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You (Publicly) Play, You Pay: ASCAP After Ringtone Money and the Impact on Your Deals

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ASCAP is suing AT&T for failure to pay public performance royalties for their sale of musical ringtones. According to ASCAP's opposition to AT&T's recently filed motion, ASCAP rebukes AT&T's claim that a ringtone is no different than a song downloaded from iTunes and therefore does not require the payment of performance royalties. In response, ASCAP argues that when a ringtone plays to signal an incoming call, the public performance right is triggered in two ways—once when the ringtone is digitally transmitted to the phone (via the streaming transmission/delivery) and again when the song is actually played on the consumer's phone to the public. According to the filing and a statement released by ASCAP, AT&T, and not the consumer, is then directly liable and responsible for the corresponding public performance royalties because the consumers' phones are on AT&T's network, and AT&T controls the entire series of steps that allow and trigger the ringtone performance based on incoming calls. Of course, in the alternative, AT&T claims that to the extent AT&T is not directly liable, secondary liability attaches via the doctrines of inducement, vicarious and contributory liability—essentially, liability for contributing to and benefiting from the unlawful performance of ringtones by AT&T customers. This argument is likely designed to cut against the exemption codified in the Copyright Act allowing the "performance of a nondramatic literary or musical work ... to the public without any purpose of direct or indirect commercial advantage... if there is no direct or indirect admission charge." (see 17 U.S.C. § 110(4)). This would, in theory, prevent ASCAP from proceeding against individual consumers who, although they may be publicly performing a musical work according to Copyright Act, are doing so without commercial advantage and thus not infringing. ASCAP also reveals in its motion that it has consistently licensed other mobile carriers' sale and distribution of ringtones, charging "2% of revenue and an alternative usage-based fee calculation." In fact, ASCAP claims that prior to the Second Circuit's 2007 decision that digital downloads of sound recordings do not trigger the public performance right (see United States v. ASCAP, 485 F. Supp. 2d 438 (S.D.N.Y. 2007)) (the "Download Decision"), "very few parties ever questioned or challenged ASCAP on the question of whether ringtones required public performance licenses." For business people and transactional lawyers alike, perhaps the most notable takeaway from ASCAP's motion stems from AT&T's claim that the ringtone providers (e.g., Jamster, ThumbPlay, etc.), not AT&T, "bear contractual responsibility for securing public performance rights." In other words, AT&T is stating that

if public performance royalties are due, it is the responsibility of content providers, aggregators, and ringtone creators to make payments to the performing rights organizations, not distributors like AT&T and other mobile carriers/network operators. Put simply, this contention highlights the need for parties to these types of agreements to be more explicit than ever about which party will be responsible for performance royalties if and to the extent any public performance rights are implicated. Here, AT&T is pointing the finger at the providers, and to the extent this tactic works, the providers would be responsible for paying royalties based not only on their own revenue, but the mobile carriers' revenue, which, according to the ASCAP's standard licensing agreements, is deemed part of the provider's "client revenue" that is included in the "royalty base" for calculating provider payments to ASCAP. Moreover, any party ultimately saddled with responsibility for making performance payments would not only be required to pay 2% of revenue to ASCAP, but would also be required to remit similar amounts to the two other major performing rights organizations in the U.S. (i.e., BMI, SESAC), raising the total performance royalty rate to more than 6% of revenue–a sizeable payment, and in addition to the mechanical reproduction fees due to those same publishers and writers that are members of the performing rights organizations. Ultimately, ASCAP, in its attempt to receive royalties from AT&T, devotes the majority of its motion to arguing the extensive nature of ASCAP's control over the ringtone in an effort to distinguish ringtones from full-audio downloads addressed in the Download Decision, as the outcome of this case may very well turn on the question of the party responsible for triggering the performance. In other words, if an ongoing connection is maintained or required whenever the ringtone is played on a consumer's phone (e.g., similar to the connection required when a sound recording is streamed over the internet), then the second kind of public performance (i.e., the digital transmission performance) may be triggered. On the other hand, if AT&T can successfully argue that the ringtone is downloaded only once to a consumer's phone (similar to an iTunes track) without simultaneous or near simultaneous playback and continues to reside on the device exclusively, then merely prompting the playback of same by AT&T for an incoming call should fall more squarely within the confines of the Download Decision. No matter what side you come down on, ASCAP's PR machine has been slammed in the past for seeking payment from less than profit driven adversaries, including campfire balladeers such as the Girl Scouts. This time around though, eager to combat a slew of negative news reports trashing ASCAP's pursuit of ringtone monies, ASCAP moved quickly to address the matter with its own membership, dispatching the following clarification to its writers and composers: "Bottom line, ASCAP is striving to license those that make a business of transmitting its members' music. This holds true for any medium where businesses have been built by using this music as content or a service – whether terrestrial broadcast, satellite, cable, Internet or wireless carriers providing audio and video content. To be completely clear, ASCAP's approach has always been to license these businesses – not to charge listeners/end-users." Also, noteworthy in ASCAP's response, is the fact that ASCAP states that it is "in Federal Rate Court with the two largest U.S. wireless carriers," evidencing that ASCAP will be staging this battle for ringtone royalties on multiple fronts, including with Verizon, AT&T and possibly ringtone providers supplying the mobile carriers. Needless to say, this will be a long, hard-fought battle and the public performance organizations, still reeling from the Download Decision (which incidentally is still in the appeals process), will not go quietly when the mobile carriers continue to enjoy revenue in the billions from the sale of ringtones. As always, we will continue to closely monitor this case given the potential impact on our clients' businesses and the need for licensing and distribution contracts that accurately delineate each party's roles and responsibilities in this constantly evolving digital space.

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