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Co-Lead Class Counsel

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION

FLO & EDDIE, INC., a California corporation, individually and on behalf of all others similarly situated,

Plaintiff,

v.

Sirius XM RADIO, INC., a Delaware corporation; and DOES 1 through 10,

Defendants.

Case No. 2:13-cv-05693-PSG-GJS

PLAINTIFFS' RESPONSE TO DEFENDANT SIRIUS XM RADIO'S STATEMENT IN RESPONSE TO MOTION FOR PRELIMINARY APPROVAL OF CLASS ACTION SETTLEMENT

Date: January 30, 2017
Time: 1:30 p.m.
Place: Courtroom 6A

1 Flo & Eddie, Inc. and the Class (Plaintiffs) submit this response to Sirius
2 XM's January 26, 2017 untimely "Statement" regarding Plaintiffs' *unopposed*
3 Motion for Preliminary Approval, a Statement filed just 2 days before the January
4 30, 2017 hearing which was noticed long ago. Plaintiffs believe that any issues
5 regarding the interpretation and implementation of the Stipulation of Class Action
6 Settlement Agreement ("Settlement Agreement")—which expressly and by
7 stipulation submits to the jurisdiction of this Court to interpret and resolve any
8 disputes resulting from implementation of that Settlement Agreement—should be
9 addressed by a regularly noticed motion, filed in compliance with the Local Rules.
10 *See* Settlement Agreement ¶ X.E ("The Court shall retain jurisdiction over Sirius
11 XM, Plaintiff, and the Settlement Class as to all matters relating to the
12 administration, consummation, implementation, enforcement, and interpretation of
13 the terms of this Stipulation . . . and the Parties hereto submit to the jurisdiction of
14 the Court for purposes of implementing and enforcing the Settlement. Any dispute
15 arising out of or relating in any way to this Stipulation shall not be litigated or
16 otherwise pursued in any forum or venue other than the Court."). Plaintiffs
17 requested that Sirius XM meet and confer regarding any such motion following the
18 hearing on Plaintiffs' Motion for Preliminary Approval, which is set for January 30,
19 2017. (Sirius XM omitted the last email in their chain of correspondence regarding
20 this issue, and a complete copy of that chain is attached hereto as Exhibit 1.)
21 However, in the event the Court is inclined to consider the issues belatedly raised by
22 Sirius XM's Statement at the upcoming hearing, Plaintiffs submit the following
information to complete the record:
23 1. Plaintiffs believe that, under the plain language of the Settlement
24 Agreement, the Class is entitled to an additional payment of $5 million and no
25 decrease from the maximum 5.5% royalty rate as a result of the decision by the New
26 York Court of Appeals on the question certified by the Second Circuit, i.e., "a
27 significant and unresolved question of New York *copyright law*: Is there a right of
28

public performance for creators of sound recordings under New York law and, if so, what is the scope of that right." *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 821 F.3d 265 (2d Cir. 2016) (emphasis added). The New York Court of Appeals answer to the certified question regarding New York copyright law was "no," but that court *did not* resolve the broader issue of whether Sirius XM's public performances of pre-1972 recordings can give rise to liability under New York law.

2. Plaintiffs' position is based on the plain language of both the Settlement Agreement and the New York Court of Appeals ruling. Under the Settlement Agreement, "Sirius XM Prevailed"—and the Class was not entitled to a further settlement payment based on the New York proceedings—*only if* the New York Court of Appeals determined that Sirius XM is entitled to publicly perform Pre-1972 Sound Recordings owned by Plaintiff without having to obtain permission from and pay compensation to Plaintiff. Settlement Agreement, ¶ I.45. "*[A]ny other outcome or resolution* . . . shall be considered one in which Plaintiff Prevails," and an additional payment is owed. *Id.* (emphasis added). These were the terms heavily negotiated by sophisticated counsel, and agreed to in writing by such counsel and the parties. Although the New York Court of Appeals answered the certified question by declining to recognize a *copyright interest* in the public performances themselves under New York law, it simultaneously recognized that Flo & Eddie has other "potential avenues of recovery" under the claims at issue in the New York case, *i.e.,* its claim that Sirius XM engaged in unfair competition and unlawful copying of Plaintiff's recordings when Sirius XM publicly performed those recordings to its subscribers. 2016 N.Y. LEXIS 3811, at *35 (Dec. 20, 2016). Because there is an open question under New York law as to whether Sirius XM was "entitled" to publicly perform their recordings, Plaintiffs by definition "prevailed" and are entitled to additional relief under the terms of the Settlement Agreement. Plaintiffs informed Sirius XM of their position shortly after the New York Court of Appeals' decision was issued, and subsequently proposed that the

parties defer any motion practice concerning the interpretation and enforcement of the Settlement Agreement until the Second Circuit rules on the appeal.

3. Following the issuance of the New York Court of Appeals' ruling on the certified question, the Second Circuit requested supplemental briefing. Sirius XM's Statement to this Court is accompanied only by a copy of the letter brief it submitted on January 17, 2017, in which it asked the Second Circuit to interpret the Settlement Agreement to conclude that the New York Court of Appeals decision rendered further New York proceedings "moot." Sirius XM does not explain why it asked the Second Circuit (rather than this Court, as required by the Settlement Agreement) to interpret the Settlement Agreement, and nor does it explain why it elected not to attach all of the letter briefs. To fix the latter error, attached hereto as Exhibits 2 and 3 are copies of the letter brief Plaintiffs submitted to the Second Circuit on January 17, 2017, as well as Plaintiffs' January 26, 2017 motion for leave to submit a supplemental letter brief. In their proposed supplemental brief, Plaintiffs argue that the New York proceedings are not "moot," and any issue regarding the interpretation of the Settlement Agreement is, under the terms of that agreement, to be resolved by this Court.

4. Sirius XM apparently elected to submit its Statement to this Court because Plaintiffs would not agree that Sirius XM reserved a right to *rescind* the Settlement Agreement. While Sirius XM may seek interpretation of the Settlement Agreement by this Court, it has no basis for seeking to undo the Settlement Agreement. Regardless of the outcome of the Second Circuit proceedings and how this Court may rule on any motion to interpret and enforce the terms of the Settlement Agreement, the Settlement Agreement is a fully integrated contract. *See* Settlement Agreement, ¶ X.D ("Entire Agreement"). That contract was negotiated by highly sophisticated counsel, and Plaintiffs do not believe that Sirius XM has any basis whatsoever for seeking rescission of that Settlement Agreement. Nor can Plaintiffs stipulate that Sirius XM reserves the right to do so.

The fact that Sirius XM is struggling so mightily—and with no good-faith basis that could possibly be asserted to reserve any right to *rescind* the Settlement Agreement—speaks volumes as to how fair, adequate, and reasonable the Settlement is for the Class. Class Counsel will remain vigilant in enforcing the Settlement Agreement, just as we were vigilant in litigating this action, and we are sorry that Sirius XM cannot even purport to honor a contract signed just a few weeks ago and abide by its agreement to have any dispute concerning its interpretation resolved by this Court rather than attempting to litigate issues concerning the interpretation of the agreement in another forum.

Respectfully submitted,

DATED: January 27, 2017

GRADSTEIN & MARZANO, P.C.
Henry Gradstein
Maryann R. Marzano
Daniel B. Lifschitz

SUSMAN GODFREY L.L.P.
Stephen E. Morrissey
Steven G. Sklaver
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By: */s/Steven G. Sklaver*
Steven G. Sklaver
Co-Lead Class Counsel

EXHIBIT 1

From: Steven G. Sklaver
Sent: Thursday, January 26, 2017 1:58 PM
To: Seto, Cassandra
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision; Rachel S. Black; Michael Gervais; Daniel Lifschitz (dlifschitz@gradstein.com); Joel Tan
Subject: Re: Sirius XM Settlement - meet and confer request

The parties' agreement is reflected in the settlement agreement Counsel and the parties signed. Sounds like we should have a local rule meet and confer after the hearing on Monday to discuss enforcing the agreement.

We still don't know what "so advise" the court means as you write below particularly absent a rule 7-3 meeting but whatever it is you plan to do, please include this email in the filing.

On Jan 26, 2017, at 2:47 PM, Seto, Cassandra <cseto@omm.com> wrote:

You're misstating our discussions and the parties' agreement, and we will so advise the Court.

From: Steven G. Sklaver [mailto:ssklaver@SusmanGodfrey.com]
Sent: Wednesday, January 25, 2017 6:18 PM
To: Seto, Cassandra
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision; Rachel S. Black; Michael Gervais; Daniel Lifschitz (dlifschitz@gradstein.com); Joel Tan
Subject: RE: Sirius XM Settlement - meet and confer request

Cassie,

The parties apparently have a dispute about how the settlement agreement applies to the current circumstances. The parties agreed that the Court will interpret the settlement agreement (*see, e.g.*, Section X.E of the settlement) and we'll abide by the result either way—although we are comfortable that our position is supported by the plain meaning of the contract. We stand by the agreement and do not, to use your language, "repudiate" it.

There isn't any basis for anyone to rescind the agreement, or any reason to litigate the issue via a debate buried within a proposed, new stipulation related to class notice, which is what your draft proposed. We certainly never agreed that you had or reserved any right to rescind the settlement agreement, although we can't stop you from seeking that remedy if you believe there is some basis for doing so, which we'd obviously oppose if you did.

If by "advise the court of [y]our position" you mean you intend to bring a motion, we should meet and confer per the local rules, as we think the issue can only be presented by a motion requesting that the Court construe and enforce the settlement agreement should either of us want to have the Court rule on it before the Second Circuit rules. We can meet to discuss that motion after the hearing on Monday, if you do intend to file a motion. Let me know if that works. But if you plan to do something else, please attach and quote this email within whatever it is that you are filing.

The fact that SXM is now apparently choosing to fight so hard, with so much vitriol, to try to get out of the settlement speaks volumes as to how good the settlement is for the Class.

Steven G. Sklaver
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Direct: 310-789-3123
Web Bio

From: Seto, Cassandra [mailto:cseto@omm.com]
Sent: Wednesday, January 25, 2017 5:51 PM
To: Steven G. Sklaver
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision; Rachel S. Black; Michael Gervais; Daniel Lifschitz (dlifschitz@gradstein.com); Joel Tan
Subject: RE: Sirius XM Settlement - meet and confer request

These comments and proposed revisions are contrary to our meet and confer discussions on January 9 and 11.

We made clear, in our emails and discussions, that this is not a mere issue of contractual interpretation. Rather, your position constitutes an improper attempt to re-trade, rewrite, and repudiate the parties' settlement agreement, in violation of its plain terms and the parties' extensive negotiations. We also made clear that if you continue to pursue that position, we would exercise our rights to rescind and challenge the agreement, oppose approval of the settlement, and oppose your motion for attorneys' fees -- and that we need to raise these issues now, before preliminary approval, distribution of class notice, and final approval.

During our discussions on January 9 and 11, you said it was premature to raise these issues with the Court, since you would drop the arguments in your December 30 email if the Second Circuit disagrees with your reading of the New York Court of Appeals' ruling and/or concludes that Flo & Eddie's performance claims are no longer viable. You also agreed to a stipulation confirming that Sirius XM reserves all rights to rescind and challenge the settlement, and does not waive any such rights by waiting to assert these arguments until the Second Circuit has issued a decision.

It appears that you have now reneged on that agreement, in which case we will separately advise the Court of our position. As for the revised class notice, we will circulate a new stipulation.

From: Steven G. Sklaver [mailto:ssklaver@SusmanGodfrey.com]
Sent: Tuesday, January 24, 2017 10:34 PM
To: Seto, Cassandra
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision; Rachel S. Black; Michael Gervais; Daniel Lifschitz (dlifschitz@gradstein.com); Joel Tan
Subject: RE: Sirius XM Settlement - meet and confer request

Edits to and comments re: the proposed stip here; probably worth a phone call to discuss; we're ok with your proposed edits to the class notice.

Steven G. Sklaver
SUSMAN GODFREY L.L.P.
1901 Avenue of the Stars, Suite 950
Los Angeles, CA 90067

Email: ssklaver@susmangodfrey.com
Direct: 310-789-3123
Web Bio

From: Seto, Cassandra [mailto:cseto@omm.com]
Sent: Tuesday, January 24, 2017 4:57 PM
To: Steven G. Sklaver
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision
Subject: RE: Sirius XM Settlement - meet and confer request

We don't believe further briefing is necessary and thus object to your request, though of course we will submit a reply brief if the Court so requests.

From: Steven G. Sklaver [mailto:ssklaver@SusmanGodfrey.com]
Sent: Monday, January 23, 2017 5:53 PM
To: Seto, Cassandra
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision
Subject: RE: Sirius XM Settlement - meet and confer request

You count weekends! Ok, yes, we will respond by tomorrow.

On the 2d Circuit letter briefs submitted, we propose by stipulation seeking leave for both sides to file 5 page replies on a mutually agreed deadline (2 weeks from whenever, but open to alternatives, quicker or longer). Let us know your thoughts on that.

Thanks,
Steven G. Sklaver
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Los Angeles, CA 90067
Email: ssklaver@susmangodfrey.com
Direct: 310-789-3123
Web Bio

From: Seto, Cassandra [mailto:cseto@omm.com]
Sent: Monday, January 23, 2017 5:48 PM
To: Steven G. Sklaver
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision
Subject: RE: Sirius XM Settlement - meet and confer request

It's been five days since we circulated the proposed stipulation and amended class notice. Please let us know your position by tomorrow.

From: Steven G. Sklaver [mailto:ssklaver@SusmanGodfrey.com]
Sent: Thursday, January 19, 2017 4:17 PM
To: Seto, Cassandra
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision
Subject: RE: Sirius XM Settlement - meet and confer request

Thanks we will review and report back.

Steven G. Sklaver
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Direct: 310-789-3123
Web Bio

From: Seto, Cassandra [mailto:cseto@omm.com]
Sent: Wednesday, January 18, 2017 2:52 PM
To: Steven G. Sklaver
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision
Subject: RE: Sirius XM Settlement - meet and confer request

Steve,

Further to our discussions last week, attached is a proposed stipulation and amended class notice.

We reserve all rights.

-----Original Message-----
From: Seto, Cassandra
Sent: Monday, January 09, 2017 9:37 AM
To: 'Steven G. Sklaver'
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision
Subject: RE: Sirius XM Settlement - meet and confer request

I will call your office at 4.45 p.m. We can discuss the topics contemplated by Local Rule 7-3.

-----Original Message-----
From: Steven G. Sklaver [mailto:ssklaver@SusmanGodfrey.com]
Sent: Saturday, January 07, 2017 5:46 PM
To: Seto, Cassandra
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision
Subject: Re: Sirius XM Settlement - meet and confer request

4 pm is no longer available but 4:45 pm or after is. Let me know what works. We will discuss your new Sheridan filings and proposals in those cases too.

On Jan 7, 2017, at 5:34 PM, Seto, Cassandra <cseto@omm.com<mailto:cseto@omm.com>> wrote:

I will call your office on Monday at 4.00 p.m. We can discuss the issues in your email then.

From: Steven G. Sklaver [mailto:ssklaver@SusmanGodfrey.com]
Sent: Wednesday, January 04, 2017 2:32 PM
To: Seto, Cassandra
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision
Subject: RE: Sirius XM Settlement - meet and confer request

We will see you on January 9 at 1, 2, or 4 p.m. Please let me know a preferred time. Let me know who will be here and I will have added to the security list.

We can discuss the substance and rhetoric in the below then. This is a straightforward issue, and one that can be answered as a matter of contract interpretation, as the parties agreed in the settlement. None of this should impact either the fee motion or final approval -- both of which contemplated ongoing appeals in NY, CA and FL.

We should also discuss the timing of having Judge Gutierrez address this issue, including waiting until after the Second Circuit rules, based on the supplemental briefs the Court requested and we are submitting in that court in 2 weeks.

Thanks,
Steven G. Sklaver
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Direct: 310-789-3123
Web Bio<http://www.susmangodfrey.com/Attorneys/Steven-G-Sklaver/#Pane1>

From: Seto, Cassandra [mailto:cseto@omm.com]
Sent: Wednesday, January 04, 2017 12:35 PM
To: Steven G. Sklaver
Cc: Henry Gradstein; Maryann Marzano; Steve Morrissey; Kalpana Srinivasan; Petrocelli, Daniel; Winter, Vision
Subject: FW: Sirius XM Settlement - meet and confer request

Steven,

Please see the response below, sent on Dan's behalf.

* * *

Steven,

Your position is frivolous and asserted in a bad-faith attempt to re-trade, rewrite, and repudiate the parties' settlement agreement. The New York Court of Appeals ruled definitively that there is no performance right under New York law. Under our settlement agreement, that means the prospective royalty rate is reduced by 2% and no additional payment beyond the $25 million is due. If you persist in attempting to repudiate the agreement, your actions will be met with stiff consequences, including Sirius XM's right to rescind and terminate the agreement, oppose approval of the settlement, and oppose your motion for attorneys' fees -- which, among other things, mischaracterizes the New York Court of Appeals' ruling and the parties' settlement agreement and overstates the potential recovery by the Flo & Eddie class. In all events, your motion for attorneys' fees must be amended to correct the inaccurate representations regarding the New York Court of Appeals' ruling and its effect on our settlement.

Your attempt to extract an additional $5 million and avoid the royalty rate reduction despite losing the New York appeal destroys the entire basis of our settlement, as evidenced by the agreement's explicit provisions and our extensively documented negotiations. See, e.g., Nov. 13, 2016 Settlement Agreement ¶¶ I(A)(45) ("'Sirius XM Prevails' means, in the context of the California Appeal, New York

Appeal, and the Florida Appeal, that as a result of the appeal, Sirius XM is entitled to publicly perform Pre-1972 Sound Recordings owned by Plaintiff without having to obtain permission from and pay compensation to Plaintiff."); I(A)(29) ("'Performance Right Issue' means the question of whether Sirius XM is entitled to publicly perform Pre-1972 Sound Recordings owned by Plaintiff without having to obtain permission from and pay compensation to Plaintiff."); IV(B)(1) ("In the event that Plaintiff Prevails on the Performance Right Issue in the New York Court of Appeals, Sirius XM shall pay into the Settlement Fund Escrow Account an additional five million dollars ($5 million)."); IV(B)(2) ("In the event that Sirius XM Prevails on the Performance Right Issue in the New York Court of Appeals, the prospective royalty rate provided for in Section IV.C.2 shall be reduced by 2% points (i.e., from 5.5% to 3.5%, if not already reduced as provided herein).").

The New York Court of Appeals held that New York law does not recognize a performance right in pre-1972 recordings. Slip Op. at 35 ("We hold that New York common law does not recognize a right of public performance for creators of pre-1972 sound recordings."); id. at 1-2 ("Because New York common-law copyright does not recognize a right of public performance for creators of sound recordings, we answer the certified question in the negative."); id. at 28 ("Simply stated, New York's common-law copyright has never recognized a right of public performance for pre-1972 sound recordings. Because the consequences of doing so could be extensive and far-reaching, and there are many competing interests at stake, which we are not equipped to address, we decline to create such a right for the first time now."). As a result of that ruling, Sirius XM is entitled to publicly perform pre-1972 recordings owned by Flo & Eddie without having to obtain permission and pay compensation.

The dictum on the last page of the Court's opinion about "other potential avenues for recovery," Slip Op. at 35, does nothing to change or diminish, let alone eviscerate, the Court's ruling meticulously explained in the prior 34 pages. Nothing in the dictum states or remotely suggests that despite having no performance right under New York law plaintiffs can nonetheless resort to unfair competition or other claims to bar Sirius XM from broadcasting their pre-1972 recordings or seek damages for doing so unless it first obtains plaintiffs' consent and meets their payment demands, precisely as though they did have a performance right. To the contrary, the Second Circuit expressly recognized that Flo & Eddie's unfair competition claim would fail if the New York Court of Appeals answered the certified question in the negative and held that New York law does not provide pre-1972 recording owners a public performance right -- which is exactly what it did. Appeal No. 15-1164, Doc. 189 at 8 & n.4 (Flo & Eddie's "unfair-competition claim depends upon the resolution of the certified question" and "rise[s] and fall[s]" with resolution of that question). Indeed, Judge McMahon herself made clear that her ruling on Flo & Eddie's unfair competition claim was premised on the assumption that New York law provides a public performance right, and if that assumption were "incorrect," then Flo & Eddie's "copyright infringement and unfair competition claims … will have to be dismissed." Case No. 1:13-cv-05784-CM, Doc. 118 at 3 (emphasis added). Notably, your statements to the press acknowledged that Flo & Eddie decisively lost the New York appeal -- in contrast to the remarkable statement in your email that Flo & Eddie, in fact, "prevailed" in that appeal. Anandashankar Mazumdar, No Performance Right for Oldies Under New York State Law (Dec. 23, 2016), available at https://www.bna.com/no-performance-right-n73014449047/<https://na01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.bna.com%2Fno-performance-right-n73014449047%2F&data=01%7C01%7CPatrick.Donnelly%40siriusxm.com%7C183f60beba144c85c97608d434d723ef%7Cc69f0fed51c54fedbe55ba0d512d25ab%7C0&sdata=v9PdpPu%2FNnq8aaqfJ1gz01Cd0aPNexv0XfdzcX%2FaCbE%3D&reserved=0> ("'The fight rages on,' Flo & Eddie's counsel, Henry Gradstein of Gradstein & Marzano PC, told Bloomberg BNA. 'I have 49 other states to fight in.'").

Your threatened motion would be utterly baseless and distract from our shared goal of obtaining final approval of the settlement agreement. If you decide to proceed, we will pursue all available relief -- including rescinding and/or terminating the agreement and opposing approval of the settlement and your pending motion for attorneys' fees.

We are available to further meet and confer the morning of Monday, January 9.

Dan

From: Steven G. Sklaver [mailto:ssklaver@SusmanGodfrey.com]
Sent: Friday, December 30, 2016 11:40 AM
To: Petrocelli, Daniel; Seto, Cassandra; Winter, Vision
Cc: Henry Gradstein (hgradstein@gradstein.com<mailto:hgradstein@gradstein.com>); Steve Morrissey; Kalpana Srinivasan; Maryann Marzano
Subject: Sirius XM Settlement - meet and confer request

Dan, Cassie, and Vision,

We write pursuant to the local rules to schedule a meet and confer to discuss a motion to enforce the settlement agreement in light of the New York Court of Appeals' recent decision. Let me know if Wednesday, Jan. 4, 2017 works in the afternoon or other proposed dates/times. We have read some comments in the press in which Dan has explicitly stated that Sirius XM believes the decision drops the royalty to 3.5% and Sirius XM will not be making an additional $5 million payment into the settlement fund. If that is Sirius XM's position, please confirm and let us know your support for that position based on the plain language of the agreement.

Under the Settlement Agreement, after final approval, Sirius XM is obligated to make the additional $5 million payment unless the New York Court of Appeals ("NYCOA") determined that "Sirius XM is entitled to publicly perform Pre-1972 Sound Recordings owned by Plaintiff without having to obtain permission from and pay compensation to Plaintiff." The federal District Court had held that Sirius XM's public performance of Flo & Eddie's recordings constituted unfair competition in violation of New York law ("Sirius Engaged in Unfair Competition….Sirius harms Flo and Eddie's sales and potential licensing fees (even if the latter market is not yet extant) by publicly performing Turtles sound recordings.") Flo & Eddie, Inc. v. Sirius XM Inc, 62 F. Supp. 3d 325, 348-49 (S.D.N.Y. 2014). The NYCOA did not hold otherwise. While it held that public performance of Pre-1972 Sound Recordings does not provide a basis for a copyright claim under New York common law, it expressly further held that Plaintiff's unfair competition claim based on public performance of Pre-1972 Sound Recordings remained viable, and thus did not upset the federal district court's decision that Sirius XM's public performance of Plaintiff's recordings constituted unfair competition in violation of New York law. Flo & Eddie, Inc. v. Sirius XM Inc., 2016 NY Slip. Op. 08480 at 35 (N.Y. Ct. App. Dec. 20, 2016) ("[S]ound recording owners may have other causes of action, such as unfair competition, which are not directly tied to copyright law. . .; [t]hus, even in the absence of a common law right of public performance, plaintiff has other potential avenues of recovery"). Under the Settlement Agreement, this is a circumstance in which "Plaintiff Prevails" and an additional $5 million is owed by Sirius XM; in the event of any dispute on that issue, Plaintiff will need to bring a motion to enforce the Settlement Agreement.

Let us know a time to meet and discuss or, if Sirius XM agrees with our position and the press reports were inaccurate, let us know that too.

Putting all of these issues aside, we wish you and the entire OMM team a Happy and Healthy New Year.

Thanks,
Steven G. Sklaver
SUSMAN GODFREY L.L.P.

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Direct: 310-789-3123
Web Bio<http://www.susmangodfrey.com/Attorneys/Steven-G-Sklaver/#Pane1>

EXHIBIT 2

GRADSTEIN & MARZANO
6310 SAN VICENTE BOULEVARD, SUITE 510 | LOS ANGELES, CALIFORNIA 90048 | PHONE: 323.776-3100

SUSMAN GODFREY L.L.P.
1301 AVENUE OF THE AMERICAS, 32ND FLOOR | NEW YORK, NEW YORK 10019-6023 |PHONE: 212.336.8330

January 17, 2017

VIA ECF SYSTEM

Catherine O'Hagan Wolfe, Clerk of the Court
United States Court of Appeals for the Second Circuit
Thurgood Marshall United States Courthouse
40 Foley Square
New York, New York 10007

Re: *Flo & Eddie, Inc. v. Sirius XM Radio Inc., No. 15-1164*

Dear Clerk of the Court:

Flo & Eddie, Inc. ("Flo & Eddie") respectfully submits this letter brief in response to the Court's December 29, 2016 request for the parties to address the impact of the decision of December 20, 2016 by the New York Court of Appeals ("NYCA") on this Court's certified question of a "a significant and unresolved question of New York *copyright law*: Is there a right of public performance for creators of sound recordings under New York law and, if so, what is the scope of that right." *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, 821 F.3d 265 (2d Cir. 2016) (emphasis added). A deeply divided NYCA ruled that "[b]ecause New York common-law copyright does not recognize a right of public performance for creators of sound recordings, we answer the certified question in the negative." NYCA Order at 1-2.

However, the NYCA did not resolve Sirius XM's liability for unauthorized copying of Flo & Eddie's recordings and engaging in unfair competition by publicly performing those copies for profit, which the District Court had identified as separate and independent grounds for finding Sirius XM liable. *Flo & Eddie, Inc., v. Sirius XM Radio, Inc.*, 62 F. Supp. 3d 325, 348-49 (S.D.N.Y. 2014). To the contrary, the NYCA observed that Flo & Eddie had "prevailed in the

District Court on its causes of action alleging unfair competition and unauthorized copying of sound recordings," and held that the lack of a right of public performance under common-law copyright did not defeat those claims, which provide alternative "potential avenues of recovery." *Id.* at 35.

Accordingly, this Court should affirm the District Court's findings that Sirius XM engaged in unfair competition and unlawful copying, or remand the case to the District Court to address the questions of fair use and unfair competition consistent with the ruling of the NYCA.

I. PROCEDURAL HISTORY

A. The District Court Held Sirius XM Liable On Independent Grounds — Unfair Competition and Unauthorized Copying — That the NYCA Did Not Resolve

Flo & Eddie filed this action against Sirius XM on August 16, 2013 in the Southern District of New York, No. 13-CV-5784 (CM) ("SDNY Dkt.") alleging common law copyright infringement and unfair competition. SDNY Dkt. 1. On May 30, 2014, Sirius XM sought summary judgment on both claims. SDNY Dkt. 48 at 12-34. On November 14, 2014, the District Court denied Sirius XM's motion for summary judgment and ordered Sirius XM to show cause why summary judgment should not be granted in favor of Flo & Eddie. 62 F. Supp. 3d at 330. In addition to its determination that the unauthorized public performance of Flo & Eddie's pre-1972 recordings violated New York common law copyright protection—the sole focus of the certified question and the NYCA ruling—the District Court also held that Sirius XM's conduct (1) violated New York's common law of unfair competition; and (2) constituted unlawful copying in violation of New York's common law copyright protection.

The District Court characterized Flo & Eddie's unfair competition claim as presenting the question of whether "Sirius has taken and used the Turtles recordings—its property—to compete against it." *Id.* Apart from the performance right under common law copyright, the District Court *also* found that Sirius XM unlawfully took Flo & Eddie's property by distributing unlicensed, unauthorized digital copies of Flo & Eddie's pre-1972 recordings to 28 million subscribers through its public performances of those recordings for profit. "In particular, Sirius reproduced Turtles recordings for its three main databases and associated backups, as well as for the smaller on-site databases, including the database it transferred to Omnifone. Sirius also made several temporary but complete copies of Turtles recordings: on its play-out server each time a Turtles song was performed, in each of the five-hour caches, and in the half-hour buffer available on some in-vehicle satellite radios." *Id.* at 344. The District Court rejected Sirius XM's argument that it had not engaged in any "distribution" of Plaintiff's recordings as required for an unfair competition claim under *Capitol Records, Inc. v. Naxos of Am., Inc.*, 4 N.Y.3d 540, 559-60, 797 N.Y.S.2d 352, 830 N.E.2d 250 (2005), concluding that "*public performance is a form of distribution*." 62 F. Supp. 3d at 349 (emphasis added). The District Court concluded that Flo & Eddie had satisfied the competitive injury element because it was "common sense that Flo and Eddie would suffer market harm when Sirius takes its property and exploits it, unchanged and for a profit." *Id.* at 347, 349.

The District Court also concluded that Sirius XM had infringed Flo & Eddie's common law copyright, not only through its public performances per se, *but by its performance for profit of works that it had unlawfully copied*. *Id.* at 344-46. The conclusion that Sirius XM engaged in unlawful copying, and not fair use, in violation of New York copyright law similarly turned on

Sirius XM's business practices—and, specifically, its public performances of Flo & Eddie's sound recordings for its own commercial gain, without authorization or compensation—and not on whether New York recognizes any general right of public performance under common law copyright. This analysis was entirely distinct from the District Court's consideration of whether public performance alone was protected by common law copyright.

The District Court rejected Sirius XM's fair use defense, finding that Sirius XM's unauthorized copying satisfied none of the factors of fair use: "Sirius is a for-profit entity using Flo and Eddie's recordings" – which, as "creative" works, fall within "the core of intended copyright protection" – "for commercial purposes," "cop[ying] and perform[ing] several Turtles recordings in their entirety" without "add[ing] anything new or chang[ing] the Turtles recordings by copying and performing them." *Id.* at 346-47. "Sirius makes non-transformative use of Flo and Eddie's recordings and does so for commercial gain," and "[t]hat exploitation supersedes the objects of the original." *Id.* at 347 (quotes and internal citations omitted).[1]

Finally, the District Court held the dormant Commerce Clause did not apply because the vindication of private property rights does not constitute a challenge to state regulation. *Id.* at 34-40 (citing, *inter alia*, *Sherlock v. Ailing*, 93 U.S. (3 Otto) 99, 23 L. Ed. 819 (1876)).

After denying Sirius XM's motion for reconsideration (SDNY Dkt. 108), the District Court certified its decision to the Second Circuit for interlocutory appeal. SDNY Dkt. 118.

[1] Although in subsequently certifying its ruling for interlocutory appeal the District Court questioned whether an appellate finding that there is no "right to exclusive public performance" would change its fair use analysis and be dispositive of the unfair competition claim (SDNY Dkt. 118 at 2-3), the NYCA made clear that the absence of a common-law copyright of public performance is not a sanction for illegal copying and did not defeat the unfair competition and unauthorized copying claims. Order at 35. *See generally* Sections II and III, *infra.*

B. <u>The Second Circuit Certified the Question to the New York Court of Appeals</u>

On May 27, 2015, Sirius XM's interlocutory appeal was accepted by this Court. Dkt. 30. Sirius XM limited its opening brief to the questions of (a) whether or not New York provided for a right to control public performance of pre-1972 recordings under common law copyright and (b) whether or not such a right violated the dormant Commerce Clause. Dkt. 39 at 10-48. Sirius XM's argument concerning unfair competition was relegated to a single page in its reply brief, where it merely repeated what it had argued before the District Court. Dkt. 121 at 13.

On April 13, 2016, this Court deferred its opinion and certified what it described as "a significant and unresolved question of New York copyright law" to the NYCA: "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?" 821 F.3d at 267. The Court further requested that "should the Court of Appeals accept certification, we invite it to reformulate or expand this question as appropriate" and "welcome its guidance on any other pertinent questions that it wishes to address." *Id.* at 272. In certifying the question, the Court indicated it anticipated that resolution of the certified question would determine the outcome of the unfair competition and unauthorized copying claims as well. *Id.* at 270 n.4. However, the NYCA—the views of which, of course, must be respected on this point—concluded otherwise, specifically holding that Plaintiff has other "potential avenues of recovery" notwithstanding the lack of a separate common law right of public performance under New York copyright law.

C. <u>The NYCA Held that while New York Common-Law Copyright Does Not Recognize a General Right of Public Performance, "Other Potential Avenues of Recovery" Remain Available</u>

On December 20, 2016, the NYCA answered the certified question in the negative: "Because New York common-law copyright does not recognize a right of public performance for creators of sound recordings, we answer the certified question in the negative." Order at 1-2. While the NYCA declined to recognize a distinct right of public performance under New York copyright law, the NYCA expressly sanctioned other causes of action regarding Sirius XM's public performance of pre-1972 recordings:

> [S]ound recording copyright holders may have other causes of action, such as unfair competition, which are not directly tied to copyright law. Indeed, in the present case, plaintiff prevailed in the District Court on its causes of action alleging unfair competition and unauthorized copying of sound recordings. The Second Circuit concluded that defendant had copied plaintiff's recordings, but postponed the questions of fair use and unfair competition until after our resolution of the certified question. Thus, even in the absence of a common-law right of public performance, plaintiff has other potential avenues of recovery.

NYCA Order at 35 (internal citation omitted).

II. <u>THE DISTRICT COURT'S RULING THAT SIRIUS XM ENGAGED IN UNFAIR COMPETITION SHOULD BE AFFIRMED</u>

The NYCA held that Flo & Eddie's claim for unfair competition remains a potential avenue of recovery, following the path urged by various commentators that "courts considering how to deal with protection for pre-1972 sound recordings should rely on the well-developed common law tradition that penalizes unauthorized use of another's property for commercial gain," rather than common law copyright. Christopher J. Norton, *Turtle Power: The Case for*

Common Law Protection for Pre-1972 Sound Recordings, 31 Berkeley Tech. L.J. 759, 760 (2016). In contrast to the general applicability of copyright law, the tort of unfair competition under New York law is tailored to the "commercial immorality" of the defendant's conduct. As the law was summarized by this Court in *Roy Exp. Co. Establishment of Vaduz v. CBS*:

> New York courts have noted the "incalculable variety" of illegal practices falling within the unfair competition rubric, *Ronson Art Metal Works, Inc. v. Gibson Lighter Manufacturing Co.*, 3 A.D.2d 227, 230-31, 159 N.Y.S.2d 606, 609 (1957), calling it a "broad and flexible doctrine" that depends "more upon the facts set forth … than in most causes of action," *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.*, *supra*, 199 Misc. at 792, 101 N.Y.S.2d at 488, 489. It has been broadly described as encompassing "any form of commercial immorality," *id.* at 796, 101 N.Y.S.2d at 492, or simply as "endeavoring to reap where (one) has not sown," *International News Service v. Associated Press*, *supra*, 248 U.S. at 239, 39 S. Ct. at 72; it is taking "the skill, expenditures and labors of a competitor," *Electrolux Corp. v. Val-Worth, Inc.*, 6 N.Y.2d 556, 567, 190 N.Y.S.2d 977, 986, 161 N.E.2d 197, 203 (1959), and "misappropriating for the commercial advantage of one person … a benefit or 'property' right belonging to another," *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.*, *supra*, 199 Misc. at 793, 101 N.Y.S.2d at 489.

672 F.2d 1095, 1105 (2d Cir. 1982).

Here, Sirius XM has endeavored to do just that—reap what it has not sown—by appropriating the commercial value of the property Flo & Eddie created in their pre-1972 recordings. Rather than licensing those recordings from Flo & Eddie on negotiated terms, Sirius XM instead made unauthorized digital copies and then repeatedly publicly performed them to the millions of customers who paid its monthly subscription fees, without sharing any of the benefits of its enterprise with Flo & Eddie. Sirius XM's satellite technology mandated the making of innumerable digital copies which it did not (and could not) physically purchase, but neither did it license or even attempt to license the right to make those digital copies for use on its satellite

platform. Thus, Sirius XM competed unfairly with Flo & Eddie by misappropriating for its own commercial advantage the benefit or property right belonging to another.

The District Court correctly followed the "well established" rule that "the existence of actual competition between the parties is no longer a prerequisite to sustaining an unfair competition claim." 62 F. Supp. 3d at 349 (quotes and citations omitted); *EMI Records Ltd. v. Premise Media Corp. L.P.*, 2008 NY Slip Op 33157(U), ¶¶ 24-26 (Sup. Ct. 2008) (same). As the District Court found, "[w]idespread public performance of sound recordings - that is, the conduct in which Sirius is engaged - could easily satisfy public demand to hear those recordings. […] If a subscriber can easily hear recordings performed by Sirius, why buy a record or download the recording from iTunes? If a potential licensee wants to perform Turtles recordings, why pay to do so, when Sirius performs them for free?" 62 F. Supp. 3d at 348. Based upon this competitive displacement, "it is a matter of economic common sense that Sirius harms Flo and Eddie's sales and potential licensing fees[.]" *Id.* at 349. These findings survive the NYCA's ruling that New York common law copyright does not recognize a right of public performance.

Sirius XM may claim that if common law copyright does not preclude a particular use of a pre-1972 recording, this Court's inquiry should end. But the plain language of the NYCA Order is to the contrary and demonstrates that, in fact, Flo & Eddie's claims do *not* "rise and fall" with a general public performance right under common law copyright. Indeed, the NYCA held more than a decade ago that copyright infringement and unfair competition claims are not coextensive. *Capitol Records, Inc. v. Naxos of Am., Inc.*, 4 N.Y.3d 540, 563 (2005); *cf. Lone Ranger Television, Inc. v. Program Radio Corp.*, 740 F.2d 718 (9th Cir. 1984). In *Lone Ranger,* the defendants lawfully purchased copies of recordings on tape and leased remixed versions for

radio play. *Id.* at 720. The Ninth Circuit held that the defendants' conduct constituted both conversion and unfair competition *even in the absence of any common law copyright protection*. *Id.* at 726 ("[plaintiff's] conversion or unfair competition claim lies outside copyright").

Just as was found in *Naxos, Lone Ranger,* and by the Court of Appeals in this case, the protection afforded to pre-1972 recordings against the misappropriation of the property right in those performances extends beyond copyright, which provides merely one avenue of recourse. The Court of Appeals closed the door on New York common law copyright protection for public performance, but left a neighboring door open for relief based on the tort of unfair competition. This Court should respect the lines drawn by the NYCA and allow redress for Sirius XM's improper "effort to profit from the labor, skill, expenditures, name and reputation of others." *Dior v. Milton*, 155 N.Y.S.2d 443, 455 (Spec. Term 1956), *aff'd*, 156 N.Y.S.2d 996 (App. Div. 1956); *ITC Ltd. v. Punchgini, Inc*., 9 N.Y.3d 467, 476-77 (2007).

III. <u>THE DISTRICT COURT'S FINDING OF UNAUTHORIZED COPYING SHOULD BE AFFIRMED BECAUSE SIRIUS XM HAS NO FAIR USE DEFENSE</u>

New York law provides that the unauthorized copying of an entire sound recording constitutes copyright infringement and that distribution of an unlawfully copied recording—whether through public performance or otherwise—can give rise to liability for unlawful copying. *Naxos*, 4 N.Y.3d at 564. Nothing in the NYCA's decision alters its holding in *Naxos* or bolsters Sirius XM's effort to invoke a fair use defense to Flo & Eddie's unlawful copying claim. Sirius XM would upend the protection against copying—one that the NYCA left intact—by arguing that if it can publicly perform a CD which it has purchased, it does not need to purchase

or license the additional complete digital copies necessary for its satellite technology to broadcast the artistic performance embodied on the first CD. According to Sirius XM, it can simply make unauthorized copies from the first CD. But that is *contrary to* the law, and in this regard, Sirius XM is no different than the proverbial bootlegger, other than that it has a more sophisticated method of monetizing its bootleg copies.

Nor can Sirius XM escape liability through its self-serving labeling of unauthorized copies as "incidental." As the District Court already found, this description was applicable, if at all, to only a small subset of Sirius XM's unauthorized copies. *See* SDNY Dkt. 88 at 26. Rather, as the District Court held, "Sirius does not seriously dispute that many of the copies it made of Turtles recordings - in particular the permanent copies - amount to reproductions as a matter of law." *See also Am. Geophysical Union v. Texaco Inc.,* 60 F.3d 913 (2d Cir. 1994) (even if in-house copying was not "commercial exploitation," the court "need not ignore the for-profit nature" or "indirect economic advantage" that the defendant obtained because of the use). Nor do any of the factors in the federal fair use statute assist Sirius XM. As argued by Flo & Eddie (SDNY Dkt. 56 at 24-29) and held by the District Court (62 F. Supp. 3d at 346-48):

1. The "purpose and character" of Sirius XM's unauthorized copying is to exploit Flo & Eddie's recordings, unchanged and untransformed, for commercial profit. *Campbell v. Acuff-Rose Music*, Inc., 510 U.S. 569, 579 (1994); *Infinity Broadcast Corp. v. Kirkwood,* 150 F.3d 104, 108 (2d Cir. 1998) ("a use of copyrighted material that 'merely repackages or republishes the original' is unlikely to be deemed a fair use.") (citation omitted).

2. The "nature" of Flo & Eddie's recordings is a creative work "far removed from the more factual or descriptive work more amenable to 'fair use.'" *UMG Recordings v. MP3.com*, Inc., 92 F. Supp. 2d 349, 352 (S.D.N.Y. 2000) (citation omitted).

3. The "amount and substantiality of the portion used" is the *entire recording,* done for commercial and non-transformative use, and thus has no "valid purpose[] asserted under the first factor." *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 96 (2d Cir. 2014).

4. The "effect of the use upon the potential market for or value of the copyrighted work" is to depress demand and/or licensing opportunities for the recordings, as it is "common sense … that Flo and Eddie would suffer market harm when Sirius takes its property and exploits it, unchanged and for a profit … supersed[ing] the objects of the original." 62 F. Supp. 3d at 347 (quotes and internal citations omitted). Indeed, even if a potential market did not exist in this case, market harm is still presumed "when a commercial use amounts to mere duplication of the entirety of an original." *Campbell*, 510 U.S. at 591; *see also Leadsinger, Inc. v. BMG Music Publ'g,* 512 F.3d 522, 531-32 (9th Cir. 2008) ("it is well accepted that when '[a defendant's] intended use is for commercial gain,' the likelihood of market harm 'may be presumed'") (citing *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 451 (1984)).

IV. <u>THE NYCA ORDER ELIMINATES THE DORMANT COMMERCE CLAUSE ARGUMENT</u>

The NYCA Order forecloses any dormant Commerce Clause challenge by eliminating the supposed parade of horribles that Sirius XM and its amici predicted would result from recognition of a common law copyright of public performance. *See, e.g.,* Dkt. 39 at 46-47; Dkt.

56 at 11-12; Dkt. 66 at 23-29; Dkt. 71 at 20-29; Dkt 73 at 15-21. While Sirius XM has potential liability for publicly performing Flo & Eddie's recordings by engaging in unfair competition and unauthorized copying, those are fact-specific inquiries which do not place a generalized burden on interstate commerce and instead depend on Sirius XM's conduct and the effects of that conduct in New York. *See Flo & Eddie,* 821 F.3d at 267 (noting that a dormant Commerce Clause question "must be judged by its overall economic impact on interstate commerce in relation to the putative local benefits conferred").

V. CONCLUSION

For the reasons stated above, the District Court's holdings that Sirius XM engaged in unfair competition and unlawful copying should be affirmed. Alternatively, this case should be remanded to the District Court for further proceedings regarding these remaining claims consistent with the ruling of the NYCA.

Respectfully submitted,

/s/ *Henry Gradstein*

Henry Gradstein
GRADSTEIN & MARZANO, P.C.

Arun Subramanian
Michael Gervais
SUSMAN GODFREY L.L.P.

cc: All Counsel

EXHIBIT 3

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Thurgood Marshall U.S. Courthouse 40 Foley Square, New York, NY 10007 Telephone: 212-857-8500

MOTION INFORMATION STATEMENT

Docket Number(s): 15-1164

Caption [use short title]

Motion for: permission to file supplemental letter

Flo & Eddie, Inc.,
Plaintiff-Appellee

v.

Sirius XM Radio, Inc.,
Defendant-Appellant,

Does 1 through 10,
Defendants

Set forth below precise, complete statement of relief sought:

Plaintiff-Appellee respectfully requests permission to file supplemental letter

MOVING PARTY: Flo & Eddie, Inc.

☐ Plaintiff ☐ Defendant
☐ Appellant/Petitioner ☑ Appellee/Respondent

OPPOSING PARTY: Sirius XM, Inc.

MOVING ATTORNEY: Michael Gervais

OPPOSING ATTORNEY: Daniel M. Petrocelli

[name of attorney, with firm, address, phone number and e-mail]

Moving attorney	Opposing attorney
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Court-Judge/Agency appealed from: Hon. Colleen McMahon, USDC, Southern District of New York

Please check appropriate boxes:

Has movant notified opposing counsel (required by Local Rule 27.1):
☑ Yes ☐ No (explain):

Opposing counsel's position on motion:
☐ Unopposed ☑ Opposed ☐ Don't Know

Does opposing counsel intend to file a response:
☑ Yes ☐ No ☐ Don't Know

FOR EMERGENCY MOTIONS, MOTIONS FOR STAYS AND INJUNCTIONS PENDING APPEAL:

Has request for relief been made below? ☐ Yes ☐ No
Has this relief been previously sought in this Court? ☐ Yes ☐ No
Requested return date and explanation of emergency:

Is oral argument on motion requested? ☐ Yes ☑ No (requests for oral argument will not necessarily be granted)

Has argument date of appeal been set? ☐ Yes ☑ No If yes, enter date:

Signature of Moving Attorney:
s/ Michael Gervais **Date:** 1/26/17 Service by: ☑ CM/ECF ☐ Other [Attach proof of service]

IN THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

No. 15-1164-cv

FLO & EDDIE, INC., a California Corporation, individually and on behalf of all others similarly situated, *Plaintiff-Appellee*,

v.

SIRIUS XM RADIO INC., a Delaware Corporation, *Defendant-Appellant*,

DOES 1 THROUGH 10, *Defendants.*

On Appeal from the United States District Court for the Southern District of New York

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MOTION TO FILE SUPPLEMENTAL LETTER BROEF

Flo & Eddie, Inc. ("Flo & Eddie") respectfully moves for leave to file the attached supplemental letter brief. Pursuant to the Court's December 29, 2016 order, the parties submitted letter briefs on January 17, 2017 addressing the effect of the New York Court of Appeals' ("NYCA") recent decision (Doc. 207). Flo & Eddie seeks leave to file a response to the new "mootness" argument raised by Sirius XM in its January 17 letter brief regarding the NYCA decision. Because Sirius XM raised this new "mootness" argument for the first time after Flo & Eddie's letter was filed, Flo & Eddie respectfully moves for leave the attached brief, which explains why Sirius XM's "mootness" argument is wrong.

Before submitting this request, Flo & Eddie conferred with Sirius XM, which indicated it opposed the request but would seek to submit a supplemental brief of its own if supplemental

briefing is permitted. Flo & Eddie do not oppose that conditional request.

Dated: January 26, 2017

By: s/ Michael Gervais

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January 26, 2017

VIA ECF SYSTEM

Catherine O'Hagan Wolfe, Clerk of the Court
United States Court of Appeals for the Second Circuit
Thurgood Marshall United States Courthouse
40 Foley Square
New York, New York 10007

Re: *Flo & Eddie, Inc. v. Sirius XM Radio Inc., No. 15-1164*

Dear Clerk of the Court:

Flo & Eddie, Inc. ("Flo & Eddie") respectfully seeks leave to submit this supplemental letter brief for consideration in response to the new "mootness" argument raised by Sirius XM in its January 17, 2017 letter brief regarding the December 20, 2016 decision by the New York Court of Appeals ("NYCA"). Flo & Eddie conferred with Sirius XM, which indicated it opposed the request but would seek to submit a supplemental brief of its own if supplemental briefing is permitted. Flo & Eddie do not oppose that conditional request.

* * *

Sirius XM relies on matter outside the record—*i.e.*, the parties' settlement agreement—in urging that the Court need not consider the fundamental question that remains open following the NYCA's ruling on the certified question: Whether, under New York unfair competition and copyright law, *and independent of the any separate right of public performance that would make the performance itself a violation of New York copyright law*, Sirius XM is entitled to publicly perform the pre-1972 recordings owned by Flo & Eddie that it has copied without authorization? Flo & Eddie contend the answer to that question clearly is "no"; Sirius XM's public

performances of Flo & Eddie's pre-1972 recordings satisfies the element of distribution required for claim based on Sirius XM's unauthorized copying of their sound recordings and constitutes unfair competition; and the District Court's decision on summary judgment thus should be affirmed. At a minimum, further proceedings in the District Court would be required to determine whether the answer to that question is anything other than "no."

Sirius XM nonetheless asks the Court to conclude that the parties' nationwide settlement agreement requires dismissal of Flo & Eddie's remaining claims as "moot." Sirius XM's Jan. 17, 2017 Letter Br. at 6, 12. Sirius XM's position is based on a mischaracterization of the terms of settlement agreement. That agreement is pending preliminary approval in the Central District of California, and the parties have agreed as part of that settlement that any dispute concerning its interpretation be resolved by that Court. Settlement Agreement ¶ X.E. Sirius XM contends that the NYCA opinion and the parties' settlement "requires dismissal of Flo & Eddie's performance claims on the merits," and that Flo & Eddie maintain that controlling issues of copyright and unfair competition law remain open "solely to extract unwarranted benefits under the parties' settlement agreement." Sirius XM's Jan. 17, 2017 Letter Br. at 2-3. In fact, however, it is Sirius XM that has violated the terms of the settlement agreement by asking this Court to interpret its terms and to resolve this appeal in its favor based on a position that is flatly at odds with the plain language of the agreement. Indeed, Sirius XM has now indicated that it may seek rescission of the settlement based on Flo & Eddie's interpretation of the agreement, which only provides further confirmation that this dispute is not moot.

Sirius XM cites paragraph III.B of the agreement, which in fact states that "[t]he Parties preserve their respective rights to proceed with the New York Appeal and any further

proceedings," and provides for dismissal only "after the conclusion of the New York Appeal" and remand to the "New York Court" (the "New York Appeal" is defined to include the proceedings in this Court, and the "New York Court" is defined as the District Court). Settlement Agreement ¶¶ III.B, I.25-26. Nothing in that language requires dismissal without consideration on the merits of whether the NYCA opinion precludes any finding of liability under unfair competition or copyright law based on Sirius XM's copying and public performances of the Flo & Eddie recordings without authorization.

Sirius XM also ignores the following additional provisions of the settlement agreement that undermine its position regarding the effect of the NYCA opinion on this appeal and Flo & Eddie's rights under the agreement:

- Paragraph I.29, which defines the "Performance Rights Issue" to "mean[] the question of whether Sirius XM is entitled to publicly perform Pre-1972 Sound Recordings owned by Plaintiff without having to obtain permission from and pay compensation to Plaintiff." The "Performance Rights Issue" is not defined by reference to a common law copyright right of public performance, but rather unambiguously encompasses any unfair competition or copyright violation based on Sirius XM's public performance of Flo & Eddie's sound recordings.
- Paragraph I.45, which states that "Sirius XM Prevails," if "*as a result of the appeal,* Sirius XM is entitled to publicly perform Pre-1972 Sound Recordings owned by Plaintiff without having to obtain permission from and pay compensation to Plaintiff," and that "*any other outcome or resolution* . . . shall be considered one in which Plaintiff Prevails." (emphasis added)

- Paragraph IV.B.I, which states that "[i]n the event that Plaintiff Prevails on the Performance Rights Issue in the New York Court of Appeals, Sirius XM shall pay into the Settlement Fund Escrow Account an additional five million ($5 million)."

Together, these provisions of the settlement make it clear that whether "Plaintiff Prevails" for purposes of the settlement *does not* turn on the discrete legal question of whether New York common law of copyright provides a right of public performance, but rather depends on whether the NYCA determined that "Sirius XM is entitled to publicly perform Pre-1972 Sound Recordings owned by Plaintiff without having to obtain permission from and pay compensation to Plaintiff." *Id.* ¶ I.29. It did not, and instead expressly concluded that "even in the absence of a common-law right of public performance, plaintiff has other potential avenues of recovery." NYCA Opinion at 35. Consequently, and notwithstanding the NYCA's answer to the certified question of New York copyright law, the NYCA Opinion yielded a circumstance in which "Plaintiff Prevail[ed]" for purposes of the settlement. The class is thus owed an additional $5 million, with any dispute concerning the interpretation of the agreement resolved in the Central District of California. Because "Plaintiff Prevails" is defined to include *any* "outcome or resolution" in which the NYCA did not conclude that Sirius XM was "entitled" to publicly perform Flo & Eddie's pre-1972 recordings without authorization or compensation, whereas the NYCA did not foreclose liability under unfair competition law and based on Sirius XM's distribution of Flo & Eddie's recordings through public performances after making unauthorized copies of those recordings, that conclusion follows from the plain language of the agreement.

As Sirius XM acknowledges in its letter brief, its motion for summary judgment in the District Court was predicated on its contention that "all of Flo & Eddie's claims rest on the

existence of a New York common law right of public performance in pre-1972 recordings." Sirius XM's Jan. 17, 2017 Letter Br. at 4. However, the NYCA opinion clarified that this premise is untenable. Independent of whether there is any common law copyright interest in the public performance (which the NYCA ruled there is not), the NYCA specifically noted that Flo & Eddie could have "other potential avenues of recovery," NYCA Opinion at 35, *i.e.,* their claims that Sirius XM's public performances of their sound recordings violated New York unfair competition law or were unlawful because they constituted the commercial exploitation of unauthorized copies of copyrighted recordings. NYCA Opinion at 35.

Nor is there any basis for Sirius XM's suggestion that the NYCA's reference to *plaintiff* having "other potential avenues of recovery" was intended merely to suggest "that pre-1972 owners in *some circumstances* may be able to bring unfair competition claims, such as where a defendant creates pirated copies of recordings and sells them in competition with the recording owner." Sirius XM's Jan. 17, 2017 Letter Br. at 9. Rather, the NYCA made it perfectly clear that *Flo & Eddie* have "other potential avenues of recovery" based on the facts at issue *in this case— i.e.,* the possibility that Sirius XM's unauthorized copying and commercial exploitation of their pre-1972 recordings through its public performance of those recordings may constitute violations of the common law of copyright and unfair competition.

For each of the foregoing reasons, Plaintiff respectfully submits that their remaining claims based on Sirius XM's public performances are not moot, and requests that the District Court's decision granting summary judgment should be affirmed or, alternatively, that the matter should be remanded to the District Court for further proceedings consistent with the NYCA Opinion.

Respectfully submitted,

/s/ *Henry Gradstein*

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From: cacd_ecfmail@cacd.uscourts.gov
Sent: Friday, January 27, 2017 12:10 PM
To: ecfnef@cacd.uscourts.gov
Subject: Activity in Case 2:13-cv-05693-PSG-GJS Flo & Eddie Inc v. Sirius XM Radio Inc et al Statement (Motion related)

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UNITED STATES DISTRICT COURT for the CENTRAL DISTRICT OF CALIFORNIA

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Case Number: 2:13-cv-05693-PSG-GJS
Filer: Flo & Eddie Inc
Document Number: 675

Docket Text:
STATEMENT of Plaintffs' in Response to Sirius XM's Statement regarding Plaintiffs' unopposed Motion for Preliminary Approval NOTICE OF MOTION AND MOTION for Settlement Approval of Preliminary Approval of Class Action Settlement [666] filed by Plaintiff Flo & Eddie Inc. (Attachments: # (1) Exhibit 1, # (2) Exhibit 2, # (3) Exhibit 3)(Sklaver, Steven)

2:13-cv-05693-PSG-GJS Notice has been electronically mailed to:

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