitol Br. 18). For example, each of Capitol’s CD versions of the recordings bears prominent notices that Capitol holds proprietary rights to the recordings, such as “All rights reserved” (A53), “Unauthorized duplication is a violation of

¹ Naxos had cited a few examples of insignificant third party infringement of the recordings. In each of its examples, the infringer was a small-volume seller that was not based in the United States and did not have any U.S. distributors and, therefore, did not “represent[] a threat, let alone any significant threat, to EMI or Capitol.” (A756, see also A756-58, 760-62). Even so, “[w]arning letters were often used to stop small companies from carrying out infringing action.” (A757).

applicable laws” (A54), and “WARNING: Copyright subsists in all recordings issued under this label” (A275).

Naxos’s argument that, somehow, “all rights reserved” does not actually reserve all rights can only be characterized as bizarre. Similarly bizarre is its contention that the declaration “all rights reserved” does not mean rights *under New York law*. (Naxos Br. 42-43). In sum, it is simply not true that Capitol has stood by and watched while many third parties, or any significant third parties, misappropriated its rights to these historic recordings.

III. NAXOS’S ACTUAL COST TO COPY AND “RESTORE” THE RECORDINGS WAS NEGLIGIBLE.

Naxos describes in detail the process its part-time “transfer engineers” used to copy audio from the original shellac records into a digital format with allegedly greater sound quality. (Naxos Br. 17-21). But Naxos never *quantifies* the cost of its “restoration” projects, instead couching its effort in vague terms such as “laborious” and requiring “many hours” or “significant time.” (Naxos Br. 18). Naxos quibbles about whether the costs it incurred in preparing its bootlegged copies of the recordings were “negligible,” but it never reveals what its costs were and does not deny that it only paid its technicians \$750 to \$1,500 for each CD they restored. (A118). Capitol explained in the district court that, even using its world-class professional restorers and state-of-the-art equipment, the cost for each restored compact disc averages only about \$4,000. (A145). Indeed, Naxos never

denies Capitol's statement that the cost of restoration "is never more than 'negligible' as compared to the typical costs of producing classical sound recordings from artists' performance in a recording studio or concert hall." (A145). If Naxos's cost were significantly greater, it surely would have informed the Court.

ARGUMENT

Naxos admits what the Second Circuit held before certifying the questions to this Court: if the recordings in question were subject to federal copyright law, Naxos's conduct unquestionably would be illegal. (Naxos Br. 9-10). Naxos also acknowledges that New York law recognizes an intellectual property right in sound recordings that continues even after recordings have been distributed to the public.

In the face of these undeniable propositions, Naxos premises its entire brief on the theory that, once a sound recording is distributed to the public, state common law protection for that recording is radically narrower than the protection afforded by federal law and is substantially less than the common law protection afforded before publication. Naxos asserts that post-publication protection is limited to the doctrine of "unfair competition," which Naxos narrowly interprets to require an element of "bad faith" beyond mere deliberate, unauthorized duplication, *i.e.* requiring some kind of fraud or misrepresentation. These arguments, while imaginative, are ill-founded.

I. NEW YORK COMMON LAW PROVIDES “COPYRIGHT” PROTECTION FOR PUBLISHED SOUND RECORDINGS AND PROHIBITS ANY UNAUTHORIZED COPYING FOR A COMMERCIAL PURPOSE.

A. New York, Like Other States, Applies Copyright Principles To Protect The Owners Of Property Rights In Sound Recordings.

After reading the extensive New York case law, the Second Circuit correctly concluded that New York law recognizes common law copyright as a source for protecting recordings, but that this Court should be given an opportunity to conclusively determine the *elements* of such a claim. Naxos’s approach to the certified questions stands the questions on their head. Naxos’s baseless theme is that there is no such legal doctrine as “common law copyright” for recordings, only a peculiar species of “unfair competition.” Thus, Naxos suggests that the Second Circuit framed the certified questions incorrectly in copyright terms.

As discussed in greater detail below, however, New York cases, relevant treatises, and federal legislation all recognize that copyright doctrines apply to protect the owners of property rights in sound recordings. Just as under federal statutory copyright law, to obtain injunctive relief and damages, a “common law copyright owner must show that it owns the copyright in issue and that the defendant has infringed the copyright.” 3 PAUL GOLDSTEIN, COPYRIGHT § 15.5.2, at 15:45 (2d ed. 1996 & Supp. 2001). Thus, infringement consists of deliberate but unauthorized copying.

Naxos incorrectly suggests (Naxos Br. 22 n.12) that the underlying source material it copied – the musical performances on the original recordings – is not “copyrightable.” As the Second Circuit explained, however, under federal law the Source Recordings would be copyrightable. (A18-21). Indeed, the Supreme Court recognized in *Goldstein v. California*, 412 U.S. 546, 551 (1973), that state copyright laws protect the “specific expressions” embodied in sound recordings.

B. This Is Not A Case Of “Innocent Infringement.”

Naxos repeatedly characterizes Capitol’s arguments as seeking relief on an “innocent infringement” theory. Capitol, however, seeks to hold Naxos accountable for its “*knowing*” and *deliberate* misappropriation of sound recordings owned by Capitol. Although tort liability for copyright infringement or other misappropriation of intellectual property does not require establishing criminal intent, even the “criminal intent” required for liability under New York’s Penal Law involves nothing more than the “knowing” conduct in which Naxos engaged here. (See *infra*, at 11-12).

1. By complaining about “innocent infringement,” Naxos seems to imply that its copying of Capitol’s historic recordings of the Menuhin, Casals, and Fischer performances was somehow a blind accident or ignorant mistake. Of course, the conduct that generated this lawsuit was calculated, deliberate and intentional. (See generally Capitol Br. 9-17). Naxos knew all the essential facts

relevant to its liability for copyright infringement. Prior to selling its copies of the historic performances, Naxos *knew* that Gramophone/EMI had commissioned the initial recordings, which were captured on the 78 r.p.m. shellac records Naxos used to make its copies, and had marketed the recordings as its own exclusive property. Moreover, Naxos refused to cease selling its pirated copies even when Capitol specifically objected to Naxos's unlawful commercial exploitation of its property and provided Naxos with verification of its ownership interest. (A274).

Additionally, though not required for liability, Naxos also *knew* that EMI had spent years and invested substantial money in nurturing and developing the artists careers and creating a market for the recordings. The result of EMI's labors was that the recordings had become well-recognized as some of the "greatest recordings ever made of anything." (A646). Naxos's marketing *knowingly* stressed the very aspects of those sound recordings that were misappropriated from Capitol – focusing on the historic nature of the specific performances given by the artists EMI had hired to deliver the recorded performances in return for granting EMI and its licensees perpetual and world-wide exclusive rights to "all" recordings of those performances.

Naxos continued to produce and distribute its versions of the recordings, even though it *knew* that state law protected pre-1972 recordings such as the ones it *knew* its technicians deliberately had copied. Naxos's own website

acknowledged that it *knew* that “[i]n the United States * * * sound recordings were not protected by [federal] copyright until 1972, *but by a variety of state laws*, including * * * unfair competition, and the like.” (A289) (emphasis added). Naxos tries to make its website’s admission sound insignificant by arguing that the “plain language of the web site states nothing concerning the extent or nature of such protection or whether New York provides such protection.” (Naxos Br. 16). At best, this means that Naxos only intentionally violated Capitol’s rights in some states, but perhaps not in New York. This is hardly compelling evidence of Naxos’s “innocence.”

2. Although Naxos tries to distinguish its conduct from that of a “record pirate,” Naxos’s deliberate, unauthorized duplication of Capitol’s sound recordings constitutes “record piracy” in its simplest form. The Supreme Court in *Goldstein* explained that the defendants in that case had been convicted of

“what has commonly been called 'record piracy' or 'tape piracy' – *the unauthorized duplication of recordings of performances by major musical artists.*” 412 U.S. at 549 (emphasis added).

This statement accurately describes Naxos’s conduct in pirating the works of the major classical musicians in this case. See also *Greater Recording Co. v. Stambler*, 144 U.S.P.Q. 547, 547 (Sup. Ct. N.Y. County 1965) (“Involved is ‘record piracy,’ the production and distribution of records taken and made directly from recordings made and owned by plaintiffs.”)

3. Naxos acknowledges that the many state criminal statutes, including New York's, "expressly proscribe tape or record piracy," just as the California statute upheld in *Goldstein*. But Naxos argues that it lacked the "criminal intent" required in those statutes, the definition of which Naxos leaves purposefully vague. (Naxos Br. 41). Even under the standard for criminal culpability, however, Naxos's act ran afoul of the law.

New York's criminal statute makes it a crime to

"knowingly, and without the consent of the owner, transfer[] or cause[] to be transferred any sound recording, with the intent to rent or sell, or cause to be rented or sold for profit, or used to promote the sale of any product, such article to which such recording was transferred * * *." N.Y. PENAL LAW § 275.05 (emphasis added).

"Knowingly" is defined in N.Y. PENAL LAW § 15.05:

"A person acts knowingly with respect to conduct or to a circumstance described by a statute defining an offense *when he is aware* that his conduct is of such nature or *that such circumstance exists*." (emphasis added).

Naxos deliberately copied and distributed its bootlegged copies of the recordings *knowing* that (1) EMI had originally commissioned the works and marketed them as its property, (2) the technicians it had hired were copying shellac recordings that had been produced using EMI's master plates (the only technology originally available to manufacture shellac records), (3) the recordings of the type Naxos hired technicians to copy were subject, as Naxos's website admitted, to a

“variety of state laws” providing copyright protection, (4) the owners of the intellectual property in the recordings had asserted “all rights” to the recordings and the performances they embodied, and (5) all of Naxos’s acts were “without the consent of the owner.” It is this deliberate record piracy, not some “innocent infringement,” that violated Capitol’s common law property rights.

C. “Publication” Of A Recording Does Not Extinguish A Copyright Owner’s Rights Against A Third Party’s Unauthorized Copying.

1. For the first time in this litigation, Naxos contends that traditional common law “copyright” protection for sound recordings “die[s] an historical death” upon publication.² (Naxos Br. 47). Not surprisingly, Naxos cannot cite a single case in which a New York court, or any other court, has held that publication changes the protection afforded sound recordings. Rather, Naxos cites inapplicable copyright cases adjudicating rights in other forms of literary property. (Naxos Br. 48). As the Second Circuit recognized, however, “the phrase ‘common law copyright’ has a broader meaning as applied to sound recordings than it has as applied to most other forms of intellectual property.” (A12).

² Naxos never made a similar argument before the district court or the Second Circuit. This Court has held that the reasons underlying its refusal to consider legal arguments made for the first time here are “especially acute when the new issue seeks change in a long-established common-law rule.” *Bingham v. New York City Transit Auth.*, 99 N.Y.2d 355, 359, 86 N.E.2d 28, 30 (2003).

Courts in New York and elsewhere throughout the United States have expanded the traditional scope of common law copyright so that “publication” – the distribution of the recorded performance – does not terminate the owner’s exclusive common law property rights in the recorded performance. The leading copyright treatise explains:

“The usual state law doctrine that publication terminates common law copyright has not meant that state law protection of sound recordings is lost upon publication. Such protection survives publication either by reason of particular statutory provisions [citing NY Penal Law] or by application of “property right” or unfair competition theories. * * * ***[T]his would appear to be the prevailing state law on the subject.***” 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 4.06[B] at 4-42.6 (2004) (emphasis added).

See also 3 PAUL GOLDSTEIN, COPYRIGHT § 15.5.2 n.24 (2d ed. 1996) (citing New York as an example where courts have “held that the public distribution of phonorecords embodying sound recordings fixed before February 15, 1972, does not constitute publication of the sound recordings”).

Courts adjudicating New York law consistently have recognized that a claim for “common law copyright” survives public distribution of the recording and that the owner of the copyright is protected against all unauthorized duplication. For example, in *Capitol Records, Inc. v. Greatest Records, Inc.*, 43 Misc.2d 878, 880, 252 N.Y.S.2d 553, 555 (Sup. Ct. N.Y. County 1964), the court confirmed that New York law protected plaintiff’s post-distribution sound recordings

“from unauthorized reproduction of the performances embodied on a master recording, basing such protection upon the doctrines of unfair competition, *common-law copyright* or unlawful interference with contract.” (emphasis added).

Naxos would ignore this copyright holding because the only copyright case cited by the court concerned a pre-publication work. (Naxos Br. 53). However, the *Greatest Records* court explicitly held that public distribution did not alter the plaintiff’s property rights:

“The law of this jurisdiction is still ‘that, where the originator * * * of records of performances by musical artists puts those records on public sale, his act does not constitute a dedication of the right to copy and sell the records.’” 43 Misc. at 882, 252 N.Y.S.2d at 557 (quoting *Capitol Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 663 (2d Cir. 1955)).

Similarly, in *Firma Melodiya v. ZYX Music GmbH*, 882 F. Supp. 1306, 1316 (S.D.N.Y. 1995), the court issued a preliminary injunction against unauthorized copying and distribution of previously distributed sound recordings, holding that by establishing its chain of title, plaintiffs had “demonstrated a likelihood of success *on their common law claims of copyright infringement* and unfair competition” (emphasis added). Naxos simply dismisses this explicit copyright holding, asserting that the court cited only unfair competition cases. (Naxos Br. 53). Two of the cited cases, however, did not invoke “unfair competition.” Instead, in *Mercury Records Corp.*, the Second Circuit held, broadly, that the

plaintiff's ownership rights in certain recordings included the right to limit a third party's commercial use of the recordings and that those rights were not lost upon publication. 221 F.2d at 663. In *Radio Corp. of Am. v. Premier Albums, Inc.*, 19 A.D.2d 62, 63, 240 N.Y.S.2d 995, 997 (1st Dep't 1963), the court held that plaintiff owned an "exclusive right of reproduction" in recordings it had produced and promoted and was "entitled to protection" against any unauthorized distribution.

2. Furthermore, as discussed below (*infra*, at Part II.), even when New York courts have adjudicated "unfair competition" or misappropriation claims involving unauthorized duplication of recordings, they have used copyright principles to describe the protection afforded post-publication. They hold that the owners of such recordings have exclusive "property rights" that prohibit unauthorized duplication.³ Thus, it is simply not true that publication of the recordings in this case extinguished the common law copyright EMI licensed to Capitol. Rather, Capitol owns the "exclusive right of reproduction" in the United States, *Radio Corp.*, 19 A.D.2d at 63, 240 N.Y.S.2d at 997, a right that Naxos has

³ See, e.g., *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.*, 199 Misc. 786, 797, 802, 101 N.Y.S.2d 483, 494, 497 (Sup. Ct. N.Y. County 1950), *aff'd*, 219 A.D.2d 632, 107 N.Y.S.2d 995 (1st Dep't 1951) (recognizing right to musical performances as "property right"); *Rostropovich v. Koch Int'l Corp.*, 34 U.S.P.Q.2d 1609, 1614 (S.D.N.Y. 1995) (under New York law, "Rostropovich, as a performer, has a property interest in his performances"); *People v. Winley*, 105 Misc. 2d 474, 479, 432 N.Y.S.2d 429, 433 (Sup. Ct. N.Y. County 1980).

unquestionably violated.

3. Naxos cannot reconcile with the New York Penal Law its novel view of the effect of “publishing” a recording. See N.Y. PENAL LAW §§ 275.05-.10, 275.25-.30. The Penal Law makes it a crime – either a misdemeanor or a felony, depending on the number of unauthorized copies made – to copy or distribute a recording without the “owner’s” consent. Virtually any recording protected by this anti-piracy statute will have been released before the pirate can copy it. In Naxos’s view, this is “publication” that supposedly ends the owner’s absolute right to protect its property from infringement. The Legislature, however, obviously did not intend to strip from record owners the protection necessary to ward off record pirates at the very stage when the protection is most needed – after the owners begin selling the records they own the exclusive right to distribute.

In upholding the constitutionality of a similar criminal provision in California, which the United States Supreme Court specifically described as providing “copyright protection” to the owners of sound recordings, the Court recognized that publication is irrelevant:

“For purposes of federal law, ‘publication’ serves only as a term of the art which defines the legal relationships which Congress has adopted under the federal copyright statutes. As to categories of writings which Congress has not brought within the scope of the federal statute, the term has no application.” *Goldstein*, 412 U.S. at 570 n.28.

Like California, neither the New York Penal Law nor the law of any other state makes a distinction between pre- and post-publication sound recordings. Thus, as the Second Circuit in this case held, as to “recordings, ‘common law copyright’ does not have only its traditional meaning of pre-publication protection, but means protection against copying without regard to publication.” (A15).

D. Providing Broad Copyright Protection Against Unauthorized Commercial Distribution To Post-Publication Sound Recordings Is The National And International Norm.

1. Naxos’s own reliance on the copyright standards of the international community undermines its effort to have this Court declare New York common law copyrights dead upon “publication” of a recording. In enacting the Sound Recording Act in 1972, Congress provided the owners of sound recordings with exclusive rights of reproduction, distribution, and performance – all of which survive initial publication. See 17 U.S.C. § 301(c).

The federal copyright standard is relevant because, as the authoritative Nimmer copyright treatise explains:

“In general, the rights under common law copyright rights are at least co-extensive with the rights commanded under the Copyright Act. Common law copyright thus protects against unauthorized reproduction of copies or phonorecords, unauthorized distribution by publishing or vending, and unauthorized performances. Reference should therefore be made to the comparable statutory rights of reproduction, distribution and performance.” 2 MELVILLE B. NIMMER & DAVID

NIMMER, NIMMER ON COPYRIGHT § 8C.02 at 8C-4 – 8C-5 (1996).

See also 3 PAUL GOLDSTEIN, COPYRIGHT § 15.5, at 15:39 (“courts in common law copyright cases frequently consult counterpart provisions in the Copyright Act to fill in doctrinal interstices”). Courts too have recognized the “legal overlap” between common law protection for misappropriation and federal copyright infringement. *Arista Records, Inc. v. MP3 Board, Inc.*, No. 00 CIV 4660, 2002 WL 1997918, at *12 (S.D.N.Y. Aug. 29, 2002); *Smith v. Little, Brown & Co.*, 360 F.2d 928, 930 (2d Cir. 1966) (explaining that New York common law “appears to be the same as the federal law applicable to statutory copyright”). Naxos has not provided a convincing reason for this Court to depart from long-recognized federal copyright principles.

2. While Congress was considering what became the Sound Recording Act, a United States Delegation was pressing the international community to adopt a treaty to combat record piracy at the international level. In October 1971, a number of countries, including the United States, signed the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms (the “Phonograms Convention”). That Convention provides:

“Each Contracting State shall protect producers of phonograms who are nationals of other Contracting States *against the making of duplicates without the consent of the producer* and against the importation of such duplicates, provided that any such making or

importation is for the purpose of distribution to the public, *and against the distribution of such duplicates to the public.*” See Phonograms Convention, October 29, 1971, 25 U.S.T. 309.

Thus, the current 73 signatory countries, including the United States, have agreed to provide *post-publication* protection against all unauthorized commercial duplication of sound recordings. While the Phonograms Convention allows the contracting countries to provide such protection through any appropriate local legal doctrine (including unfair competition or common law copyright), the Convention specifically prescribes the *content* of the necessary legal protection. Every signatory must protect against unauthorized copying or distributing of recordings. The Convention does not permit a signatory country to force owners to prove not only unauthorized copying but also “bad faith.”

Foreclosing Naxos’s argument, the Convention on its face protects the ownership of recordings that have been published to consumers. Thus, the position that Naxos urges this Court to adopt as a matter of New York law – that an owner’s exclusive right to control the reproduction and distribution of sound recordings ceases when a recording is first distributed to the public – is contrary to the law of every state, the federal copyright law, and the prevailing law of the entire developed world.

3. Naxos’s argument also would frustrate the comprehensive copyright scheme Congress adopted by passing the Sound Recording Act and then in 1976

carefully preserving against federal preemption the various state doctrines that protect pre-1972 recordings. Congress recognized that, under various court decisions,

“pre-1972 recordings are protected by State statute or common law, and that [they] should not all be thrown into the public domain instantly upon the coming into effect of the new law.” H.R. Rep. No. 94-1476, at 5749, 1976 WL 14045, at *133 (Sept. 3, 1976).

Accordingly, Congress relied on what it understood to be a pre-existing, comprehensive regime of state protection for pre-1972 recordings when it reconciled our national obligation under the Phonograms Convention to protect the owners of *all* recordings, whenever made, against unauthorized duplication. Congress assumed that the states would continue to protect pre-1972 recordings not governed by federal law and determined not to supersede state copyright protection for such recordings for several more generations, initially 75 years, later extended to 95 years. In doing so, Congress was dovetailing state and federal law to ensure the producers of recordings would enjoy lengthy protection under a comprehensive copyright regime, consistent with our Nation’s commitment under the Phonograms Convention. Under this integrated scheme, all sound recordings are to be protected from unauthorized commercial exploitation for at least 95 years, regardless of when the recording was first made or “published.”

II. NEW YORK COMMON LAW PROTECTS THE OWNERS OF PRE-1972 SOUND RECORDINGS AGAINST ANY UNAUTHORIZED, DELIBERATE COMMERCIAL COPYING, WITHOUT REQUIRING A SEPARATE SHOWING OF SUBJECTIVE BAD FAITH.

As noted in Capitol’s opening brief, New York courts consistently have protected the owners of protected proprietary musical performances and sound recordings against unauthorized copying of any sort. The courts have invoked a variety of legal doctrines, including common law copyright, unfair competition, misappropriation and unjust enrichment. In its complaint, Capitol stated a claim against Naxos under *each* of these separate theories. Regardless of the theory used to consider Naxos’s conduct, however, the result is the same – Naxos has illegally appropriated rights to which Capitol is the exclusive owner.⁴

A. No “Bad Faith” Is Necessary Beyond Deliberate, Unauthorized Copying.

1. The cases cited in Capitol’s opening brief establish that sound recordings

⁴ Naxos argues that this Court cannot address whether Naxos competed unfairly, because the Second Circuit held that Naxos did not possess the required “bad faith” for such a claim, and that this judgment is “final.” The Second Circuit’s decision, however, does not become “final” until the Second Circuit completes its adjudication by applying this Court’s guidance on New York law.

To resolve the case correctly, the Second Circuit “welcome[d] the responses of the Court of Appeals” both to the sub-questions identified and “to *any other aspects of state law* that the Court of Appeals deems relevant to our case.” (A28) (emphasis added). Whether bad faith beyond the piracy committed by Naxos is required to sustain a claim of unfair competition is *solely a matter of New York law*, and the Second Circuit has expressly invited this Court to correct any misimpression on that issue as well as any other question of New York law.

are property rights protected against misappropriation without the consent of the owner. (See Capitol Br. 42-50). Naxos's response to these cases is to assert that, regardless of the particular court's own description of the claims, including those declaring that they were enforcing common law copyrights, each case actually applied "unfair competition" law and required a subjective showing of "bad faith" beyond mere misappropriation. To make this argument, Naxos relies on snippets from the cases regarding the defendant's "unconscionable" or "offensive" conduct.

But Naxos fails to recognize, or at least to bring to this Court's attention, that the offensive conduct in each case was simply the unauthorized use of a sound recording owned by another. Far from requiring some subjective showing of bad faith, these cases provide that the deliberate copying and commercial distribution of another's sound recording without consent is itself "offensive to the ethics of society." *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.*, 199 Misc. 786, 792, 101 N.Y.S.2d 483, 488 (Sup. Ct. N.Y. County 1950). In fact, *no* case has adopted the view espoused by Naxos, and courts have rejected it outright whenever the pirate raised the issue.

2. Naxos agrees with Capitol that the 1950 decision in *Metropolitan Opera*, 199 Misc. 786, 101 N.Y.2d 483, was central in defining New York's protection for sound recordings. That case, cited and applied in dozens of ensuing cases, provided the basic protection that allowed the recording industry to flourish in this

State without being sabotaged by pirates. That case recognized “*property rights*” in sound recordings as rights “which the courts have recognized and protected and should recognize and protect.” 199 Misc. at 797, 101 N.Y.S.2d at 494.

Naxos claims, however, that *Metropolitan Opera* represents “New York’s unfair competition approach to claims of misappropriation of performances/sound recordings.” (Naxos Br. 31). Naxos stresses language from that case noting that unfair competition doctrine was created “to deal with business malpractices offensive to the ethics of that society,” and finds it important that the “court specifically found the defendants’ conduct ‘unconscionable’ and an ‘invasion of the moral standards of the market place.’” (Naxos Br. 31).

Naxos fails to explain what the court in *Metropolitan Opera* found offensive – the mere misappropriation of the plaintiff’s property right. In fact, the court explicitly *rejected* the very claims made by Naxos here – that something more than unauthorized use, *e.g.* fraud or misrepresentation, is required to condemn the unauthorized copying as unfair competition. The court held that, even by 1950, New York law had progressed beyond “those simple and halcyon days when the chief business malpractice was ‘palming off’” and that this extension

“resulted in the granting of relief in cases where there was no fraud on the public, but *only a misappropriation* for the commercial advantage of one person of a benefit or ‘property right’ belonging to another.” 199 Misc. at 793, 101 N.Y.S.2d at 489.

The court could not have been more clear in stating that the owner of the “property right” in the recording is entitled to relief even where there is “only a misappropriation” of the owner’s property right. See also, *e.g.*, *Firma Melodiya*, 882 F. Supp. at 1316 n.13 (finding that defendant had “acted in good faith under the mistaken belief that it had purchased the right to distribute [plaintiff’s] Recordings,” but holding nevertheless that “defendants may still be enjoined from distributing their unauthorized copies”).

Naxos’s attempt to distinguish other cases is similarly flawed. For example, Naxos describes *Capitol Records, Inc. v. Greatest Records, Inc.* 43 Misc. 2d 878, 252 N.Y.S.2d 553 (Sup. Ct. N.Y. County 1964) as a “straight record or tape piracy case[.]” (Naxos Br. 34) Once again quoting snippets from the decision, Naxos claims that the defendants who had copied and distributed Beatles records were held liable because they made “identical reproductions” of “inferior quality” and passed them off “as if it was a bona fide product of the plaintiff.” Naxos argues that there was “thus an element of fraud and deception present.” (Naxos Br. 35). However, the *Greatest Records* court framed the issue in the case without reference to any of those facts. The court stated the real question much more starkly: “whether defendants may *appropriate the performances* contained on plaintiff’s phonograph records.” 43 Misc. 2d at 880, 252 N.Y.S.2d at 555

(emphasis in original). The court also answered its question without relying on any of the facts stated in Naxos's brief, reaffirming that New York law

“protect[s] the plaintiff from unauthorized reproduction of the performances embodied on a master recording, basing such protection upon the doctrines of unfair competition, common-law copyright or unlawful interference with contract.” *Ibid.*

Naxos's reliance on the fraud in *Greatest Records* illustrates the lengths to which it will go to turn straight-forward misappropriation cases into cases involving a supposed balancing of the equities. It is ridiculous to suggest that the defendant in *Greatest Records* would not have been held liable for its piracy, if it simply had put a notice on the album stating that, while its records were copied from original Beatles recordings, the defendant was not affiliated with the Beatles' recording company. Take away this element of misrepresentation and the outcome of the case would surely remain the same: it was the unauthorized copying of the Beatles records that made the copying unlawful piracy. See *Greatest Records*, 43 Misc.2d at 882, 252 N.Y.S.2d at 557.

Moreover, even if the defendant in that case had the technology to improve the sound of the Beatles' recordings, it is impossible to imagine the case turning out differently. Naxos suggests that unsophisticated artists without means to record their performances at high quality are unable to protect their recordings

from misappropriation by a company with means to improve the sound. Neither *Greatest Records* nor any other case here or elsewhere stands for such proposition.

The other cases relied on by Naxos are all similar. Regardless of the particular facts the court mentioned in describing the underlying dispute, the courts invariably premised liability simply on the defendant's unauthorized copying of plaintiff's recording. See, e.g., *Roy Export Co. v. Columbia Broad. Sys., Inc.*, 672 F.2d 1095 (2d Cir. 1982); *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F. Supp. 2d 349 (S.D.N.Y. 2000); *Radio Corp.*, 19 A.D.2d 62, 240 N.Y.S.2d 995; *Apple Corps Ltd. v. Adirondack Group*, 124 Misc.2d 351, 476 N.Y.S.2d 716 (Sup. Ct. N.Y. County 1983). Even the court in *Stambler*, which Naxos repeatedly quotes in arguing that common law copyrights are "non-existent" after publication, held that plaintiffs could "seek protection against unlawful misappropriation of property." 144 U.S.P.Q. at 547.

There is *no* case that involves a "balancing of equities," weighing the interest of the owner of the rights in the original recording against the commercial interests, investments, or motives (including alleged good faith) of the unauthorized copyist. Instead, the cases uniformly protect the property interest that arose when the owner commissioned the recordings, produced them, and marketed them to the public. See, e.g., *Metropolitan Opera*, 199 Misc. at 802, 101 N.Y.S.2d at 497 ("To refuse to the groups who expend time, effort, money and great skill in

producing these artistic performances the protection of giving them a ‘property right’ in the resulting artistic creation would be contrary to existing law, inequitable, and repugnant to the public interest.”); *Capitol Records, Inc. v. Mercury Records Corp.*, 109 F. Supp. 330, 345 (S.D.N.Y. 1952) (holding that plaintiff owned a “valuable property right” in the subject sound recordings, “which will be protected from unfair competition *by one who misappropriated that property*”) (emphasis added).

3. Naxos effectively concedes that its conduct violates New York law when it analyzes the recent decision in *Arista Records, Inc. v. MP3Board, Inc.*, No. 00 CIV 4660, 2002 WL 1997918 (S.D.N.Y. Aug. 29, 2002). Naxos acknowledges that in *Arista* “the defendant’s facilitation of *direct copying* and creation of identical reproductions of presently valuable recordings *by itself constituted bad faith.*” (Naxos Br. 33) (emphasis added). This is precisely what happened here. Naxos does not deny that its copies embody exactly the same performances of the same compositions by the same artists that are contained in the source recordings. Naxos’s copies were made by means of mechanical transfer to digital format and are in all material respects identical to the recordings EMI owns and licensed to Capitol. Moreover, the historical recordings are undoubtedly “presently valuable”: EMI and Capitol are selling re-mastered CD editions of these recordings. Thus, Naxos’s conduct “by itself constituted bad faith” as a matter of law, without need

for further subjective inquiry. See *Universal City Studios, Inc. v. T-Shirt Gallery, Ltd.*, 634 F. Supp. 1468, 1475-76 (S.D.N.Y. 1986) (“commercial immorality is not an extra element of the cause of action for misappropriation under New York law, but merely a label attached to the alleged infringing conduct”).

B. Copying A Competitor’s Recordings Is Unlawful Even If Sound Quality Is Different From the Original.

Naxos makes little effort to show that it created a “new product” or to argue that such a “new product” would exempt it from the various legal doctrines that protect Capitol’s ownership interest. Instead it meekly claims that allegedly enhanced sound quality is “relevant” to the question whether it competed unfairly. (Naxos Br. 45). Of course, the Second Circuit noted that, under federal copyright principles (which this Court should track, as other courts have), this alleged difference would not excuse copyright infringement. (A18-21).

The same result follows under any other legal theory the Court examines, including “unfair competition.” For example, Naxos’s only possible distinction from *Arista Records, supra*, in which the court found that unauthorized, direct copying “by itself constituted bad faith,” is that its copies are not “identical reproductions,” because they are of allegedly greater sound quality. Even though Naxos re-masters the recordings, however, they still start with “direct copies” and create “identical reproductions.”

The law does not allow sophisticated copiers to infringe on the rights of allegedly less sophisticated artists. *Cf. UMG Recordings, Inc.*, 92 F. Supp. 2d at 350 n.1 (rejecting argument that “MP3” computer-stored recordings, which were not exactly identical to the original compact discs from which they were derived, were not unlawful “reproduction” of plaintiff’s compact discs prohibited under federal copyright law). Not one case relied on by Naxos made the “inferior quality” of the defendant’s recordings essential to its finding liability.

Further, Naxos cannot deny that it has directly copied the most important (indeed, the sole) commercial and artistic aspect of the recordings – the musical performances by the legendary artists. This misappropriation violates Capitol’s property rights, regardless of any change made to the quality of the sound. See, *e.g., Fonotipia Ltd. v. Bradley*, 171 F. 951, 964 (C.C.E.D.N.Y. 1909) (“[W]here the commercial value of the [copier’s product] lies in the fact that it takes advantage of and appropriates to itself the commercial qualities, reputation, and salable properties of the original, equity should grant relief.”); *Metropolitan Opera*, 199 Misc. at 796, 101 N.Y.S.2d at 492 (New York law prevents a defendant from “profit[ing] from the labor, skill, expenditures, name and reputation of others”); *Apple Corps*, 124 Misc. 2d at 354, 476 N.Y.S.2d at 719 (“where the apparent purpose is to reap where one has not sown, or to gather where one has not planted,

or to build upon, or profit from, the name, reputation, good will or work of another such actions will be enjoined as unfair competition.”).

Naxos’s conduct also would offend the law of other states. Naxos states: “Capitol relies on cases applying other states’ laws, which similarly require an element of bad faith conduct *either inherently, as in the record piracy scenario*, or in some other manner.” (Naxos Br. 36) (emphasis added). We already have explained why Naxos’s misconduct in this case amounts to blatant record piracy. Thus, the record piracy and “misappropriation” cases cited in Naxos’s brief (at 36-38) confirm Capitol’s position that every state recognizes that deliberate, unauthorized misappropriation of a sound recording is itself *inherently* wrongful.

In sum, regardless of whether the courts have applied the doctrines of common law copyright, unfair competition, unjust enrichment, or misappropriation, they always have found liability when a defendant knowingly copied someone else’s sound recording without consent.

III. CAPITOL’S PROPERTY RIGHTS UNDER NEW YORK COMMON LAW ARE INDEPENDENT OF THE DURATION OF U.K. COPYRIGHTS AND EXIST UNTIL PREEMPTED BY FEDERAL LAW IN 2067.

1. Naxos asserts that “a New York court can and should consider the public domain attributes of the work in determining the scope of protection” (Naxos Br. 26). While Naxos is not clear what role those “public domain attributes” should play in the Court’s analysis, it appears that Naxos is arguing for a rule that would

deny common law protection to any work in which the copyright of the country in which the work was created has expired, *i.e.* a “rule of the shorter term.” Once again, Naxos cannot point to any case that limits common law copyright protection on account of the expiration of a foreign copyright.

In addition to its failure to introduce *any* case supporting the new rule it would have this Court adopt, Naxos does not deny or even defend against the following dispositive propositions made in Capitol’s opening brief:

- The scope of literary property rights is determined by “the copyright law of the state in which the infringement occurred, not that of the state of which the author is a national, *or in which the work was first published.*” 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 17.05[A], at 17-39 (2002) (emphasis added).
- Under federal law, the expiration of a foreign copyright is irrelevant to the duration of an owner’s copyright in sound recordings. Indeed, the Phonograms Convention, which determines the rights that must be provided to sound recordings in all 73 signatory countries, does not include a “rule of the shorter term” provision.
- Under federal principles, the recordings that Naxos arranged to copy would be entitled to protection for the “life of the author and 70 years after the author’s death.” 17 U.S.C. §§ 302(a); 303(a). Thus, federal copyright protection for the recordings would extend until at least 2030, and one of the recordings would be protected until 2069. (See Capitol Br. 34 n.5).
- The only case discovered by either party that considered whether existence of a foreign copyright was relevant to the duration of the forum’s copyright protection held that federal copyright law protects works that *never* qualified for protection in the foreign jurisdiction in which the work was created. *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, 780 F.2d 189 (2d Cir. 1985).
- New York Penal Law does not make the existence or expiration of a foreign statutory copyright relevant in determining whether a defendant’s

unauthorized copying of another's sound recording is a crime. Indeed, the Penal Law is based on the premise, developed by the common law courts, that creation of a recorded musical performance gives rise to property rights that the creator "owns." See generally N.Y. PENAL LAW art. 275. Those rights are not temporally limited under the Penal Law, and no case has suggested they expire.

- Congress recognized that state laws will continue to protect pre-1972 sound recordings until pre-empted in 2067. As the House Report discussing the preemption provision of the Copyright Act recognized, pre-1972 sound recordings will continue to be entitled to "perpetual protection under State law" until federal law becomes exclusive in 2067.
- The Supreme Court has explicitly recognized that state law protection against unlawful misappropriation of sound recordings "last[s] for an unlimited time." *Goldstein*, 412 U.S. at 550.
- Experts in the field have likewise understood that state law provides indefinite protection to pre-1972 sound recordings. As the curator of Yale University's Historical Sound Recordings Collection, wrote, although pre-1972 sound recordings are not protected by federal law, they are "covered by the copyright laws of the individual states," which "seem to provide unlimited (and retroactive) protection to all recordings," and "there seems to be no recordings in the U.S. in public domain" and no pre-1972 recordings "will likely come into the public domain in my lifetime." (A316).

2. In the face of these undeniable propositions, Naxos renews an argument that the Uruguay Round Agreements Act "reflects a Congressional policy of denying protection to works in the United States where such protection is denied, or has expired in the country where the works originated." (Naxos Br. 25). The Second Circuit has already rejected this argument, concluding that it misinterprets federal policy. It called Naxos's argument "an example of the logical fallacy of assuming that the inverse of a proposition is true." (A17-18):

“The restoration provision of [the URAA] *extends* federal protection to otherwise unprotected works within its coverage; it does not deny protection to works protected by common law copyright.” *Ibid.* (emphasis added).

There is no conceivable reason why this Court should depart so profoundly from federal policy and impose a “rule” of the “shorter term.”

3. In fact, adoption of Naxos’s rule of the shorter term would violate the principle of “national treatment” that has formed the bedrock of international copyright law. According to this principle, an author whose works are first published in one country is “entitled to the same copyright protection in each other member state as such other state accords to its own nationals.” 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 17.05[A], at 17-39 (2002). The “national treatment” principle requires that the “work of an American national first generated in America will receive the same protection in a foreign nation as that country accords to the works of its own nationals.” *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1097 (9th Cir. 1994). The converse is equally true. Adopting Naxos’s approach would create the contrary anomaly that artists whose pre-1972 works were recorded and first published in the United States, where there was no statutory copyright protection, would enjoy perpetual protection under state law, but artists whose works were originally protected by a foreign statutory copyright would be cut off from state protection.

Naxos also relies on what it asserts is “the international trend of limiting copyrighted works to a fifty year term” (Naxos Br. 26-27 n.16). But Naxos gives no persuasive reason why this Court should defer – or lawfully may defer –to some supposed “international trend” and instead should reject Congress’s explicit policies (1) to set far longer periods of copyright protection *in the United States* for post-1972 sound recordings (now, life of the author *plus* 70 years) and (2) to maintain state-law protection of pre-1972 sound recordings *until 2067*.

When Congress helped persuade the international community to adopt the Phonograms Convention, which provided mandatory minimum copyright terms for sound recordings, Congress also provided that copyrights in this country would be protected for the life of the author plus 50 years. In choosing to exempt state law protection for sound recordings until initially 2047, Congress relied on the fact that sound recordings would remain “entitled to *perpetual protection under State law*.” H.R. Rep. No. 94-1476, at 5749, 1976 WL 14045, at *133 (1976) (emphasis added). Congress thus met its obligation under the Phonograms Convention to provide the minimum copyright term by extending federal copyright protection to post-1972 recordings and relying on the states to protect pre-1972 recordings.

Congress subsequently extended the term of copyright protection to “life of the author and 70 years after the author’s death.” 17 U.S.C. §§ 302(a); 303(a). See *Eldred v. Ashcroft*, 537 U.S. 186 (2003) (upholding constitutionality of Copyright

Term Extension Act). At the same time Congress also extended until 2067 the period during which the states are to protect pre-1972 sound recordings. Thus, Congress has consistently adopted the policy of *lengthening* federal copyright terms and of lengthening the time during which it assumes states will be providing common law copyright protection. This Court should respect this clear national policy and hold that expiration of U.K. statutory copyrights did not nullify or undermine Capitol's property rights in this State .

CONCLUSION

All of the questions certified by the Second Circuit should be answered in the negative.

Respectfully submitted.

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