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In May 2006, the Recording Industry Association of America ("RIAA"), representing the four major record labels, brought suit against XM Satellite Radio, Inc. ("XM") in the U.S. District Court for the Southern District of New York.[1] The plaintiffs allege that XM's introduction of its new service utilizing certain satellite radio receivers, including Pioneer's "inno" (the "inno"), dubbed "XM+MP3," constitutes "massive wholesale infringement" of RIAA members' copyrighted sound recordings.[2] The plaintiffs claim that XM's new service allows XM subscribers to record broadcasted songs, store them in playlist form, and replay them at the user's will, "effectively provid[ing] a digital download service."[3] This is allegedly a violation of RIAA members' rights under the U.S. Copyright Act of 1976.[4]

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1. Atl. Recording Corp. v. XM Satellite Radio, Inc. (*RIAA*), No. 06 Civ. 3733 (DAB), 2007 WL 136186 (S.D.N.Y. Jan. 19, 2007).

2. *See* Complaint for Declaratory and Injunctive Relief and Damages at 1, *RIAA*, 2007 WL 136186 [hereinafter RIAA Complaint], *available at* www.orbitcast.com/archives/RIAA_XM_Radio_filing.pdf.

3. *Id.* at 2.

4. 17 U.S.C. §§ 101-805 (2000).

This article briefly analyzes the record labels' federal claims,[5] highlighting issues implicating the Copyright Act, its amendment under the Digital Millennium Copyright Act ("DMCA"),[6] and the Audio Home Recording Act of 1992 ("AHRA").[7] Part I describes the parties to the dispute. Parts II reviews and analyzes the federal claims. Part III assesses XM's legal assertions in support of its motion to dismiss the complaint. Finally, Part IV concludes that, regardless of the outcome of the case at bar, Congress needs to harmonize various parts of the existing law.

I. A DESCRIPTION OF THE PARTIES

To understand the origin of this dispute between the music content suppliers and the major satellite broadcaster,[8] it is helpful to know who each party is and to review the statutory history that put each of them where they are today.

The RIAA is a trade group comprised of and representing the so-called "major" record labels in the U.S.[9] Together, these labels own the vast majority of copyrights in sound recordings.[10] The advent of digital music technology has proven difficult for the RIAA and its members and has spawned notorious litigation against both file sharing services[11] and individual "infringers."[12]

XM received its satellite digital audio radio service license from the Federal Communications Commission in October 1997.[13] Its satellite radio operations are regulated by the DMCA.[14] In 1995, Congress added the DMCA to the Copyright Act, expanding the sound recording copyright holders' "bundle of rights" to include the exclusive

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5. The plaintiffs are also suing under New York State common law. These state claims are beyond the scope of this analysis.

6. 17 U.S.C. §§ 1201-1205.

7. *Id.* §§ 1001-1010.

8. *See* Side by Side Comparison of Satellite Radio Deals Currently on the Market, http://www.radiosatellite.org (last visited Apr. 4, 2007).

9. The labels include: EMI/Capitol, Warner Bros., Universal Music Group and Sony/BMG Entertainment. Recording Indus. Assoc. of Am., About Us: Distributed Labels of Reporting Companies (RIAA), http://www.riaa.com/about/members/default.asp (last visited Apr. 4, 2007).

10. RIAA Complaint, *supra* note 2, at 1.

11. *See* A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001).

12. *See, e.g.*, Complaint for Copyright Infringement at 3, Elektra Entm't Group, Inc. v. Barker, No. 05 Civ. 7340 (KMK) (S.D.N.Y. Aug. 19, 2005), *available at* http://www.ilrweb.com/viewILRPDFfull.asp?filename=elektra_barker_complaint.

13. *See* XM Satellite Radio, Fast Facts, http://xmradio.com/about/fast-facts/index.xmc (last visited Apr. 4, 2007).

14. *See* 17 U.S.C. § 114 (2000).

right to perform publicly copyrighted audio works via digital transmission subject to limitations including compulsory licenses for digital subscription services.[15] The DMCA expanded the licensing regime to include transmissions from preexisting satellite networks.[16] XM was free to digitally broadcast copyrighted sound recordings subject to a statutory licensing scheme.

XM and the music licensors seemed to have an acceptable licensing arrangement. However, the plaintiffs in the present suit evidently regard XM's new service as a threat to licensed download services.[17] As the audience for satellite radio and other digital transmissions grows, the stakes get higher for the music content providers.[18] Consequently, the suit against XM seeks both injunctive relief and damages.[19]

II. THE CLAIMS AGAINST XM: SOME STATIC AFTER ALL[20]

The complaint against XM asserts four main claims, implicating both federal statutes and state common law (the state claims are restricted to the pre-1972 sound recordings implicated).[21] Most significantly, it alleges that XM is committing direct infringement by disseminating sound recordings to subscribers and allowing subscribers to record them.[22] This claim includes the allegation that the new generation of XM-ready players create so-

15. *See id.* § 106(6).

16. *See id.* § 114.

17. *See* RIAA Complaint, *supra* note 2, at 2.

18. The RIAA finds digital transmissions more dangerous to them than traditional broadcasting, because digital transmission delivers an essentially first generation copy of the original sound recording that can be copied over and over without any degradation of the sound quality of the original recording. Recording Indus. Assoc. of Am., Issues: New and Emerging Media, http://www.riaa.com/issues/audio/newmedia.asp (last visited Apr. 4, 2007) (summarizing developments in digital technology vis-à-vis the music industry).

19. For each count, the RIAA seeks the statutory maximum of $150,000 per infringement, potentially amounting to a figure in the tens of billions of dollars. *See generally* RIAA Complaint, *supra* note 2, at 16-29.

20. Pun intended. *See* STEELY DAN, *FM, on* FM: THE ORIGINAL MOVIE SOUNDTRACK (MCA 1978).

21. *See generally* RIAA Complaint, *supra* note 2, at 15-32. In an attempt to reasonably limit the scope of this paper, I will fold the RIAA's claims of contributory and vicarious infringement into the direct infringement claim, although the test for contributory and vicarious infringement can be found in *Fonavisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996). Furthermore, I will leave aside for another day the claim of XM's misuse of "transmitterside" copies–copies of original recordings that XM uses to transmit to subscribers. *See* RIAA Complaint, *supra* note 2, at 15-17.

22. RIAA Complaint, *supra* note 2, at 2.

called "buffer copies" of the recordings (allowing the user to decide mid-song that she wants to record it from its beginning).[23]

The plaintiffs' allegation is straightforward: XM is marketing a service that allows reproduction, thus operating outside the limited license it holds under the Copyright Act.[24] The new XM-ready players, including the inno, can record digital transmissions, store as many as 1000 songs, and play back recordings at the listener's discretion.[25] The difficulty in analyzing and understanding this straightforward allegation is that it depends on a fairly extensive and sometimes tortuous statutory analysis of copyright law.

The plaintiffs' complaint alleges that XM's new transmission service constitutes "distribution" of sound recordings as defined under the Copyright Act.[26] It asserts that the language of the Act (including Section 106(6) regarding digital transmission rights) clearly reserves the right of distribution in sound recordings to copyright owners, and distinguishes this distribution right from XM's "narrowly limited statutory license" to "perform publicly those sound recordings in a radio-like, non-interactive service, via satellite radio."[27] Essentially, the RIAA, on behalf of the record labels, is arguing that transmission + recording = distribution.

But is this really true? In order to establish that XM+MP3 is a violation of the RIAA's members' rights under the Copyright Act, the plaintiffs must persuade the court that digital transmission of sound recordings combined with a users' recording of that transmission equals digital distribution as defined under the Copyright Act. Section 106(3) of the Copyright Act defines "distribution" as the right to "distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending."[28] The legislative history of the Copyright Act makes clear that distribution of copies refers to physical things, not transmissions.[29] Nonetheless, the Copyright Act was written at a time when few foresaw digital distribution.[30] The plaintiffs' complaint asserts that, to the contrary, the Act explicitly contemplates that a

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23. This feature is similar to that on the TiVo digital video recorders that create buffered copies of television transmissions.

24. 17 U.S.C. § 114 (2000).

25. RIAA Complaint, *supra* note 2, at 10-11.

26. *Id.* at 2-3.

27. *Id.* at 3-4.

28. 17 U.S.C. § 106(3).

29. H.R. REP. NO. 94-1476, at 53 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5666.

30. *Id.*; *see, e.g.* S. REP. NO. 105-190, at 1-2 (1998), 1998 WL 239623 (noting that laws must adapt with the constantly evolving technologies).

digital transmission resulting in the creation of an unauthorized copy of the transmitted recording "implicates the exclusive right[] to reproduce . . . the sound recording . . . embodied therein."[31]

If the plaintiffs are correct, and Congress intended that a transmission resulting in the creation of a copy is a distribution, this analysis need go no further, as XM is infringing. However, the DMCA addition to the Section 106 "bundle of rights" includes the right "in the case of sound recordings, to *perform* the copyrighted work publicly by means of a digital audio transmission."[32] This digital public performance right essentially echoes rights already granted to holders of copyrights in literary, musical, dramatic, and other works under the Copyright Act.[33] If this grant is purely a public performance right designed to place today's copyright holders of sound recordings on equal footing with other copyright holders, the plaintiffs' argument loses momentum. The plain language of the statute seems to preclude equalization of distribution and public performance via transmission.[34]

Conversely, the legislative history surrounding the addition of digital transmission rights to sound-recording copyright holders suggests that the legislature *did* intend to equate transmission of digital copies with distribution.[35] Although the plaintiffs do not make this argument in their complaint against XM, the U.S., in its statement of interest in the case of *Elektra Entertainment Group v. Barker*, argues that "the legislative history of the Sound Recordings Act[36] is replete with statements showing Congress's understanding that a digital transmission resulting in the creation of a fixed copy of

31. RIAA Complaint, *supra* note 2, at 19 (quoting H.R. REP. NO. 104-274, at 22 (1995)).

32. 17 U.S.C. § 106(6) (emphasis added).

33. *Id.* § 106(4).

34. *Id.* § 106(6).

35. S. REP. NO. 104-128, at 27, *reprinted in* 1995 U.S.C.C.A.N. 356, 374 (stating that "the digital transmission of a sound recording that results in the reproduction by or for the transmission recipient of a phonorecord of that sound recording implicates the exclusive rights to reproduce and distribute the sound recording and the musical work embodied therein. New technological uses of copyrighted sound recordings are arising which require an affirmation of existing copyright principles and application of those principles to the digital transmission of sound recordings").

36. The reference is to the Digital Performance Right in Sound Recordings Act (DPRA) of 1995, Pub. L. No. 104-39, 109 Stat. 336 (1995). This act gave a sound recording performance right to sound recording copyright holders. *Id.* § 2 (codified as amended at 17 U.S.C. § 106).

the copyrighted work implicated the distribution right."[37] Specifically, the U.S. quotes the Senate Report for the proposition that:

> [u]nder existing principals of copyright law, the transmission or other communication to the public of a musical work constitutes a public performance of that musical work. In addition, the digital transmission of a sound recording *that results in the reproduction by or for the transmission recipient of a phonorecord of that sound recording implicates the exclusive rights to reproduce and distribute* the sound record and the musical work embodied therein.[38]

If this was the intent of Congress, it would appear that transmission + recording does in fact = distribution.

III. XM'S RESPONSE: WHAT ABOUT THE AHRA?

XM's Motion to Dismiss argues that the infringement claims must fail because they ignore the 800-pound gorilla in the corner: the Audio Home Recording Act of 1992.[39] The AHRA was designed to deal with controversy surrounding the first digital recording devices designed for home use, Sony Corporation's DAT (Digital Audio Tape) recorders.[40] The RIAA campaigned aggressively against home taping of music.[41] Music consumers were already recording songs from the radio, and the record industry, facing declining sales, was trying to

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37. Statement of Interest of the United States, In Opposition to Defendant's Motion to Dismiss the Complaint at 18, Elektra Entm't Group, Inc. v. Barker, No. 05 Civ. 7340 (KMK) (S.D.N.Y. Apr. 21, 2006), *available at* http://www.ilrweb.com/viewILRPDFfull.asp?filename=elektra_barker_usstatement (briefing on the side of Elektra against an alleged individual infringer).

38. *Id.* at 18 (emphasis added) (quoting S. REP. NO. 104-128 at 27, *reprinted in* 1995 U.S.C.C.A.N. 356, 374).

39. XM does argue briefly against the RIAA allegations under the Copyright Act. It denies that transmission equates distribution. Memorandum of Law in Support of Defendant's Motion to Dismiss at 9 n.10, Atl. Recording Corp. v. XM Satellite Radio, Inc. (*RIAA*), No. 06 Civ. 3733 (DAB), 2007 WL 2429415 (S.D.N.Y. July 17, 2006) (quoting Agee v. Paramount Commc'ns, Inc., 59 F.3d 317, 325 (2d Cir. 1995) (arguing that "[i]t is clear that merely transmitting a sound recording to the public on the airwaves does not constitute a distribution."). XM "buries" this precedent argument in a footnote, essentially suggesting that the court ignore it.

40. *See* Wikipedia.org, Audio Home Recording Act, http://en.wikipedia.org/wiki/Audio_Home_Recording_Act (last visited Mar. 27, 2007); *see also* Recording Industry Associoation of America, Audio Technologies–History of Recordings, http://www.riaa.com/issues/audio/history.asp#recording (last visited Apr. 4, 2007) [hereinafter RIAA, Digital Recording Formats] (describing the history of digital recording formats and the effort of the music industry to combat illegal copying).

41. *See* Wikipedia.org, Home Taping is Killing Music, http://en.wikipedia.org/wiki/Home_Taping_is_Killing_Music (last visited Mar. 27, 2007); *see also* RIAA, Digital Recording Formats, *supra* note 40 (summarizing the RIAA's campaign against home recording technology).

limit the financial impact of the public's new taping capabilities.[42] The DAT format raised the frightening specter of unlimited "perfect" digital copies of sound recordings.[43] At the urging of the record industry, Congress sought to clarify consumers' rights in the home for recording of phonorecords for personal use.[44] The legislative history of the AHRA is described in the Senate Report:

> [The AHRA] is a direct response to the needs of the music industry, the consumer electronics industry, and consumers. The bill incorporates the [serial copying management] system, and a royalty provision on digital audio recorders and media, *thus ensuring the consumers' right to record both analog and digital audio material for their private use.*[45]

The recording industry embraced the new law because it would "eliminate the legal uncertainty about home audio taping that has clouded the marketplace" and "allow consumer electronics manufacturers to introduce new audio technology into the market without fear of infringement lawsuits."[46]

The AHRA provides rules governing the taping of music for personal use, including a royalty scheme targeted at sales of digital recording devices.[47] While DAT was a failure (except in the professional recording world), MP3 players are practically ubiquitous in the U.S.[48] XM argues that its service and players are AHRA

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42. *See generally* Mark G. Tratos, *Entertainment on the Internet: The Evolution of Entertainment Production, Distribution, Ownership and Control in the Digital Age, in* ENTERTAINMENT LAW 331, 355 (Howard Siegel ed., 3d ed. 2004) (providing an overview of the changing technologies and industry concerns that led to the AHRA).

43. For a concise analysis of the development of the law relating to digital audio technology, see generally John R. Kettle III, *Dancing to the Beat of a Different Drummer: Global Harmonization – And the Need for Congress to Get in Step With a Full Performance Right for Sound Recordings*, 12 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1041 (2002).

44. S. REP. NO. 102-294, at 51 (1992).

45. Memorandum of Law in Support of Defendant's Motion to Dismiss, *supra* note 39, at 19 (alteration in original) (quoting S. REP. NO. 102-294, at 33).

46. Comments made by the RIAA's then-president Jay Berman are quoted at Electronic Frontier Foundation, Record Label Sues XM Radio (May 17, 2006), http://www.eff.org/deeplinks/archives/004679.php.

47. *See* Recording Industry Association of America, Copyright Laws, http://www.riaa.com/issues/copyright/laws.asp#digital (last visited Apr. 4, 2007). Manufacturers of digital recording devices are required to pay a royalty to the copyright holders. *See id.*

48. Apple, Inc., makers of the iPod line of MP3 players, reported sales of the player at 21,066,000 units during its fiscal quarter ending December 30, 2006. Press Release, Apple, Inc., Apple Reports First Quarter Results (Jan. 17, 2007), http://www.apple.com/pr/library/2007/01/17results.html. Apple is not the only manufacturer of MP3 players. *See* Wikipedia.org, Digital Audio Player, http://en.wikipedia.org/wiki/Digital_audio_player (last visited Apr. 4, 2007) (noting other MP3 players including Microsoft's Zune, Samsung's Yepp, Toshiba's Gigabeat, and others).

compliant and therefore cannot be committing copyright infringement in the transmission of sound recordings.[49]

The principal thrust of XM's argument for dismissal of the case is that the AHRA immunizes it against suit for copyright infringement.[50] Central to an analysis of this defense is the question of whether XM's service and XM-compatible devices are AHRA-compliant. First, XM argues that the inno is a "digital audio recording device" under the AHRA.[51] The statute defines a digital audio recording device as "any machine or device of a type commonly distributed to individuals for use by individuals . . . the digital recording function of which is designed or marketed for the primary purpose of, and that is capable of, making a digital audio copied recording for private use."[52] The inno is a satellite radio receiver commonly distributed to individuals for individual use.[53] The unit's digital recording function is included as part of its radio receiver, and XM is clearly marketing the recording function of the service as well as the device itself.[54] Therefore, XM argues, the inno (and other similar XM-compatible devices) are protected by the AHRA. Second, XM argues that the inno has a copy control system, as is required by the AHRA.[55] The songs that the inno is capable of storing cannot be copied off the player and are automatically erased upon expiration of the user's subscription to the XM service.[56] Thus, XM argues that it meets the requirements set forth in the AHRA.

IV. CONCLUSION

As outlined above, the RIAA's legal theory, asserted on behalf of the four major record labels, equates transmission and recording with distribution. This theory has its share of problems. Additionally, the plaintiffs' failure to address the AHRA leaves their argument incomplete; they seem destined to fail on the merits. Some

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49. *See* Memorandum of Law in Support of Defendant's Motion to Dismiss, *supra* note 39, at 1.

50. *Id.* at 13.

51. *Id.* at 16.

52. 17 U.S.C. § 1001(3) (2000).

53. Memorandum of Law in Support of Defendant's Motion to Dismiss, *supra* note 39, at 14.

54. *Id.* at 15.

55. 17 U.S.C. § 1002. The statute requires that digital devices have a copy management system preventing the making of digital copies from a digital copy. *Id.* § 1002(a).

56. *See* Memorandum of Law in Support of Defendant's Motion to Dismiss, *supra* note 39, at 6.

commentators have speculated that the RIAA, by way of the litigation, is trying to force XM to pay distribution fees to the record labels and that this action would render the existing transmission license XM enjoys under the DMCA moot.[57] Regardless, it is clear that this case could have implications for all broadcasters. If the court finds for the plaintiffs, potentially all broadcasters whose transmissions can be recorded could be deemed distributors of copyrighted content.[58]

With digital recordings, the distinction between transmission and distribution has blurred. Continued argument about the language of the 1976 Copyright Act, particularly Sections 106(3) and 106(6), is pointless. Digital services incorporating wireless transmission come on-line every day, digital terrestrial radio included.[59] To be fair to record companies and other copyright owners, XM+MP3 players like the inno offer consumers an opportunity to essentially "own" a new recording as soon as it is broadcast without buying it. Thus, it may not be appropriate to regard XM as simply a glorified FM radio station. While it is impossible to gauge the potential harm to the recording industry, the digital genie is well out of its bottle, and it is difficult to argue against the potential for further erosion of music sales in favor of services like XM. Clearly, existing laws are not adequate to address the exponential growth of music technology.

Regardless of the court's ruling in *Atlantic Recording Corporation v. XM Satellite Radio*, a legislative response is essential. This article does not even scratch the surface of the recent (and troubling) litigation surrounding internet music downloading, peer-to-peer distribution and service provider liability.[60] However, this case demonstrates that there are conflicts in the law. Only Congress can harmonize the Copyright Act and the AHRA. Home taping is as much

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57. Brief for the Electronic Frontier Foundation as Amicus Curiae Supporting Defendants at 13, Elektra Entm't Group, Inc. v. Barker, No. 05 CV 7340 (KMK) (S.D.N.Y. Feb. 23, 2006), *available at* http://www.eff.org/IP/P2P/RIAA_v_ThePeople/elektra_v_barker/elektra-amicus-efiled.pdf.

58. This development might implicate the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). The *Sony* Court found that the use of the Betamax was only "time shifting" the television transmission, and that Sony was not a contributory infringer of the studio's copyrights. *Id.* at 443-56. The opinion made much of the fact that the Betamax had "substantial non-infringing uses." *Id.* at 428. Whether XM could make this argument is outside the purview of this article.

59. See generally Digital Music News, http://www.digitalmusicnews.com (last visited Apr. 4, 2007), for daily reports on the development of digital music technology.

60. I make no attempt to navigate the treacherous waters of the Grokster, Aimster and Napster cases. *See* Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 545 U.S. 913 (2005); In re Aimster Copyright Litigation, 334 F.3d 643 (7th Cir. 2003); A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001).

a reality today as it was in 1992; however, the entertainment industry now faces the additional problem of consumers' easy access to "perfect" digital copies of recordings and other media.[61] The recording industry must be able to profitably distribute recordings reasonably free from the possibility that consumers will appropriate them gratis. Nonetheless, the public interest in allowing consumers the personal home "space shifting" of legitimately acquired sound recordings remains. The need for clarity could not be greater.

61. Although, with the difference in the "bit rates" (the number of bits of encoded data used to represent each second of audio) between CDs and MP3's, see Wikipedia.org, Bitrate, http://en.wikipedia.org/wiki/Bit_rate (last visited Apr. 4, 2007), some listeners would hardly call the MP3 copies "perfect."