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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.

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[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. THE DISTRICT COURT'S FINDING OF UNAUTHORIZED COPYING SHOULD BE AFFIRMED BECAUSE SIRIUS XM HAS NO FAIR USE DEFENSE

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. THE NYCA ORDER ELIMINATES THE DORMANT COMMERCE CLAUSE ARGUMENT

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.

Case 15-1164, Document 215, 01/17/2017, 1949164, Page12 of 12

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
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cc: All Counsel

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