



Court Holds Wireless Service Providers Need Not Pay Public-Performance Royalties for Sale of Ringtones

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The United States District Court for the Southern District of New York recently ruled that a cellular phone service provider was not required to pay royalties on ringtones sold to its customers. *In re Application of Cellco Partnership*, 92 U.S.P.Q.2d 1811 (S.D.N.Y. 2009). Cellco Partnership d/b/a Verizon Wireless ("Verizon") successfully argued it was not publicly performing, nor enabling others to publicly perform, musical works when it sold customers ringtones and therefore was not required to obtain a public performance license in order to do so.

The Copyright Act's Protection of the Public Performance of Musical Works and its Interplay with Performing Rights Organizations

Section 106(4) of the Copyright Act grants the owner of the copyright the right to publicly perform, or to authorize others to publicly perform, their copyrighted works.

Because it is impractical and inconvenient for artists to monitor and license every public performance of their works, not just live but broadcast as well, entities known as performing rights organizations (PROs) were formed to assist them. PROs primarily act as intermediaries between artists and anyone wishing to use a work publicly by licensing and tracking the public performance of these musical works, subsequently collecting an agreed-upon royalty, and compensating the artists accordingly.

The Verizon Case: Analyzing whether cell phone service providers must obtain a public performance license for musical works when they provide ringtones to their customers.

On January 23, 2009, Verizon filed an application with the American Society of Composers, Authors and Publishers ("ASCAP"), one of the major PROs in the United States, for a "blanket" license. A



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blanket license permits the licensing of all works in a PRO's repertoire, as opposed to negotiating for the rights to each individual song. In response to Verizon's request, ASCAP sought to impose license fees not only on the ringback tones and content streamed over Verizon's VCAST service as applied for, but also covering all ringtones Verizon sold to its customers.

As a result, Verizon sought the intervention of the courts under a 1941 decree entered during the antitrust litigation against ASCAP, which permits anyone desiring such a license to "apply to ASCAP therefor, and upon such application, may perform the music for fees to be determined later." See *United States v. ASCAP*, 616 F.Supp.2d 447, 448 (S.D.N.Y. 2009). In the event the parties cannot agree on the fee for such a license, either party may involve the courts to set reasonable interim and final fees. *Id.*

Verizon asked the court to rule that a public performance license is not required for ringtones it sells to its own customers because the mere transmission of a ringtone file that cannot be contemporaneously heard, or performed, for an audience while being downloaded, does not constitute a "public performance."

ASCAP, seeking the broadest interpretation of what qualifies as a "public performance" under the Copyright Act, claimed that Verizon engages in public performances of musical works when it downloads ringtones to customers because Verizon "transmits" the performances to the public.

Verizon countered that by simply downloading the ringtones, it does not publicly perform musical works. In addition, Verizon argued it does not enable others, specifically its customers who purchase these ringtones and utilize them on their personal cell phones, to publicly perform musical works especially in light of the Copyright Act's explicit exemption of performances of a musical work that occur within the "normal circle of a family and its social acquaintances" in 17 U.S.C. § 101 as well as performances in which there is no expectation of profit under 17 U.S.C. § 110(4).

Ultimately, the Court agreed with Verizon, closely analyzing each of the activities that could potentially qualify as a "public performance" under the definitions found in the Copyright Act, holding that "Verizon does not recite, render, play, dance or act the ringtone either directly or by means of any device, and thus does not perform the music," and was therefore not required to pay royalties to ASCAP for ringtones sold to its customers.

Wireless Service Providers Continue to Pay Musicians for Ringtones Sold. But is it Enough?

It is important to note that this decision has no effect on another license to which wireless service providers are subject. Under that license, covering the reproduction and distribution rights, the wireless service providers pay songwriters and music publishers a royalty of about 24 cents per ringtone. While the court notes this amount is more than double the 9.1 cent royalty rate paid for

permanent downloads of entire songs, it is unclear if this amount was negotiated on the basis that artists would receive royalties and additional compensation from PROs for the right of public performance.

What impact, if any, this decision may have on the purchase and sale of ringtones remains to be seen.

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