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Erin Brady

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XM SATELLITE RADIO RECORDING DEVICES: IS IT FAIR USE OR COPYRIGHT INFRINGEMENT?

The next battle in the war between copyright protection and technological advancement.

I. INTRODUCTION

With the development of new satellite radio players that have the capability to record songs, copyright law is once again facing a challenge to define its boundaries. The recording industry has accused XM of using the Audio Home Recording Act (“AHRA”) as a loophole to the Copyright Act in a \$300 billion dollar lawsuit filed in the Southern District of New York.¹ XM has moved for the dismissal of the suit relying on section 1008 of the AHRA.²

This litigation’s outcome will be paramount in determining the future of technological innovation in the United States and in building the new business models for the recording industry. If the court finds that XM has violated copyright law, then the legality of home recording for personal use will become a major issue for the electronics industry as well as individual consumers. However, if the court finds in favor of XM, then the music industry will have to find new ways of marketing itself, and new ways to make

1. See *Atlantic Recording Corp. v. XM Satellite Radio, Inc.*, No. 06 Civ. 3733 (DAB), 2007 WL 136186 (S.D.N.Y. Jan. 19, 2007); see also *Labels Want Case Against XM Heard*, COMMC’NS DAILY, Sept. 5, 2006, 2006 WLNR 15546324; *Sirius Stiletto May Escape Music Industry’s Ire*, SATELLITE WEEK, October 2, 2006, 2006 WLNR 17126949; Ben Ames, *Record Labels Sue XM Radio, Claiming Copyright Infringement*, PC WORLD, May 17, 2006, <http://pcworld.com/printable/article/id,125749/printable.html>.

2. *Labels Want Case Against XM Heard*, *supra* note 1.

money.

Part II of this note examines the history and development of copyright law in sound recordings. Specifically, it discusses the history of the Copyright Act and how copyright law governs sound recordings. Part II then explains the purpose behind the AHRA and how that law developed. Part III of this note examines how these laws should be applied in the litigation between XM and the recording industry. Finally, in Part IV, this note proposes that the AHRA should apply to XM's new recording device and provide XM with immunity from a copyright infringement suit.

II. BACKGROUND

Satellite radio manufacturers have developed a new receiver³ that allows users to record live music or other programming from its subscription service.⁴ XM, one of the two leading satellite radio providers, calls the two players that can record off of their broadcasts "Inno" and "Helix", while the other major satellite radio provider, Sirius, calls their device "Stiletto."⁵ XM is now facing a \$300 billion suit by the Recording Industry Association of America ("RIAA") for copyright infringement, while Sirius has avoided legal action by approving a device-based royalty plan.⁶

3. Satellite radio has been limited to use in the home or car through a receiver that is connected to the radio until recently. New devices on the market now offer portability. Satellite radio offers a wider range of commercial free programming and music as an alternative to traditional radio. An individual can subscribe and receive the satellite service for a monthly fee as low as \$12.95 after they purchase a receiver. *See generally* XM Radio Service and Subscription, <http://www.xmradio.com/shop/subscriptions.xmc> (last visited July 1, 2007); *see also* The History of Portable Satellite Radios, <http://www.buzzle.com/editorials/1-27-2006-87485.asp> (last visited July 1, 2007).

4. XM Satellite Radio has announced the release of two new portable XM Satellite Radio receivers, the Helix and the Inno, which can also store and play digital music, as well as "bookmark" music heard via XM shows that can be purchased by individuals through Napster. Geoff Duncan, *XM Readies Inno and Helix Portable Players*, DIGITAL TRENDS, Jan. 4, 2006, <http://news.digitaltrends.com/article9212.html>.

5. *Sirius Stiletto May Escape Music Industry's Ire*, *supra* note 1.

6. *Id.*

The “Inno” and “Helix”⁷ devices can both record music or other blocks of programming, but neither player allows the transfer of music from the XM device onto other music players or computers.⁸ The music that is recorded to the Inno from XM satellite radio is only capable of playing on the device itself.⁹ The XM players also restrict the recorded music to current users who are still paying for the subscription service.¹⁰ If the subscriber cancels the service, all songs on the player will be unavailable and the consumer will be forced to get another copy of the song from another source, such as a compact disc or iTunes.¹¹ This feature differentiates the player from other services for music recording, such as iTunes, which gives the user a “right” to the music and the ability to transfer to other devices.¹²

When a consumer uses a service such as iTunes, Napster, or AOL music, they receive certain rights in the music that they purchase.¹³ These rights include the ability to listen to the song repeatedly with no additional costs or the ability to transfer music from one music player to another.¹⁴ However, many times the rights that consumers are purchasing from digital transactions do not afford the same protection as traditional music purchases.¹⁵ Most digital transmissions of music are limited by restrictions

7. Any reference to the “Inno” will mean for all types of recording players distributed by XM for the remainder of this note.

8. See Mem. Law Supp. Def.’s Mot. Dismiss at 6, Atlantic Recording Corp. v. XM Satellite Radio, Inc., No. 06 Civ. 3733 (DAB) (S.D.N.Y. July 17, 2006), 2006 WL 2429415.

9. A person would not be able to take music from the Inno or Helix device and transfer it onto their home computers or other portable MP3 players. See *Labels Want Case Against XM Heard*, *supra* note 1; see also *Sirius Stiletto May Escape Music Industry’s Ire*, *supra* note 1.

10. Ames, *supra* note 1.

11. See Mem. Law Supp. Def.’s Mot. Dismiss, *supra* note 8, at 6.

12. The iTunes service also contains limits on the transferability of its music; for example when you purchase a song on iTunes, Apple music store retains the DRM capability so it can limit the transferability of the music. See generally Electronic Frontier Foundation, *The Consumer is Always Wrong: A User’s Guide to DRM in Online Music*, <http://www.eff.org/IP/DRM/guide/> (last visited July 1, 2007).

13. *Id.*

14. *Id.*

15. *Id.*

placed by the manufacturer on their players.¹⁶ Music purchased on the popular iTunes website, for example, can only be played on Apple devices, such as their popular iPod, and not on other MP3 players by other manufacturers, such as Pioneer or Sony.¹⁷ A consumer who purchases a song from iTunes has a right to have that song in their player forever,¹⁸ while a person who records off the XM players are only allowed access to the music while their subscription is current.¹⁹

A. RIAA v. XM Satellite Radio

The RIAA²⁰ has accused XM of violating the Copyright Act in a suit brought in the Southern District of New York.²¹ The recording industry believes that the XM device causes “massive wholesale infringement,” induces consumers to pirate music, and that XM should be held liable for contributory and vicarious infringement.²² The RIAA is seeking penalties in the amount of \$150,000 per song per violation, which is estimated to be valued at around \$300 billion.²³ XM is defending its player arguing that it meets all the elements under the Audio Home Recording Act of 1992

16. *Id.*

17. *Id.*

18. See iTunes Terms of Service, <http://www.apple.com/legal/itunes/us/service.html> (providing “usage rules” setting forth various authorized and unauthorized uses of purchased iTunes products) (last visited July 1, 2007).

19. Ames, *supra* note 1.

20. The RIAA is a trade group that represents the U.S. recording industry. Most major labels are members of the organization whose purpose is to “foster a business and legal climate that supports and promotes” its members creative and financial vitality. RIAA, <http://www.riaa.com/whatwedo.php> (last visited July 1, 2007).

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

22. Cortney Arnold, *The Recording Industry vs. XM Radio: A Flashback to Sony?*, DUKE L. & TECH. REV. (IBLAWG), Sept. 28, 2006, <http://www.law.duke.edu/journals/dltr/iblawg/?p=40>.

23. See Ted Bridis, *Record Labels Sue XM Satellite Over Device*, MSNCOM, May 16, 2006, <http://www.msnbc.msn.com/id/12822547>; *Sirius Stiletto May Escape Music Industry’s Ire*, *supra* note 1.

(“AHRA”).²⁴ Specifically, XM believes that the Inno devices are entitled to immunity under section 1008 of the AHRA.²⁵

There are nine counts of infringement alleged in the RIAA’s complaint. In counts one,²⁶ two,²⁷ three,²⁸ and four²⁹ XM is accused of direct infringement. Count five accuses XM of inducement of copyright infringement³⁰ while counts six and seven allege that XM is contributorily³¹ and vicariously³² liable for the copyright infringement of its subscribers.³³

The controversy between the satellite radio manufacturers and the recording industry stems from different interpretations of the

24. See *Labels Want Case against XM Heard*, *supra* note 1.

25. See *id.*

26. Count one accuses XM of directly infringing on the RIAA’s distribution right in violation of §501 and §106(3) of the Copyright Act. See Compl. at 15-17, *Atlantic Recording Corp. v. XM Satellite Radio, Inc.*, No. 06 Civ. 3733 (DAB) (S.D.N.Y. May 16, 2006). Under Section 501(a), “[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 . . . is an infringer of the copyright or right of the author, as the case may be.” 17 U.S.C. § 501(a) (2006). Section 106(3) provides that the owner of a copyright has the exclusive 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.” § 106(3).

27. Count two is for violation of 17 U.S.C. § 115, which prohibits unauthorized digital phonorecords delivery. See Compl., *supra* note 26, at 17-18.

28. Count three of the complaint accuses XM of direct copyright infringement of RIAA’s reproduction rights in violation of 17 U.S.C. § 106(1). See Compl., *supra* note 26, at 18-20. Section 106(1) of the Copyright Act grants the exclusive right “to reproduce the copyrighted work in copies or phonorecords” to the copyright owner. § 106(1).

29. In count four, the RIAA accuses XM of infringing on its exclusive reproduction rights by abusing the “ephemeral recordings” in a way not permissible under 17 U.S.C. § 112(e). See Compl., *supra* note 26, at 20-22.

30. See Compl., *id.* at 22-25.

31. See *id.* at 25-27.

32. See *id.* at 27-30.

33. Counts eight and nine of the complaint relate to a state cause of action that is outside the scope of this article. Plaintiff alleged that its Pre-1972 Recordings are subject to New York common law copyright protection. Count eight states that “plaintiffs have not granted or licensed to defendant the right to copy or distribute the Pre-1972 Recordings in any manner.” *Id.* at 30. Count nine relates to unfair competition as to Pre-1972 Recordings. *Id.* at 31.

AHRA and the Copyright Act.³⁴ Understanding the circumstances in which these two laws developed is paramount when deciding which law should govern innovative technology.

B. Copyright Act

*The Congress shall have the Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.*³⁵

Copyright protection has existed since the foundation of this nation and is based on the premise that “its purpose is not to reward authors and inventors for their achievements merely for the sake of rewarding them, but rather, to provide an incentive for continued creation so that society as a whole may benefit.”³⁶ Copyright protection has been traced to the Statute of Anne, enacted by Parliament in 1710, which “established the principle authors’ ownership and prevented monopolies on the part of booksellers by creating a ‘public domain’ after a fixed term of fourteen years of protection.”³⁷ The Statute of Anne thus became a “force of law . . . and the concept of copyright law became a part of the Anglo-American jurisprudence”³⁸

34. See *Labels Want Case against XM Heard*, *supra* note 1.

35. U.S. CONST. art. I, § 8, cl. 8.

36. Robert J. Delchin, *Musical Copyright Law: Past, Present and Future of Online Music Distribution*, 22 CARDOZO ARTS & ENT. L.J. 343, 345 (2004) (citing 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.03A (2003)).

37. *Id.*

38. Mark G. Tratos, *The Impact of the Internet & Digital Media on the Entertainment Industry*, 862 PLI/PAT 127, 135-136 (2006). The English Crown, which feared the power of the printing press, had controlled the book printers, binders and sellers through a device called the “royal charter” that was granted to the Stationers Guild. *Id.* at 134-35. Only members of the Stationers Guild were entitled to the benefit of the royal charter. *Id.* at 135. The primary rule of the Stationers Guild required that “the printer who first acquired the right to print, bind and distribute the work would have the exclusive right to do so thereafter.” *Id.* At the end of the 17th century, Parliament prevented the extension of the charter but the Stationers Guild had built enough political

From the Statute of Anne, Anglo-American jurisprudence developed the basic concepts of its copyright law.³⁹ Initially, under the Copyright Act of 1790, United States copyright protection only extended for fourteen years with the possibility to renew for a second fourteen year term, while the 1909 Act changed the term of protection to a twenty-eight year term with the possibility to renew for an additional twenty-eight year term.⁴⁰ The current Copyright Act, whose last major overhaul was in 1976, provides individuals with copyright protection for the life of the author plus 70 years.⁴¹ Copyright law has three requirements for protection: originality, authorship and fixation.⁴² The copyright laws which apply to music and musical recordings have evolved over the last thirty years due to the constant evolution of technology.⁴³

1. Sound Recording Act of 1971

Sound recordings did not have any copyright protection under federal law until Congress enacted the Sound Recordings Act of

power to convince Parliament that authors should “be granted a copyright, under the rationale that rewarding the authors would promote public learning and literacy and thus would benefit all of society.” *Id.* The Stationers Guild then successfully regained control by “requiring that the authors convey their copyrights to the publishers in exchange for royalty payments on their books.” *Id.*

39. *See id.* at 135-36.

40. ROCHELLE COOPER DREYFUSS & ROBERTA ROSENTHAL KWALL, *INTELLECTUAL PROPERTY CASES AND MATERIALS ON TRADEMARK, COPYRIGHT AND PATENT LAW* 213-14 (Foundation Press 2d ed. 2004); *see also* Copyright Act of 1790, <http://www.copyright.gov/history/1790act.pdf> (last visited July 1, 2007); Copyright Act of 1909, <http://www.copyright.gov/history/1909act.pdf> (last visited July 1, 2007).

41. The term set in the 1976 Copyright Act was fifty years but this was extended under the Sonny Bono Copyright Term Extension Act in 1998. DREYFUSS & KWALL, *supra* note 40, at 213-14.

42. The copyright act provides that protection is extended “in *original* works of *authorship fixed* in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” 17 U.S.C. §102(a) (2006) (emphasis added).

43. *See generally* Delchin, *supra* note 36, at 348-55.

1971.⁴⁴ Until that time “copyright protection extended only to the written compositions and not to the recording of the compositions onto a tangible medium.”⁴⁵ Under the Sound Recordings Act, any sound recording fixed after February 15, 1972 is entitled to federal copyright protection.⁴⁶ The grant of copyright in sound recordings was retained when the major revision of the Copyright Act occurred in 1976.⁴⁷

The Copyright Act thus protects musical compositions *and* sound recordings under section 102 of the Copyright Act.⁴⁸ Therefore a song has two separate copyrights: one in the underlying composition, and the other in the physical recording, with public performance rights remaining only in the former.⁴⁹ Congress declined to extend sound recordings any performance rights.⁵⁰ These rights were purposely omitted by Congress and allowed radio stations to play songs without paying royalties to the creators of the recordings.⁵¹ Consequently, “only composers and publishers were entitled to royalties from radio broadcasts.”⁵² “[W]hen a song [was] broadcast over the radio, only the owner of the composition [was] entitled to royalties. Because public

44. Sound Recording Act of 1971, Pub. L. No. 92-140, 85 Stat. 391 (1971) (current version in scattered sections of 17 U.S.C.).

45. Delchin, *supra* note 36, at 346.

46. Ronald Mark Wells, *You Can't Always Get What You Want But Digital Sampling Can Get What You Need*, 22 AKRON L. REV. 691, 696 (1989); *see also* Sound Recording Act of 1971, 85 Stat. at 391-92.

47. *See* Delchin, *supra* note 36, at 348.

48. *Id.*

49. *Id.* Therefore, a song like “Star Spangled Banner” has one writer, Francis Scott Key, but many singers. If that song was eligible for copyright protection (it has long exceeded the life of the statutory time frame), only Francis Scott Key would have the copyright for the composition prior to the Sound Recording Act of 1971. After 1971, any work recorded would be granted the right of reproduction, distribution, display or preparation of derivatives. The only right not granted was the right to perform the work publicly. *See id* at 348-49.

50. *Id.* at 349; *see also*, Stephen Summer, *Music on the Internet: Can the Present Laws and Treaties Protect Music Copyright in Cyberspace?*, 8-SUM CURRENTS: INT’L TRADE L.J. 31, 35 (1999).

51. Delchin, *supra* note 36, at 348.

52. *Id.* (citing Azine Farzami, *Bonneville v. Register of Copyrights: Broadcasters’ Upstream Battle Over Streaming Rights*, 11 COMMLAW CONSPECTUS 203, 205-06 (2003)).

performance rights remain[ed] only in compositions and not in sound recordings, the performers [were] entitled to nothing for that song”.⁵³

The music lobby was displeased with the lack of performance rights in sound recordings and lobbied Congress to create such rights.⁵⁴ Congress was finally forced to act because the prospering recording industry was threatened by the emerging internet, as well as by cable and satellite broadcasts.⁵⁵ The internet and emerging technologies allowed individuals to make perfect digital copies of digital transmissions of music; if Congress wanted to maintain the growth and strength of the music industry, substantial changes had to occur.⁵⁶ The music industry feared that individuals, who could now retrieve any song on demand, would record music from cable and satellite services and forego purchasing compact discs (“CDs”).⁵⁷ Artists performing on these CDs would lose the revenue generated by the CD sales upon which they had relied.⁵⁸ These threats resulted in the passage of the Digital Performance Right in Sound Recordings Act of 1995 (“DPRA”).⁵⁹

2. *The Digital Performance Right in Sound Recordings Act of 1995*

The Digital Performance Right in Sound Recordings Act gave owners of the copyright in sound recordings the exclusive right of public performance, but limited these rights to new subscription services such as cable, satellite and internet service providers.⁶⁰ This limitation, which excluded live performances, movies and traditional radio and television broadcasts, was created to maintain the existing contractual relations in the music industry.⁶¹ The Senate Report on the DPRA explained the legislature’s position:

53. *Id.*

54. *See id.* at 349.

55. *See id.* at 349-52.

56. *See id.*

57. Delchin, *supra* note 36 at 352.

58. *Id.*

59. The Digital Performance Right in Sound Recordings Act of 1995, Pub. L. 104-39, 109 Stat. 336 (1995) (codified as various amendments to 17 U.S.C.).

60. Delchin, *supra* note 36, at 352.

61. *Id.*

Notwithstanding, the views of the Copyright Office . . . that it is appropriate to create a comprehensive performance right for sound recordings, the Committee has sought to address the concerns of record producers and performers regarding the effects that new digital technology and distribution systems might have on their core business without upsetting the longstanding business and contractual relationships among record producers and performers, music composers and publishers and broadcasters Accordingly, the Committee has chosen to create a carefully crafted and narrow performance right, applicable only to certain digital transmissions of sound recordings.⁶²

Congress had hoped that the DPRA would stem “the tide of unauthorized music transfers,” but “Congress did not anticipate the exponential growth of both webcasting and MP3 filesharing.”⁶³ These issues forced Congress to readdress the matter just three years later.⁶⁴

3. *The Digital Millennium Copyright Act of 1998*

The Digital Millennium Copyright Act of 1998⁶⁵ was signed into law on October 28, 1998 and was “designed to keep United States Copyright law in step with constant technological developments.”⁶⁶ Section 114 of the Copyright Act defines the scope of exclusive rights in sound recordings.⁶⁷ It requires statutory licensing for sound recordings of a subscription digital audio transmission.⁶⁸ “The DMCA [] extended the statutory license to cover eligible non-subscription transmissions [] and

62. S. REP. NO. 104-128, at 13 (1995).

63. Delchin, *supra* note 36, at 354.

64. *Id.*

65. The Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified as various amendments to 17 U.S.C.).

66. Delchin, *supra* note 36, at 355.

67. 17 U.S.C. §114 (d)(2) (2006).

68. *Id.*

specified conditions for three preexisting DBS/cable subscription music services⁶⁹. . . as well as two preexisting mobile satellite digital audio services (CD Radio and American Mobile Radio, now known as XM and Sirius satellite radio).⁷⁰ The DMCA requires that satellite radio subscription services pay a statutory licensing fee to play sound recordings in their broadcasts, while analog radio stations are exempt from this fee.⁷¹

The DMCA brought the United States into conformity with both the World Intellectual Property Organization (WIPO) Copyright Treaty and WIPO Performance and Phonograms Treaty which primarily “require member states to (1) protect against circumvention of technical measures used by copyright owners to protect their works and (2) protect against tampering with copyright management information.”⁷² By conforming to these treaties the United States was creating and extending copyright protection for United States works throughout the world.⁷³ As the law of copyright continued to evolve in Congress, it was also challenged in the courts.

C. Fair Use

An accused infringer can assert the affirmative defense of fair use.⁷⁴ Section 107 of the 1976 Copyright Act⁷⁵ lists the four factors that must be considered when determining whether a use is a fair use: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;⁷⁶ (2) the nature of the copyrighted work;⁷⁷

69. I.e. DMX, Music Choice, and DiSH network.

70. Matt Jackson, *From Broadcast to Webcast: Copyright Law and Streaming Media*, 11 TEX. INTELL. PROP. L.J. 447, 457 (2003).

71. *Id.* Traditional analog radio broadcasts were exempt from any licensing fees because the industry wanted to maintain the status quo for existing business relationships. Delchin, *supra* note 36, at 353.

72. Delchin, *supra* note 36, at 355.

73. *Id.*

74. See Holger Postel, *The Fair Use Doctrine in the U.S. American Copyright Act and Similar Regulations in the German Law*, 5 CHI.-KENT J. INTELL. PROP 142, 144 (2006).

75. See 17 U.S.C. §107 (2006).

76. When courts are examining the purpose and character of the work, some

of the factors they consider are:

(a) whether the appropriated work is being used for commercial purposes. *See* *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001) (holding that the individual users of a music file swapping service were engaging in commercial use of copyrighted works because they were distributing music files to anonymous requesters and the users were getting something for free that they ordinarily must pay for);

(b) whether the appropriated work is being use for non-commercial use. *See* *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 449 (1984) (holding that time-shifting of television programs for viewing later in a private home must be characterized as noncommercial);

(c) whether the work is transformative. *See* *Campbell v. Acuff-Rose Music, Inc.* 510 U.S. 569, 579 (1994) (holding that a rapper's rendition of the popular song "Pretty Woman" was a commercial use but transformative in nature. The song was a parody and the court said that "[l]ike less ostensibly humorous forms of criticism, it can provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one. We thus line up with the courts that have held that parody, like other comment or criticism, may claim fair use under §107."). *See also* *SunTrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1269-71 (11th Cir. 2001) (finding that a book that is named *The Wind Done Gone*, which incorporates characters, scenes and even dialogue from the famous Margaret Mitchell book, *Gone With the Wind*, is still transformative because it is a parody and a critique of the depiction of slavery); or

(d) whether the work was for news reporting. *See* *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 561-62 (1985) (holding that the printing of a former President's memoirs, which had not been published yet, was a news gathering use, but done for commercial purposes).

77. The second fair use factor, the nature of the copyrighted work, evaluates:

(a) whether the work was creative. *See* *Stewart v. Abend*, 495 U.S. 207, 237-38 (1990) (finding that the appropriation of a short story into the popular motion picture "Rear Window" was not fair use under any of the four elements required. The court explained that fair use was less likely to be found if the work was creative) (citing *Brewer v. Hustler Magazine, Inc.*, 749 F. 2d 527, 529 (9th Cir. 1984)); *see also* *Campbell*, 510 U.S. at 586 (explaining that the original song was clearly a creative expression at the heart of copyright protection, but

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole;⁷⁸ and (4) the effect of the use upon the potential market for or value of the copyrighted work.⁷⁹ Fair use has been a defense that has worked both for and against technological advancements as illustrated in the following cases.

1. Sony Corp. of America v. Universal City Studios, Inc.

The argument against XM is reminiscent of a case brought against Sony Corporation in what has become known as the “*Betamax Case*.”⁸⁰ Universal accused Sony Corporation of infringing their copyrights by supplying individuals with technology to record home television shows and movies.⁸¹

parodies “invariably copy publicly known, expressive work” so the factor is not helpful in deciding whether parodies are protected under fair use); or

(b) whether the work was non-creative. *See Harper & Row*, 471 U.S. at 563-64 (explaining that a historical narrative or autobiography generally is recognized as requiring a greater need to disseminate the information than works of fiction or fantasy. However, the Court also explained that the fact a work is “unpublished” is also a critical element of its “nature.” A copyright holder has a right to choose “when, where, and in what form first to publish a work.”).

78. The court also considers the amount and substantiality of the work appropriated. *See Napster*, 239 F.3d at 1016, (holding that file swapping was “wholesale copying” of a creative work, which militates against a finding of fair use); *see also Sony Corp.*, 464 U.S. at 456 (finding a fair use when an entire work was “time-shifted”). In *Campbell*, the court said that “the parody must be able to ‘conjure up’ at least enough of that original to make the object of its critical wit recognizable.” *Campbell*, 510 U.S. at 588 (quoting *Elsmere Music, Inc. v. Nat’l Broad. Co.* 482 F. Supp. 741, 747 (S.D.N.Y. 1980) and *Fisher v. Dees*, 794 F.2d 432, 438-39 (9th Cir. 1986)).

79. The last factor considered is the effect on the plaintiff’s market. In *Sony Corp.*, the court found there was no substantial effect to broadcasters and advertisers where individuals used the Betamax machine to time-shift free television broadcasts to view at a later time. *Sony Corp.*, 464 U.S. at 454-56. The court in *Napster* said there was a demonstrable affect on the plaintiff’s market because of the availability of digital downloads for free on the internet. *Napster*, 239 F.3d at 1017.

80. Arnold, *supra* note 22.

81. *Sony Corp.*, 464 U.S. at 420.

Universal alleged that Sony, who manufactured the recording device, was infringing its copyright and should be liable for the individual home users infringing use based on theories of contributory and vicarious liability.⁸² The Court held that copying of television programs by home viewers (a non-commercial function) for the purpose of time-shifting (recording a program to watch at a more convenient time) was *not* copyright infringement, but rather fair use.⁸³

The Court reasoned that the home use of the machine was personal and non-commercial⁸⁴ and further considered the effect on the plaintiff's market. The Court found that there was no presumption of likelihood of harm for non-commercial use; if the use is not commercial, then there is no money being made and therefore nothing is taken away from the plaintiff's market.⁸⁵

Betamax also stands for the proposition that when an article of commerce is capable of both infringing and non-infringing uses, the manufacturer bears the burden of showing that the product is capable of commercially significant non-infringing uses.⁸⁶ The Court found that the equipment in *Betamax* had a commercially significant non-infringing use.⁸⁷ The "respondents failed to demonstrate that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works," and therefore Sony was not liable to Universal.⁸⁸ Consumers had a valid interest in time-shifting programs viewed at home⁸⁹ and technology won a major battle against copyright.

82. *See id.*

83. *Id.* at 451.

84. *See id.* at 454-55.

85. *Id.* at 456.

86. *Id.* at 451 ("A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work.").

87. *Sony Corp.*, 464 U.S. at 456.

88. *Id.*

89. *See id.*

2. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*

In *MGM v. Grokster*⁹⁰ the Supreme Court faced another challenge to the fair use defense. The Court was asked to hold a peer-to-peer file sharing network⁹¹ distributor liable for the infringing uses of its subscribers.⁹² The Court in *Grokster* had to balance two important policies: the plaintiff's interest in the ownership of copyrighted works versus the defendant's interest in being able to create innovative technology.⁹³ The Court held that "[o]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."⁹⁴ The Court held that Grokster was promoting infringement by likening their product to the now illegal Napster.⁹⁵

Grokster provided free software products that allowed computer users to share their electronic files through a peer-to-peer network.⁹⁶ Grokster differentiated itself from Napster by using a peer-to-peer network that did not rely on a central server.⁹⁷ The

90. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

91. On the Internet, peer-to-peer (referred to as P2P) is a type of transient Internet network that allows a group of computer users with the same networking program to connect with each other and directly access files from one another's hard drives. See Search Networking.com Definition, Peer-to-Peer, http://searchnetworking.techtarget.com/sDefinition/0,,sid7_gci212769,00.html (last visited Sept. 24, 2007).

92. *Grokster*, 545 U.S. at 920-21.

93. *Id.* at 928.

94. *Id.* at 936-37.

95. See *id.* at 937-38; see also *A&M Records, Inc. v. Napster, Inc.*, 284 F.3d 1004 (9th Cir. 2002). In *Napster*, the Ninth Circuit held Napster vicariously and contributorily liable for copyright infringement. *Napster*, 284 F.3d at 1022-24. Napster was also a peer-to-peer file sharing network, however, unlike Grokster, Napster users had their requests sent through servers. See Delchin, *supra* note 36, at 386. The court found Napster contributory liable because it knew or should have known, of direct infringement. *Id.* at 388. The court found vicarious liability because it said Napster had a right and ability to supervise the infringing conduct of its users. *Id.* The end result was the shutdown of the Napster service. *Id.*

96. *Grokster*, 545 U.S. at 919.

97. *Id.* at 920. In Grokster's service, there was no longer a need for high-

service became popular with college students, who used the service to swap copyrighted music and video files without authorization.⁹⁸ The recording industry asserted that Grokster should be held liable for contributory infringement because they knew the service was being used for music swapping and they “materially contributed to the infringement.”⁹⁹

One can be held liable for contributory infringement by intentionally inducing or encouraging direct infringement,¹⁰⁰ while vicarious infringement is “profiting from direct infringement while declining to exercise a right to stop or limit it.”¹⁰¹ The Supreme Court found that there was substantial evidence that Grokster was guilty of “all elements of inducement” and remanded the case.¹⁰²

D. Audio Home Recording Act

XM argues that copyright law is not applicable in this litigation because under the AHRA they are entitled to immunity from a copyright infringement action.¹⁰³ The Audio Home Recording Act of 1992¹⁰⁴ was passed in order to address disputes between the music industry and the electronic industry.¹⁰⁵ Section 1008 of the AHRA states that an action for copyright infringement could not be brought “based on the manufacture, importation, or distribution of a digital audio recording device, digital audio recording medium . . . or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog

bandwidth communications capacity, or for costly server storage space in addition to the fact that without a server, there was no risk that a glitch in the server would disable the network entirely. *Id.*

98. *Id.*

99. Delchin, *supra* note 36, at 391.

100. *Grokster*, 545 U.S. at 930 (citing *Gershwin Publ’g. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

101. *Id.* at 930 (quoting *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963)).

102. *Id.* at 941.

103. *See Labels Want Case Against XM Heard*, *supra* note 1.

104. Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237 (1992).

105. 138 CONG .REC. H9029-01, H9033 (statement of Rep. Brooks) (1992).

musical recordings.”¹⁰⁶ Section 1008 of the AHRA was enacted to end a stalemate that had developed between electronic manufacturers and the music publishers and songwriters.¹⁰⁷ The manufacturing industry had experienced “a chilling effect” that prevented the distribution of digital recorders to the general public for fear of a massive lawsuit from the “recording companies, music publishers, artists, musicians and others in the recording industry”.¹⁰⁸

The stalemate between electronic manufacturers and music publishers was a result of the competing interests between the recording industry and the electronics industry; the recording industries wished to retain its copyrights while the electronics industry wished to advance the capabilities of new recording devices.¹⁰⁹ The legislative record explains that “[d]ue to the precision of digital audio recording technology, the recording companies, music publishers, artists, musicians and others in the recording industry ha[d] been afraid that the digital audio recorders [would] increase copying by consumers and illegal bootleg companies and thereby reduce sales and royalties.”¹¹⁰ The legislative record indicates that this stalemate denied the American consumer access to important technology.¹¹¹ In commenting about the AHRA, Representative Hamilton Fish from New York stated that “the bill resolves an issue that has been of great concern to consumers for the last two decades; that is the home taping of music.”¹¹² The act makes clear that the home taping of music is not a violation of copyright law.¹¹³

The AHRA does not merely give rights to home users; it also requires that manufacturers and importers pay a royalty fee for each digital audio recorder and digital audio recording medium sold in the United States.¹¹⁴ The royalty payment was introduced to compensate copyright holders for the loss of sales due to home

106. 17 U.S.C. §1008 (2006).

107. 138 CONG. REC. H9029-01, H9035 (statement of Rep. Collins) (1992).

108. *Id.*

109. *See id.*

110. *Id.*

111. *Id.*

112. *Id.* at H9036 (statement of Rep. Fish) (1992).

113. 138 CONG. REC. H9029-01, H9036 (statement of Rep. Fish) (1992).

114. *Id.* at H9035 (statement of Rep. Collins).

copying.¹¹⁵ The legislative record explains that the royalty fund was established “on digital recorders and recording media to ensure that artists, composers, writers, and publishers are compensated for any abuse that does occur.”¹¹⁶ Under the DMCA, XM pays a statutory licensing fee to play sound recordings on its broadcasts,¹¹⁷ while under the AHRA, it must pay a royalty fee for the distribution of recording players such as the Inno.¹¹⁸

Finally, the AHRA requires that digital audio recorders incorporate the serial copy management system (“SCMS”) which prevents the recording of copied material.¹¹⁹ This compromise made new digital recording equipment contain “a chip that [would] prevent any copying of the copies made by the new equipment. In other words, you can make as many noncommercial copies as you wish from the new machine but you will not be able, mechanically, to make a copy of the copy.”¹²⁰ The intent of implementing the AHRA was to finally resolve the issues of home taping.¹²¹ Representative Norman Lent of New York explained that the “installation of the ‘serial copy management system,’ coupled with the royalty payment funds ensures that consumers will have access to both current and future generations of digital recording technology. This opens new markets and opportunities for manufacturers, sellers, artists, and producers involved in the rapidly expanding digital audio marketplace.”¹²² The AHRA was Congress’ attempt to balance the interests of the music industry with the interests of consumers and the electronic manufacturing industry. As illustrated by the suit against XM, all issues have not been resolved between these two industries.

XM and its allies, such as the Consumer Electronics Association (CEA),¹²³ claim that the Inno players are protected under the

115. *Id.* at H9034 (statement of Rep. Hughes).

116. *Id.* at H9037 (statement of Rep. McMillian).

117. *See* Jackson, *supra* note 70, at 457-58.

118. *See* 17 U.S.C. § 1003 (2006).

119. 138 CONG. REC. H9029-01, H9037 (statement of Rep. Lent) (1992).

120. *Id.* at H9033 (statement of Rep. Moorhead).

121. *See id.* at H9037 (statements of Reps. McMillan and Lent); *see also id.* at H9033 (statement of Rep. Brooks).

122. *Id.* at H9037 (statement of Rep. Lent).

123. The CEA is a trade association that promotes growth in the consumer technology industry. *See* CEA Mission Statement,

AHRA.¹²⁴ XM asserts that its devices are protected because they meet all the requirements as set forth under the AHRA.¹²⁵ The recording industry vehemently disagrees and asserts that the Copyright Act should be controlling.¹²⁶ This dispute, however, goes beyond satellite radio devices and is representative of the continual challenges facing copyright law from new, developing technologies.

III. ANALYSIS

As our society develops, new technologies emerge that will challenge the existing copyright law to adapt. Some laws will expand the use of new technologies, while other laws will restrict its scope. The music industry has been on the forefront of these technological wars. The technology that has developed poses great risks to the financial structure upon which the music industry is founded. The new satellite radio recording capabilities represent one of the challenges that this industry fears the most.

The lawsuit against XM requires an in-depth look at the purpose of copyright law and how to balance it with the rapidly advancing electronics industry. The case against XM is representative of disputes that are likely to arise when copyright laws are challenged by new technology. This note will first analyze the applicability of the AHRA and then will explain how the rights granted by the DPRA and DMCA affect new technologies such as the Inno.

A. What does AHRA mean for satellite radio recording?

XM radio filed a motion to dismiss in response to the RIAA's complaint accusing them of copyright infringement.¹²⁷ In this motion, XM explained that "the AHRA was enacted to encourage the development of 'digital audio recording devices' by

<http://www.ce.org/AboutCEA/default.asp> (last visited July 1, 2007).

124. See *CEA Decries Record Industry Lawsuit Against XM Radio*, ECOUSTICS.COM, May 17, 2006,

<http://news.ecoustics.com/bbs/messages/10381/225652.html>.

125. See *Labels Want Case Against XM Heard*, *supra* note 1.

126. *Id.*

127. See Mem. Law Supp. Def.'s Mot. Dismiss, *supra* note 8.

prohibiting the filing of copyright infringement suits, such as this one [by RIAA], based on the manufacture, importation, distribution and use of such devices.”¹²⁸ XM also relies on the argument that the RIAA was an active participant in the legislative hearings on the AHRA and should not be allowed to alter the terms that the RIAA now finds inconvenient.¹²⁹

The fundamental question that must be asked is whether satellite radio broadcasts are covered under the AHRA. Section 1008 of the AHRA clearly indicates that infringement actions cannot be brought “based on the manufacture, importation, or distribution of a digital audio recording device. . .or based on the noncommercial use by a consumer of such a device or medium for making digital musical recording.”¹³⁰ If the satellite music recording device is a “digital audio recording device” it is clearly covered under §1008 of the AHRA.

Section 1001(3) defines a digital audio recording device as:

[A]ny machine or device of a type commonly distributed to individuals for use by individuals, whether or not included with or as part of some other machine or device, 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, except for-

(A) professional model products, and

(B) dictation machines, answering machines, and other audio recording equipment that is designed and marketed primarily for the creation of sound recordings resulting from the fixation of

128. *Id.* at 1.

129. *Id.*

130. 17 U.S.C. § 1008 (2006).

nonmusical sounds.¹³¹

The Ninth Circuit explained that “to be a digital audio recording device, [the player] must be able to reproduce, either ‘directly’ or ‘from a transmission’ a ‘digital music recording.’”¹³² This interpretation was based on the definitions of a digital audio recording device (DARD), a digital audio copied recording (DACR), and a digital music recording (DMR).¹³³

131. *Id.* § 1001(3).

132. *Recording Indus. Ass’n of Am. v. Diamond Multimedia Sys. Inc.*, 180 F.3d 1072, 1076 (9th Cir. 1999).

133. The act defines these as:

(1) A ‘digital audio copied recording’ is a reproduction in a digital recording format of a digital musical recording, whether that reproduction is made directly from another digital musical recording or indirectly from a transmission. 17 U.S.C. §1001(1) (2006).

(3) A ‘digital audio recording device’ is any machine or device of a type commonly distributed to individuals for use by individuals, whether or not included with or as part of some other machine or device, 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, except for-

(A) professional model products, and

(B) dictation machines, answering machines, and other audio recording equipment that is designed and marketed primarily for the creation of sound recordings resulting from the fixation of nonmusical sounds. §1001(3).

(5)(A) A ‘digital musical recording’ is a material object-

(i) in which are fixed, in a digital recording format, only sounds, and material, statements, or instructions incidental to those fixed sounds, if any, and

(ii) from which the sounds and material can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

(5)(B) a ‘digital musical recording’ does not include a material object-

(i) in which the fixed sounds consist entirely of spoken word recordings, or

(ii) in which one or more computer programs are fixed, except that a digital musical recording may

The Ninth Circuit has held that a device is not a DARD if it only makes copies of transmissions from a computer hard drive.¹³⁴ In *RIAA v. Diamond Multimedia*, the RIAA asked the court for a preliminary injunction to “enjoin the manufacture and distribution . . . of the Rio portable music player.”¹³⁵ The Rio portable music player was one of the first portable MP3¹³⁶ players on the market which allowed “a user to download MP3 files from a computer and to listen to them elsewhere.”¹³⁷ The only way for the Rio player to obtain music was “via a parallel port cable that plugs the Rio into the computer.”¹³⁸

In *Diamond Multimedia*, the RIAA argued that the Rio player was not a DARD under the AHRA because it did not employ a Serial Copyright Management System (“SCMS”).¹³⁹ In sum, the RIAA wanted the AHRA to apply to the Rio player and sought a preliminary injunction against the manufacture and distribution of the Rio because the player did not employ SCMS.¹⁴⁰ The court in that case reasoned that to be a DARD under the statute, a player had to make a digital audio copied recording from a digital musical

contain statements or instructions constituting the fixed sounds and incidental material, and statements or instructions to be used directly or indirectly in order to bring about the perception, reproduction, or communication of the fixed sounds and incidental material.

(5)(C) For purposes of this paragraph-

- (i) a ‘spoken word recording’ is a sound recording in which are fixed only a series of spoken words, except that the spoken words may be accompanied by incidental musical or other sounds, and
- (ii) the term ‘incidental’ means related to and relatively minor by comparison. §1001(5).

In summary, to have a DARD one must make a DACR of a DMR.

134. *See Diamond Multimedia*, 180 F.3d at 1077-78.

135. *Id.* at 1073.

136. *See Tratos, supra* note 38, at 169 (“MP3 was a software algorithm that allowed audio to be compressed for transmission and then expanded again without the loss of detectable audio fidelity.”).

137. *Diamond Multimedia*, 180 F.3d at 1073.

138. *Id.* at 1075.

139. *Id.*

140. *See id.*

recording.¹⁴¹ The Court held that because a digital musical recording does not include “a material object “in which one or more computer programs are fixed,”¹⁴² and the Rio records from a computer hard drive, which is “a material object in which one or more of the programs are fixed,” the Rio is not a DARD under the AHRA.¹⁴³ The court then found that “because computers are not digital audio recording devices, they are not required to comply with the SCMS requirement and thus need not send, receive, or act upon information regarding copyright and generation status.”¹⁴⁴

In the suit against XM, the RIAA is asserting that the AHRA does not apply to the Inno players because the *Diamond Multimedia* holding stands for the proposition that §1001(1) of the AHRA “excludes from the AHRA any form of computer, or computer hard drive or similar memory.”¹⁴⁵ This is an overly expansive reading of the holding in *Diamond Multimedia* which included a lengthy discussion of the legislative history of the AHRA. The relevant portion of that reads:

Under the plain meaning of the [AHRA’s] definition of digital audio recording devices, computers (and their hard drives) are not digital audio recording devices because their “primary purpose” is not to make digital audio copied recordings. *See* 17 U.S.C. §1001 (3). Unlike digital audio tape machines, for example, whose primary purpose is to make digital audio copied recordings, the primary purpose of a computer is to run various programs and to record the data necessary to run those programs and perform various tasks. The legislative history is consistent with this interpretation of the Act’s provisions, stating that “the typical personal computer would

141. *See id* at 1075-76.

142. *Id.* at 1076.

143. *Diamond Multimedia*, 180 F.3d at 1076.

144. *Id.* at 1078.

145. Pls. Opp’n. Mot. Dismiss at 22, *Atlantic Recording Corp. v. XM Satellite Radio, Inc.*, No. 06 Civ. 3733 (DAB) (S.D.N.Y. Aug. 31, 2006), 2006 WL 2843305.

not fall within the definition of ‘digital audio recording device,’” S. Rep. 102-294, at *122, because a personal computer’s recording function is designed and marketed primarily for the recording of data and computer programs,” *id.* at *121. Another portion of the Senate Report states that “[i]f the ‘primary purpose’ of the recording function is to make objects other than digital audio copied recording, then the machine or device is not a ‘digital audio recording device,’ *even if the machine or device is technically capable of making such recordings.*” *Id.* (emphasis added). The legislative history thus expressly recognized that computers (and other devices) have recording functions capable of recording digital musical recordings, and thus implicate the home taping and piracy concerns which the Act is responsive. Nonetheless, the legislative history is consistent with the Act’s plain language—computers are *not* digital audio recording devices.¹⁴⁶

In *Diamond Multimedia*, the court created a narrow exception to the AHRA for computers, and not for all devices that hold a hard drive. The court stated that “[e]ven though it cannot directly reproduce a digital music recording, the Rio would nevertheless be a digital audio recording device if it could reproduce a digital music recording ‘from a transmission.’”¹⁴⁷ The RIAA’s argument that the AHRA does not apply to the Inno player because it is not a DARD device under the act is misplaced. According to *Diamond Multimedia*, the case that the RIAA uses to enforce its argument, the Inno would be a DARD if it can reproduce a digital music recording from a transmission.¹⁴⁸

There is no question that the Inno can reproduce a digital musical recording, so the issue becomes whether the satellite radio broadcast is a “transmission” as required under §1001(1). “Transmission” is not defined by the AHRA but under copyright

146. *Diamond Multimedia*, 180 F.3d at 1078.

147. *Id.* at 1079 (citing 17 U.S.C. §1001(1) (2006)).

148. *See id.*; *see also* §1001(1).

law it is explained that “[t]o ‘transmit’ a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent.”¹⁴⁹ The RIAA asserts that “[i]t is almost certainly the case that XM’s transmissions are not made from ‘digital musical recordings’, and thus the Inno does not reproduce a ‘digital musical recording’ ‘indirectly from a transmission’.”¹⁵⁰ The RIAA states that “even when the statute references copies made ‘indirectly from a transmission,’ [] it contemplates a traditional physical medium (a CD for example) being played by a radio station and being copied indirectly via that radio transmission.”¹⁵¹ In short, the RIAA asserts that because the transmission of programming from XM satellite radio might not be from a digital musical recording, the AHRA does not apply.¹⁵²

There is nothing in the AHRA that requires that the original transmissions be from “digital musical recordings.” The Act states that digital audio copied recording can be made from “another digital musical recording *or* indirectly from a transmission.”¹⁵³ It does not require that the transmission itself is from a digital musical recording. Therefore, the AHRA is still applicable to the XM player.

Furthermore, the legislative history clearly indicates that the primary purpose test is applied to determine if a device is a DARD.¹⁵⁴ The Senate Report states that the definition of a DARD is meant to apply to a device “of a type commonly distributed to individuals for use by individuals, where the primary purpose of the recording function is recording audio works for private use.”¹⁵⁵ The primary purpose test is only applied to the “recording function” of the device in question “and not all the features of the machine taken together.”¹⁵⁶ The primary purpose test explains that

149. 17 U.S.C. §101 (2006).

150. Pls.’ Opp’n Mot. Dismiss, *supra* note 145, at 21 n.3.

151. *Id.* (citing S. REP. 102-294, at 47 (1992)).

152. The RIAA indicates that it would have to complete discovery to determine how XM’s broadcasts are made. *Id.*

153. 17 U.S.C. §1001(1) (2006) (emphasis added).

154. *See* S. REP. 102-294, at 47-48 (1992).

155. *Id.* at 47 (internal quotation marks omitted).

156. *Id.*

the recording function must exceed fifty percent of all purposes.¹⁵⁷

Thus, a digital videocassette recorder—though capable of making digital audio copied recordings—would not qualify as a “digital audio recording device” because the primary purpose of the recording function of the device is not to make “digital audio copied recordings,” but rather to make digital video recordings. Similarly, neither a personal computer whose recording function is designed and marketed primarily for the recording of data and computer programs, nor a machine whose recording function is designed and marketed for the primary purpose of copying multimedia products, would qualify as a “digital audio recording device.”

Although the typical personal computer would not fall within the definition of “digital audio recording device,” *a separate peripheral device with an independent recording function would be a “digital audio recording device” if the recording function was designed or marketed for the primary purpose of making digital audio copied recordings for private use.*¹⁵⁸

It is clear from this legislative history that devices such as the Inno, which are independent of computers or other devices, would be covered by the AHRA. The primary purposes of the recording capabilities on the Inno are to make “digital audio copied recordings” for private use.¹⁵⁹ This differs from computers or digital videocassette recorders whose recording capabilities also capture images and software programs in conjunction with sounds. The “primary purpose” of the recording function of the Inno player is to make digital audio copied recordings of satellite radio

157. *Id.*

158. *Id.* at 47-48 (emphasis added).

159. See Mem. Law Supp. Def.’s Mot. Dismiss, *supra* note 8, at 13.

transmissions.¹⁶⁰ This meets all criteria of the AHRA and therefore provides a valid defense to copyright infringement.

The RIAA asserts that the “legislative history is clear that the AHRA extends to copying to and from traditional physical media only, and that this limitation is embodied in the Section 1001(5)(A) definition of ‘digital musical recording.’”¹⁶¹ This assertion ignores the reality that at the time of the legislative history, the only available way to copy music was onto traditional physical media; MP3 technology did not become available to the general public until the mid to late 1990s.¹⁶²

The legislative history merely provides examples of media onto which digital musical recordings can be made and explicitly rejects these examples as all-inclusive.¹⁶³ The Senate report explains that “[e]xamples of types of current or anticipated ‘digital audio recording media’ are magnetic digital audio tape cassettes, optical discs, and magneto-optical discs. *Other types of media may be developed in the future that will come within the definition.*”¹⁶⁴ It is clear that that the legislature meant to include future technological recording capabilities that were not yet in existence at the time the AHRA was enacted. In *Diamond Multimedia*, the Ninth Circuit stated that the Rio MP3 player could have been a “digital audio recording device if it could reproduce a digital music recording ‘from a transmission.’”¹⁶⁵ This is precisely what the Inno does and thus the AHRA provides a defense to any violation of the copyright act.

B. Does the Copyright Act preclude XM from selling the Inno players?

The RIAA accuses XM of copyright infringement for impermissibly using the compulsory statutory license that XM was

160. *Id.* at 13.

161. Pls.’ Opp’n. Mot. Dismiss, *supra* note 145, at 20.

162. Tratos, *supra* note 38, at 169 n.106 (“MPEG 1 was published in October of 1993, but it was not until the release of audio layer 3 in 1995, that MP3 began spreading on the internet.”).

163. See S. REP. 102-294, at 49.

164. *Id.* (emphasis added).

165. Recording Indus. Ass’n of Am. v. Diamond Multimedia Sys. Inc., 180 F.3d 1072, 1079 (9th Cir. 1999) (quoting 17 U.S.C. §1001(1) (2006)).

granted under §114 of the Copyright Act.¹⁶⁶ The RIAA asserts that XM is operating a “digital download service” in addition to the “radio-like” broadcast for which it has a license.¹⁶⁷ RIAA believes that XM is infringing on their “exclusive right under the Copyright Act to control the distribution and reproduction of their recordings.”¹⁶⁸ The Digital Performance in Sound Recordings Act of 1995 granted to the holder of a copyright, “in the case of sound recordings,” the exclusive right “to perform the copyrighted work publicly by means of a digital audio transmission.”¹⁶⁹

The RIAA asserts XM is in violation of the license that it was granted under §114 by distributing copies of the RIAA sound recordings through the new Inno players.¹⁷⁰ The complaint alleges that “[t]he service transforms XM’s satellite transmission from a radio broadcast into a digital download delivery service that provides subscribers with permanent copies of individual songs.”¹⁷¹ There are four features of the XM player that RIAA claims as relevant to the copyright infringement suit. First, that the XM service automatically “makes a short-term ‘buffered’¹⁷² copy of every song to which the subscriber listens;” secondly the service “automatically transforms blocks of broadcast programming into playlists of disaggregated, individual tracks;” “[t]hird, when listening to a live or pre-recorded block of programming, the subscriber may select, disaggregate, index, and permanently store individual songs with the simple press of a button;” and “[f]ourth, XM encourages subscribers to treat XM-recorded tracks

166. See Compl., *supra* note 26, at 1.

167. *Id.* at 2.

168. *Id.* at 3. Section 106 of the Copyright Act grants copyright holders the exclusive right to reproduce and distribute their work to the public. 17 U.S.C. §106 (2006).

169. §106(6).

170. See Compl., *supra* note 26, at 3-4.

171. *Id.*

172. In a program, buffers are created to hold some amount of data from each of the files that will be read or written. In a streaming media application, the program uses buffers to store an advance supply of audio or video data to compensate for momentary delays. See TechEncyclopedia, Buffer, <http://www.techweb.com/encyclopedia/defineterm.jhtml?term=buffer&x=0&y=0> (last visited Sept. 24, 2007).

interchangeably with their personal MP3 files.”¹⁷³ Because of these features in the new XM players, the RIAA says XM is violating their limited compulsory statutory license granted under §114 of the Copyright Act and engaging in copyright infringement.¹⁷⁴

The RIAA specifically argues that (1) section 114 of the Copyright governs, as opposed to the AHRA, because it was enacted after the AHRA; (2) that XM is barred from asserting the defense of AHRA because they are not a manufacturer or distributor as intended under the statute; and (3) that if XM is allowed to violate the copyright act it would cause legitimate music providers to go out of business.¹⁷⁵

1. Does the fact that Section 114 of the Copyright Act was enacted after AHRA make the AHRA inapplicable?

Contrary to the RIAA’s assertion, nothing in the legislative history of §114 implies that the AHRA is no longer valid.¹⁷⁶ According to statutory construction, if there are two statutes in place that can be read as consistent with one another, that is the interpretation that the courts should give.¹⁷⁷ As explained in Sutherland’s treatise on statutory construction “if a court can by any fair interpretation find a reasonable field of operation for two allegedly inconsistent statutes without destroying their intent or preventing either of them from being operative, the court should do so.”¹⁷⁸ Furthermore, Sutherland explains that “[c]ourts should

173. Compl., *supra* note 26, at 13-14.

174. *See id.* at 1.

175. *See* Pls.’ Opp’n. Mot. Dismiss, *supra* note 145, at 1-2. The RIAA says that XM is not covered by the AHRA because “[s]ection 1008 is a limited provision that bars suits only against manufacturers, importers and distributors of digital audio recording devices, and against consumers for noncommercial use of such devices.” *Id.* RIAA’s argument is that XM’s conduct is not covered because it is engaging in infringing conduct itself.

176. *See* Reply Mem. Law Supp. Def’s Mot. Dismiss at 3, Atlantic Recording Corp. v. XM Satellite Radio, Inc., No. 06 Civ. 3733 (DAB) (S.D.N.Y. Sep. 29, 2006), 2006 WL 3089833; *see also* 17 U.S.C. §114 (2006).

177. 2A NORMAN J. SINGER, SUTHERLAND STATUTORY CONSTRUCTION §45:12 (6th ed. 2006) [hereinafter SUTHERLAND].

178. *Id.*

not presume that the legislature in the enactment of a statute intends to overthrow long-established principles of law unless that intention is made clearly to appear either by express declaration or by necessary implication.”¹⁷⁹

Based on these basic tenets of statutory construction, the AHRA is still effective after the enactment of §114. The proper interpretation of §114 of the Copyright Act and §1008 of the AHRA is to give both statutes their full effect. The DPRA (which created §114) was enacted to “ensure that performing artists, record companies. . . [would] be protected as new technologies affect the way in which their creative works are used.”¹⁸⁰ The DPRA accomplished this by “granting a limited right to copyright owners of sound recordings which are publicly performed by means of a digital transmission.”¹⁸¹ This right to sound recordings was meant to “stem[] the tide of unauthorized music transfers”¹⁸² and allowed the recording industry to recover some profit from the lost sales due to home recording of music. This right to sound recordings did not limit any previously existing rights of consumers that were granted to them by the AHRA.¹⁸³ The DPRA did not by “express declaration or by necessary implication” indicate that it intended to change or delete rights granted under the AHRA.¹⁸⁴ Therefore, the AHRA is still an effective statute after the enactment of both the DPRA and the DMCA and it grants immunity to XM and its consumers for the use of the Inno player.¹⁸⁵

2. Is XM a “manufacturer or distributor” as intended under the AHRA?

The RIAA asserts that the plain meaning of §1008 of the AHRA

179. *Id.*

180. S. REP. 104-128, at 10 (1995).

181. *Id.*

182. Delchin, *supra* note 36, at 354.

183. *See* Reply Mem. Law Supp. Def’s Mot. Dismiss, *supra* note 176, at 3.

184. 2A SUTHERLAND § 14:12.

185. Because the two statutes are not inconsistent, the RIAA member’s receive “two sets of payments - DPRA royalties for performance of their works and AHRA payments of the distribution of the Inno.” Reply Mem. Law Supp. Def. Mot. Dismiss, *supra* note 176, at 1.

“forecloses XM’s defense.”¹⁸⁶ Section 1008 says that “[n]o action may be brought under this title alleging infringement *based on* the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium . . . or *based on* the noncommercial use by a consumer of such a device.”¹⁸⁷ Under RIAA’s reading of the act, to be “*based on*” requires that the conduct on which liability is premised only applies to acts of manufacturing, importing, or distributing.¹⁸⁸ This reasoning gives only those who do the manufacturing, importing, or distributing the right to immunity and protects only those individuals from being held liable as “a contributory or secondary infringer when consumers use the devices to make noncommercial copies.”¹⁸⁹

According to the RIAA, XM is “neither a manufacturer of a ‘digital audio recording device’ nor a consumer who uses the device.”¹⁹⁰ In response, XM states that it “distributes a device (the Inno) that can both receive and record the radio programming XM transmits. Each of these functions is independently lawful: XM has a statutory license to transmit plaintiffs’ sound recordings and the Inno is an AHRA-complaint recording device.”¹⁹¹ XM argues that the combination of these capabilities does not produce an unlawful activity.

XM is clearly a “distributor” of the Inno player and thus entitled to protection under the AHRA. Simply because XM transmits radio programming that can be played on the recording devices should not exclude it from protection under the AHRA. According to the definitions in section 1001 of the AHRA, to distribute means “to sell, resell, lease, or assign a product to consumers in the United States, or to sell, resell, lease, or assign a product in the United States for ultimate transfer to consumers in the United States.”¹⁹² XM, working in partnership with Pioneer¹⁹³ and other

186. Pls.’ Opp’n. Mot. Dismiss, *supra* note 145, at 9.

187. 17 U.S.C. §1008 (2006) (emphasis added).

188. See Pls.’ Opp’n. Mot. Dismiss, *supra* note 145, at 9-10.

189. *Id.* I will not address the issue of “based on the noncommercial use by a consumer” because XM is not a consumer so this argument does not apply.

190. *Id.* at 11.

191. Reply Mem. Law Supp. Def. Mot. Dismiss, *supra* note 175, at 4.

192. 17 U.S.C. §1001(6) (2006).

193. Pioneer is the manufacturer of the Inno player, while Samsung manufactures the Helix device. XM distributes and sells the product along with

retailers, distributes the Inno and thus is clearly covered by the AHRA. That XM is also a company that transmits satellite radio programming has no bearing on the applicability of the AHRA. The RIAA's argument that XM is operating as a content delivery service is misplaced.¹⁹⁴ The Inno operates in the same manner as a tape recorder or VCR in the home (although even more restrictive since any recordings will be deleted upon termination of the subscription service); therefore, under section 1008 of the AHRA, XM is protected from a copyright infringement suit for the "distribution" of the Inno player.

3. *Would the Inno replace existing services?*

Finally, RIAA argues that "XM ha[d] engineered the Inno as a unified service that delivers subscribers perfect digital copies of copyrighted sound recordings, and allows subscribers to receive and permanently maintain copies of those recordings without ever listening to any 'public performance' of the recorded works."¹⁹⁵ RIAA argues that if XM's reading of section 1008 is allowed to survive, it would allow XM to replace such legal services as Apple iTunes.¹⁹⁶ This argument is unpersuasive because it ignores the restrictions that are placed upon XM's broadcasting throughout the copyright act.

First, the Inno does not allow any of the music that is recorded onto the device to be transmitted to any other type of player.¹⁹⁷ This brings the Inno player into conformity with section 1002 of the AHRA, which requires that players incorporate copying controls that conform to the SCMS or a system that "has the same functional characteristics" as the SCMS.¹⁹⁸ The RIAA ignores the reality that many consumers want the ability to transfer their music files from one player, to another, or from one computer to another.

other retail stores. *See* Portable XM Radios, <http://www.xmradio.com/xmp3/index.xmc> (last visited July, 1, 2007).

194. Pls.' Opp'n. Mot. Dismiss, *supra* note 145, at 13-14.

195. *Id.* at 14.

196. *Id.*

197. *See* Daniel Greenberg, *A Music Player Only the RIAA Can't Love*, WASH. POST, May 21, 2006, at F07.

198. 17 U.S.C. §1002 (2006).

In this digital age of portability, the transferability of music files has replaced the old notions of possession. There is little “control” of the music if there is no transferability.

Moreover, satellite radio broadcasters still must adhere to the requirements set forth under the DMCA to be eligible for a statutory license. Some examples of requirements that must be followed are: (1) limits that prohibit a broadcaster from playing more than three songs from the same album in any three hour period, or more than two songs consecutively; (2) prohibitions against DJs specifying the time a particular song will be played; and (3) various restrictions on the re-broadcasting of particular programs (they must be at least 3 hours in duration, or five hours if they are archived).¹⁹⁹

The XM service cannot “replace” the current download music services such as Apple iTunes, Napster, or AOL music with the kind of broadcast restrictions under which XM operates. Individuals may be able to “record” songs off of the new Inno player, but they will not be able to hear an entire album, transfer the music to any other device, or know when music will be played in advance. Furthermore, this is an issue for the legislature to address with input from its constituents, and not an issue that should be addressed by the judiciary.²⁰⁰

The RIAA should not be allowed to deny to consumers technology that permits them to time-shift music for their own convenience. This right was already granted to the public through the AHRA and should not be revoked because the recording industry is unhappy with the ramifications. It would be unfair to allow the RIAA to alter terms to a law they agreed to less than 15 years ago simply because they are unhappy with the consequences of that law.²⁰¹

The restrictions in place for devices such as the Inno will continue to leave a market for services such as iTunes, Napster, and AOL music. Individuals who are exposed to new artists or

199. See Delchin, *supra* note 36, at 358-59.

200. See *Stewart Org., Inc. v. Ricoh Corp.*, 487 U.S. 22, 27 (1988) (citing *Prima Paint Corp. v. Flood & Conklin Mfg. Co.*, 388 U.S. 395, 406 (1967) (“Federal courts are bound to apply rules enacted by Congress with respect to matters . . . over which it has legislative power.”)).

201. See Mem. Law Supp. Def.’s Mot. Dismiss, *supra* note 8, at 14.

new albums through the XM service will seek out entire albums or new songs from existing services. The XM service will operate much as traditional radio stations did—as promotional avenues for artists and albums. If the record companies and producers effectively use this new service, they will be able to expand and grow their businesses, much like the entertainment industry has adapted and recently begun to use new internet services such as YouTube and MySpace.²⁰²

C. Is it fair-use?

Under § 107 of the Copyright Act, if a defendant successfully asserts that his use of the copyrighted material was “fair use,” he will escape liability.²⁰³ There are four factors to consider when determining fair use: (1) the purpose and characterization of the work;²⁰⁴ (2) the nature of the copyrighted work,²⁰⁵ (3) the amount and substantiality of the copyrighted work used,²⁰⁶ and (4) the effect on the potential market or value of the copyrighted work.²⁰⁷ In a fair use analysis, no one factor is determinative; the court looks at the entirety of the work.²⁰⁸ The Inno device would have to be evaluated under these four factors to determine whether it is protected by the “fair use” doctrine.

The first factor to be considered is what the purpose and characterization of the use of the copyrighted work.²⁰⁹ The use of the Inno is analogous to the use of the Betamax machine in *Sony*. In that case, the court held that the use of a video recording device was personal and non-commercial because the lower court had

202. YouTube is a website that allows individual users to upload home videos to its site to be viewed by any visitor to the site. *See* YouTube, <http://www.youtube.com>. MySpace is a service that allows its members to register and create homepages. *See* MySpace, <http://www.myspace.com>. The entertainment industry uses these services to advertise artists, update consumers, and provide individuals with special features of existing television shows.

203. *See* 17 U.S.C. § 107 (2006).

204. § 107(1).

205. § 107(2).

206. § 107(3).

207. § 107(4).

208. *See* *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994).

209. § 107(1).

found the “time-shifting for private home use must be characterized as noncommercial, nonprofit activity.”²¹⁰ The same can be said of the recording functions of the Inno player. The player is used by individual home users for the purpose of “time-shifting” music for listening at a later time.

The second factor under section 107 concerns the nature of the copyrighted work.²¹¹ In this case, a song is a creative work, and creative works are entitled to the greatest of copyright protection.²¹² In *Stewart v. Abend*, the Supreme Court had found that the appropriation of a short story into the major motion picture *Rear Window*, was not fair use under any of the four factors.²¹³ The Court cited the Ninth Circuit’s opinion in *Brewer v. Hustler Magazine, Inc.* which explained that fair use is less likely to be found if the work is creative.²¹⁴ Since the copyrighted work involved here is creative, this factor favors the RIAA.

The third factor to be considered is the amount and substantiality of the portion used of the copyrighted work,²¹⁵ which in this case is the entire song. This factor has resulted in differing outcomes in court. In *Sony*, the Supreme Court allowed the time-shifting of an entire video program for personal use, while in *Napster*, the court found that wholesale copying of a creative work “militates” against a finding of fair use.²¹⁶ A court would likely follow the *Napster* interpretation in this case because it involves the same medium, musical reproductions.

The fourth factor is the effect on the potential market.²¹⁷ In the case of the Inno, the record company believes that the recording capabilities of the Inno will have a dramatic affect on its business model.²¹⁸ They argue that the Inno will be a “substitute for the

210. *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 449 (1984).

211. § 107(2).

212. *See Stewart v. Abend*, 495 U.S. 207, 237-38 (1990).

213. *Id.*

214. *Id.* at 237 (quoting *Brewer v. Hustler Magazine*, 749 F. 2d 527, 529 (9th Cir. 1984) (“[A] use is less likely to be deemed fair when the copyrighted work is a creative product”).

215. § 107(3).

216. *See supra* notes 80-103 and accompanying text.

217. § 107(4).

218. *See Amicus Curiae Br. Songwriters Guild of Am. Supp. Pl.’s Opp’n. Def. Mot. Dismiss at 5, Atlantic Recording Corp. v. XM Satellite Radio, Inc.*,

retail sale of the musical work.”²¹⁹ There is no doubt that providing the Inno player to consumers is likely to make some impact on the sales of individual songs through services such as iTunes, but it is unlikely to be a significant change because of the restrictions that are placed on the transfer. As explained above, today’s music consumers still want the freedom to transfer music files between their digital devices. Consumers will also want to expand their music libraries beyond what is played on satellite broadcasts, just as individuals in the past sought out the music from the artists they heard on traditional radio stations. The fourth factor does not favor either of the parties in this case.

XM on the other hand, believes that the Inno is entitled to protection under the AHRA and therefore should not be evaluated under the fair use test.²²⁰ As established above, the AHRA should be applied by the court to this case, and the fair use factors are inapplicable. Ignoring the AHRA would still fail to provide a definitive answer to the fair use question in this case. Although factors two and three of the test favor the RIAA, factor one is a strong argument that supports XM. The court’s decision would likely rest on the outcome of factor four’s analysis—the impact on the market. This analysis is subject to great interpretation by either side and would be entirely speculative by the court. As illustrated above, there are strong arguments that favor both sides in this issue. However, this note demonstrates that the AHRA should apply to the Inno, and therefore analysis under the fair use factors is unnecessary.

D. What is the Impact that the Court’s decision will have on future litigation?

This is an important case for both the music and electronic industries; both parties face a potentially devastating loss, or an enormous victory. If the court holds that the AHRA does not apply to the XM satellite receivers, the future of satellite programming will be drastically changed. Not only will satellite programming be affected, the decision will reverberate throughout

No. 06 Civ. 3733 (DAB) (S.D.N.Y. Aug. 31, 2006), 2006 WL 2843304.

219. *Id.*

220. See Mem. Law Supp. Def.’s Mot. Dismiss, *supra* note 8, at 1.

all digital broadcasting. The music industry will have gained immense leveraging power to charge exorbitant rates to companies with statutory licenses, who will then be compelled to pass these charges onto their consumers. On the other hand, if the court holds that the AHRA does apply to XM satellite receivers, the music industry will be forced to look for other revenue streams.

IV. CONCLUSION

If the two parties do not resolve this dispute before the court renders an opinion, this litigation will define the boundaries of the music industry and the recording industry for years to come. The purpose of copyright protection is to promote the arts and sciences;²²¹ the only way to accomplish this is to provide for the advancement of technology. If the RIAA is “allowed to prohibit one of the emerging technologies that allows for the free flow of information, it will, in its efforts to protect copyright, in fact, chip away at the goals copyright protection promotes.”²²²

While the artists who perform music should be entitled to some protection, it is technology that will be most damaged if the court finds against XM. Musicians have other means of economic survival as evidenced by concert revenues, endorsement contracts and merchandise sales. Lesser known musicians and beginning artists, who do not have access to these economic tools, promote their music for free on the internet to create momentum and establish a fan base.²²³ Technology on the other hand, can only advance as far as it is allowed. If the court refuses to extend the protection of the AHRA, an act that was created with the intention of resolving disputes such as this one, it will damage the United States in the field of technological advancement.

Erin Brady

221. See U.S. CONST. art. I, § 8, cl. 8.

222. Arnold, *supra* note 22.

223. See Ankur Srivastava, *The Anti-Competitive Music Industry and The Case For Compulsory Licensing in the Digital Distribution of Music*, 22 *TOURO L. REV.* 375, 416-20 (2006); see also Mary Madden, *Artists, Musicians, and the Internet*, PEW/INTERNET, Dec. 5, 2004, http://www.pewinternet.org/pdfs/PIP_Artists.Musicians_Report.pdf.

