K&L|GATES

Licensing and E-merging Commerce Group Alert

May 2007 www.klgates.com

Authors:

Shannan Frisbie
+1.206.370.8287
shannan.frisbie@klgates.com

Mark Wittow
+1.206.370.8399
mark.wittow@klgates.com

U.S. District Court rules online music service providers not required to pay public performance royalties

Introduction

On April 25, 2007, in a case of first of impression, the U.S. District Court for the Southern District of New York held that the downloading of a digital music file does not constitute a "public performance" under the United States Copyright Act. *In the Matter of the Application of America Online, Inc., et al, for the Determination of Reasonable License Fees,* C.A. No. 41-1395 (Opinion and Order by Judge William Conner). Accordingly, the court ruled that the operators of online music service providers (AOL LLC, Yahoo!, and RealNetworks, Inc.) that offer music downloads are not required to pay public performance royalties to publishers and performing rights societies (*e.g.,* ASCAP, BMI and SESAC) for downloaded files.

Prior to the decision, music publishers and performing right societies required operators of online music services to pay royalties for both "streaming" and "downloading" of digital music files. Following this case, publishers and performing rights societies will not be entitled to collect royalties on the download of a file containing a digital music, unless the underlying composition is *contemporaneously perceived* during transmission.

Background

In 2001, AOL LLC, Yahoo!, and RealNetworks, Inc. ("Applicants") applied to ASCAP for a license to publicly perform ASCAP's repertoire of musical compositions through the Applicants' internet music services. ASCAP is an unincorporated membership association that aggregates licensing authority of thousands of composers, authors, lyricists and music publishers and issues public performance licenses to several million musical works. When ASCAP and the Applicants could not come to an agreement as to the appropriate licensing fee for the Applicants' online music services, ASCAP filed federal litigation to determine a reasonable fee.[1] Both parties cross-moved for partial summary judgment on the issue of whether the downloading of a digital music file that embodies a particular song, is a "public performance" of that song under the Copyright Act, 17 U.S.C. §§ 101 *et seq*.

The court resolved the issue largely through statutory interpretation. The court first looked at whether the activity of downloading a music file could be considered a "public performance," under the Act's definition of the term "performance." As defined in 17 U.S.C. § 101 of the Copyright Act, to perform means "to recite, render, play, dance, or act" a musical composition "either directly or by means of any device or process." Acknowledging that the terms "recite," "render" and "play" are not defined anywhere in the Act, the Court referred to Merriam-Webster's Dictionary to provide the Act's undefined terms with the "ordinary, contemporary, common meaning" required for interpretation. Order p. 6. The court cited the following definitions:

RECITE:

"to repeat from memory or read aloud publicly."

RENDER:

"to reproduce or represent by artistic or verbal means, depict to give a performance of… to produce a copy or version of (the documents are rendered in the original French)…to execute the motions of (render a salute)."

PLAY:

"to perform music (play on a violin)…to sound in performance (the organ is playing)…to emit sounds (the radio is playing)…to reproduce recorded sounds (a record is playing)…to act in a dramatic production."

The court highlighted the common denominator amongst the three terms, namely the requirement for "*contemporaneous perceptibility*."

The court focused its analysis on the technical process used to download a music file from a server to a client computer. The court found that because no perceptible rendition of the song is embodied in the digital file when the digital song file is downloaded, the download is merely a reproduction of the file and not a performance of the musical composition. The court pointed to a 2001 report of the United States Copyright Office to Congress to support that conclusion. U.S. Copyright Office, *DMCA Section 104 Report*, xxvii-xxviii (August 2001). In addition, the court referenced U.S. House committee reports from 1976 to show that the language of the Copyright Act clearly requires "the transmission of a performance, rather than just the transmission of data constituting a media file, in order to implicate the public performance right in a copyrighted work." Order p. 9.

The court rejected ASCAP's assertion that every digital audio transmission constitutes a performance, regardless of whether the transmission allows the user to hear the work in the course of the transmission. ASCAP posited that digital data does not have to be downloaded in its entirety before a purchaser could start playing back the stored portion of the file. Rejecting ASCAP's argument that downloaded music files are no different than streamed performances, the court reasoned that just because an individual's download is conveyed in a parceled fashion and each portion conveyed can be played back as soon as that segment of data is completely downloaded, the "transaction is a data transmission rather than a musical broadcast." Order at pp. 10-11. The court noted that to accept ASCAP's proposed definition would mean that "if a retail purchaser of musical records [that] begins audibly playing each tape or disc as soon as he receives it from the *vendor* is engaging in a public performance." Order p. 11. The court emphasized that "it is not the availability of prompt replay but the simultaneously perceptible nature of a transmission that renders it a performance under the Act." *Id.*

In conclusion, the court admitted that a transmission could constitute both a public performance and a reproduction, but did not elaborate on the facts that would support such a finding.

The Rate Determination decision provides helpful guidance in determining the respective rights and royalties owed by music service providers by providing a clear standard of "contemporaneous perceptibility" in order for a transmission to constitute a public performance under the Copyright Act. Because this analysis is likely to be considered by other courts, it has broad implications for distributors of all downloadable media, including video and ringtones.

We will be following the issue closely. If you have any questions about this alert, or if you would like a copy of the opinion and order, please do not hesitate to contact one of the lawyers below.

Shannan Frisbie
+1.206.370.8287
shannan.frisbie@klgates.com

Mark Wittow
+1.206.370.8399
mark.wittow@klgates.com

1 ASCAP is the subject of a 1941 consent decree (that was later amended) for alleged violation of the Sherman Antitrust Act. Under the decree, exclusive jurisdiction was granted to the U.S. District Court for the Southern District in New York to oversee the implementation of the consent decree (including determination of reasonable rates for music licensing).