

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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ATLANTIC RECORDING CORPORATION;
BMG MUSIC; CAPITOL RECORDS, INC.;
ELEKTRA ENTERTAINMENT GROUP, INC.;
INTERSCOPE RECORDS; MOTOWN RECORD
COMPANY, L.P.; SONY BMG MUSIC
ENTERTAINMENT; UMG RECORDINGS, INC.;
VIRGIN RECORDS AMERICA, INC.; and
WARNER BROS. RECORDS INC.,

Plaintiffs

- against -

06 Civ. 3733 (DAB)

MEMORANDUM & ORDER

XM SATELLITE RADIO, INC.,

Defendant.

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DEBORAH A. BATTS, United States District Judge.

Above-named Plaintiffs (hereinafter "Plaintiffs" or "the Record Companies") bring this action against Defendant XM Satellite Radio, Inc. ("XM"). Plaintiffs allege XM operates a digital download subscription service that distributes Plaintiffs' copyrighted works without their authority. Plaintiffs contend this conduct violates federal and state copyright and unfair competition laws. Now before this Court is XM's motion to dismiss the Complaint, pursuant to Federal Rule of Civil Procedure 12(b)(6).

Plaintiffs bring nine causes of action against Defendant XM. Count One alleges that XM directly infringes on the Record

Companies' exclusive distribution rights, in violation of sections 106(3) and 501 of the Copyright Act of 1976 ("the Copyright Act"). Count Two alleges that XM also violates 17 U.S.C. §§ 115, 501, which bar unauthorized digital phonorecord delivery. In Counts Three and Four, the Record Companies allege XM directly infringes upon their exclusive right to reproduce their copyrighted sound recordings: Count Three charges that this activity violates provisions of the Copyright Act which set forth exclusive reproduction rights for copyright owners, namely 17 U.S.C. §§ 106(1), 501. Count Four charges that XM violates its license, granted under 17 U.S.C. § 112(e)(1), to retain and use "ephemeral recordings" of Plaintiff's sound recordings. Counts Five and Six accuse XM of secondary infringement violations: In Count Five, Plaintiffs accuse XM of inducing copyright infringement. Count Six charges XM with contributory copyright infringement. In Count Seven, Plaintiffs allege that XM is guilty of vicarious copyright infringement. Counts Eight and Nine allege state law violations: Count Eight charges that XM's use of Plaintiffs' pre-1972 sound recordings violates New York state copyright common-law. Finally, Count Nine alleges XM violates New York's common-law bar on unfair competition.

Plaintiffs seek identical relief for each of their federal claims: declaratory relief, statutory or actual damages, reimbursement of costs incurred by Plaintiffs and a permanent injunction enjoining XM from infringing upon Plaintiffs' copyrights and exclusive rights under copyright. With respect to their state law claims, Plaintiffs seek declaratory relief, both compensatory and punitive damages, as well as a permanent injunction halting XM's unlawful conduct.

XM moves to dismiss Plaintiffs' federal claims, asserting statutory immunity from suit. XM maintains they are shielded from infringement actions by the provisions of 17 U.S.C. §§ 1001-1010, the Audio Home Recording Act of 1992 (hereinafter "AHRA"). Upon rejecting the federal claims, XM asks the Court to decline to exercise pendent jurisdiction, and to dismiss the remaining state claims.

For the reasons set forth below, XM's motion to dismiss is DENIED.

I. BACKGROUND¹

Plaintiffs are major record companies. The Record Companies bring this action alleging that they own, or own rights to, the

¹ The facts herein are as set forth in the Complaint. On a Motion to Dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure, the Court shall presume true all allegations in the Complaint.

majority of copyrighted sound recordings which are sold in the United States. (Complaint ["Compl."] ¶ 15.) The Record Companies are among the world's leading producers, manufacturers, distributors, sellers and licensors of sound recordings. (Id. ¶ 13.) As such, they offer for sale in the United States and throughout the world an array of phonorecords, including CDs, cassettes and digital audio files. (Id. ¶ 17.) The Record Companies earn revenue from these sales, and from authorizing others to sell and distribute their phonorecords online. (Id. ¶ 18.) The Record Companies also are paid statutorily prescribed royalties for licensing public performances, like XM radio broadcasts, and for the production of audio recording devices and copying media. (Id. ¶ 5, Pls.' Mem. Law at 11.)

Defendant XM is a licensed satellite radio broadcaster. XM broadcasts 160 channels, 67 of which feature 24-hour-a-day, commercial-free music programming. (Compl. ¶ 22.) The songs used in XM's music programming include the Record Companies' copyrighted recordings which, in turn, include some of the most successful recordings in the world. (Id. ¶ 7.) XM radio broadcasts can only be received by XM subscribers who use radio receivers capable of decrypting XM's broadcast signal. (Id. ¶

26.) Each XM radio receiver must be individually activated by XM. (Id.)

XM's subscriber base has increased dramatically since XM's inception. XM's subscriber rolls jumped from almost one million subscribers in 2003 to nearly six million subscribers in 2005; estimates indicate that in 2006 XM's subscription base spiked to nine million subscribers. (Id. ¶ 25.) XM earns revenue from subscription fees; XM listeners pay a monthly subscription fee of \$12.95 in exchange for their ability to receive XM service and programming on an XM compatible radio receiver. (Id. ¶ 27.)

Since April 2006, XM has made it possible for subscribers to hear broadcasts over special receivers marketed as "XM + MP3" players.² (Id. ¶ 26.) XM + MP3 players are different from ordinary XM radios because they do more than receive XM radio broadcasts. XM + MP3 players have three distinct features. Aside from receiving XM radio broadcasts, an XM + MP3 player allows a user to store MP3 files, which he or she already owned or acquired from outside sources.³ (Id. ¶ 38.) Additionally, XM + MP3 players permit subscribers to record, retain and library individually disaggregated and indexed audio files from XM

² XM markets three such devices. They are the "inno," the "Helix" and the "NeXus." (Compl. ¶¶ 29,30)

³ "An MPEG-1 Audio Layer 3 (commonly known as "MP3") is the most popular digital audio compression algorithm in use on the Internet, and the compression it provides makes an audio file 'smaller' by a factor of 12 to one without significantly reducing sound quality." Recording Industry Association of America, et al. v. Diamond Multimedia Systems, Inc., 180 F.3d 1072, 1074 (1999).

broadcast performances; the Record Companies refer to this final feature as a "digital download delivery service" and this feature is the subject of this litigation. (Id. ¶ 6.)

All functionalities of an XM + MP3 player are controlled entirely by XM. (Id. ¶ 26.) For example, as with any XM radio receiver, after a consumer purchases an XM + MP3 player he/she must contact XM in order to activate the device and render it capable of decrypting XM broadcasts. (Id. ¶ 32.) XM can likewise deactivate any user's XM + MP3 player at any time. (Id.) XM can change the functionality of XM + MP3 players by sending software updates to users via the Internet. (Id.) XM is also capable of marking broadcast songs so that they can not be stored or saved. (Id. ¶ 34.) In sum, Plaintiffs allege, "XM retains complete and continuing end-to-end control over who is permitted to receive its signals, the content its subscribers receive, what subscribers can do with the content XM transmits to them, and whether and how long subscribers are allowed to keep their downloaded song files." (Id. ¶¶ 26, 32.)

In maintaining this end-to-end control over its product, XM provides several services specifically to XM + MP3 player users. First, while listening to XM programming, an XM + MP3 user can instantly record any song he or she hears at the touch of a

button. (Id. ¶ 37.) XM makes this utility more exploitable by allowing a short-term "buffered" copy of every broadcast song a user hears to be generated on the XM + MP3 player. (Id. ¶ 35.) This buffered copy is made on the XM + MP3 player regardless of user input. (Id.) As a result, a user can record and store in its entirety any broadcast song he or she hears, even if the user started listening to the song after it began to play. (Id. ¶ 37.)

Second, XM provides XM + MP3 users with playlists from blocks of broadcast programming which have been disaggregated into individual tracks. (Id. ¶ 36.) XM sends users these digital playlists with title and artist information included. (Id.) These playlists identify all songs broadcast over a particular channel and during a particular period of time. (Id.) Users can then scroll through a playlist and select which song(s) to store for future replay, and which to delete. (Id.) A consequence of this utility is that XM + MP3 users can hear and store individual songs without actually listening to XM broadcast programming. (Id.)

A third feature XM provides to XM + MP3 users is a search function, facilitated by so-called "ArtistSelect" and "TuneSelect" utilities. (Id. ¶ 37.) These utilities make it

easy for a user to find out when a requested song is being broadcast. (Id.) Listeners use "ArtistSelect" and "TuneSelect" by identifying artists or songs he or she wants to hear, and potentially download. (Id.) Once the request has been entered, XM acts as an alert service. (Id.) XM sends the listener immediate notice when his or her chosen artists or songs are played on any XM channel. (Id.) This alert allows the user to immediately switch channels and store the requested track onto his or her XM + MP3 player. (Id.)

Fourth, XM enables XM + MP3 users to regard tracks recorded off broadcast programming as interchangeable with other music files in its possession. (Id. ¶ 38.) With an XM + MP3 player, subscribers can store up to 50 hours of stored broadcast music, the approximate equivalent of 1,000 songs. (Id. ¶ 31.) Each of these songs is available for unlimited replay, for as long as the user maintains an XM subscription. (Id. ¶ 39.) XM provides users with a cable and software which permits them to also transfer music files from their personal computer onto the XM + MP3 player. (Id. ¶ 38.) These audio files can be used with any recorded material the user collects from XM broadcasts to create indexed music libraries and individualized playlists. (Id.)

