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# Record labels, satellite radio seen in showdown



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Wed Oct 5, 5:36 PM ET

LOS ANGELES (Reuters) - The record industry may next aim its legal guns at satellite radio due to a dispute involving new portable players which let listeners record and store songs, an analyst and industry sources said on Wednesday.

The record industry, led by major labels, such as Vivendi Universal' (EAUG.PA),> Warner Music Group Corp (NYSE:WMG - news), EMI Group Plc (EMI.L) and Sony BMG, believe the recording capability is a clear copyright violation and could take revenue away from paid download music services.

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Illegal song trading has been blamed by the record industry for declines in sales, and labels have become increasingly aggressive in their legal battles to defend their product. Now that focus includes portable players.

"There are genuine issues here but it is our continuing hope that we can resolve this on a business to business basis," said an RIAA spokesman.

Two music industry sources said that the two sides were in talks to resolve the issue and could go to court over the matter.

JP Morgan analyst Barton Crockett in a report suggested there might be more conflict in store.

"Based on recent talks with execs at record labels and the [Recording Industry Association of America](#) (RIAA), we see potential spats ahead. RIAA may file a lawsuit this fall to stop a new feature for upcoming wearable satellite radios," he wrote.

No. 1 satellite provider XM Satellite Radio Holdings Inc (Nasdaq:XMSR - news) said it was also hopeful the issues will be resolved.

"The music industry is an important partner and we continue to listen to their concerns in hopes of finding a resolution that benefits everyone, especially consumers," said

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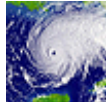


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Nathaniel Brown, a spokesman for XM.

Sirius Satellite Radio Inc. (Nasdaq:SIRI - news) declined comment.

In August, Sirius said it will introduce a small portable device, dubbed the S50, for its subscription radio service that can store 50 hours of music, news and programs from Sirius channels, in a move to narrow the gap with XM Satellite, which has had a portable device on the market since last fall.

Beginning in the fourth quarter, XM will also begin to offer MP3-enabled portable satellite radios developed by Korea's Samsung Electronics Co Ltd. (005930.K)

Even if the conflict winds up in court, Crockett said in his report he did not believe such a suit would succeed because so-called 'fair use' laws allow users to record songs for their own use.

He said it could would pose a "headline risk" for satellite radio and prompt a lobbying push by the recording industry as the two industries wrangle over a new music rights contract.

Crockett said the RIAA may seek \$1 billion plus in music rights fees for a new contract covering 2007 to 2012 to replace the current \$80 million pact that expires in 2006.

But the record industry expects these contract talks will wind up in arbitration, one source said.

In the meantime, XM has announced a partnership with paid service [Napster](#) Inc (Nasdaq:NAPS - news) that lets portable device listeners mark songs they hear on the satellite service to purchase from Napster.

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