Are Musical Compositions Subject to Compulsory Licensing for Ringtones?

By Mario F. Gonzalez, Esq.*

I. PREFACE

On July 16, 2004, The Harry Fox Agency, Inc.[1] issued the following notice:

> *IMPORTANT NOTICE*
> *Ringtones and Mastertones*
> To:All Licensees of The Harry Fox Agency, Inc. (HFA)
>
> This will confirm HFA's policy, based on the Copyright Act, that the making and distribution of ringtones derived from copyrighted musical compositions, including monophonic and polyphonic ringtones as well as ringtones embodying sound recording excerpts (sometimes referred to as "mastertones"), is not subject to compulsory licensing under Section 115 of the Copyright Act. Consistent with HFA's established practice, separate, specific licenses must be obtained for these uses with each relevant publisher's individual consent as to rate and terms. This will further confirm that licenses issued by HFA to make and distribute digital phonorecord deliveries ("DPDs") pursuant to Section 115 of the Copyright Act *do not cover ringtones or mastertones and may not be relied upon to make or dis-*

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* B.A., UCLA, 1974; J.D., UCLA School of Law, 1977. Mr. Gonzalez practices as a music attorney in Los Angeles as a shareholder of Greenberg Traurig, LLP. He would like to thank Jay L. Cooper for giving him the idea for this article.

[1] *See generally* http://www.harryfox.com/public/HFAHome.jsp (last visited Oct. 25, 2004):

> In 1927, the National Music Publisher's Association established HFA to act as an information source, clearinghouse and monitoring service for licensing musical copyrights. Since its founding, HFA has provided efficient and convenient services for publishers, licensees, and a broad spectrum of music users. With its current level of publisher representation, HFA licenses the largest percentage of the mechanical and digital uses of music in the United States on CDs, digital services, records, tapes and imported phonorecords. . . . HFA provides the following services to its affiliated publishers: issues mechanical licenses, collects mechanical royalties, distributes mechanical royalties, and synchronization fees for licenses granted prior to 2002, conducts royalty examinations, investigates and negotiates new business opportunities, and pursues piracy claims.

Id.

> *tribute (or authorize the making and distribution of) ringtones or mastertones.*
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> HFA has a ringtones licensing program in place for the convenience of prospective licensees. (Prospective licensees may also seek licenses directly from the relevant publishers.) If you would like to obtain licenses through HFA to make and distribute ringtones and/or mastertones, please contact JC Lindstrom of our Business Development Department at jlindstrom@harryfox.com or 212-922-3234.[2]

This article examines whether companies that sell ringtones[3] to the public ("Ringtone Companies") may use Section 115 of the Copyright Act to obtain a compulsory license for the reproduction and distribution of musical compositions in ringtones.

II. BACKGROUND

Until recently, ringtones have been simplistic, short re-recordings of well-known musical compositions or other sounds such as a voice recording or a sound effect.[4] The vast majority of cellular telephones currently on the market lack the technological capacity (e.g., the bandwidth) to receive, store and reproduce ringtones consisting of a portion of the actual sound recordings[5] by the original recording artists. Because ringtones to date have been re-recordings of musical compositions, the Ringtone Companies in the United States have only had to obtain a reproduction and distribution license, also known as a mechanical license,[6] for the underlying musical compositions from the

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[2] Letter from the Harry Fox Agency, Inc. (July 16, 2004) (on file with author).

[3] A ringtone is the sound heard when a call is received on a telephone (in lieu of the ordinary telephone ringing sound). A variation of a ringtone is a "ring-back." This is the sound a caller hears after placing a call to a cellular telephone prior to the call being answered. Ring-backs are made available by the cellular wireless carrier, rather than being stored in the telephone. Ring-backs are just now starting to be introduced on cellular telephones as an addition to a ringtone.

[4] The first generation of ringtones were "monophonic," and are simple note-by-note reproductions. The second generation of ringtones were "polyphonic," which have the capacity of reproducing several notes at one time, which allows for harmonies and chords.

[5] An audio-only recording made by a recording artist is referred to as a "sound recording" under the Copyright Law of the United States, and is commonly referred to as a "master recording" under most recording agreements and licenses. *See generally* 17 U.S.C. § 101 (2004) ("Sound recordings are works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.") 17 U.S.C. § 101 (2004). In addition to the copyright in the sound recording (which is typically owned by the record company for whom the recording artist recorded the sound recording), a sound recording also typically embodies a musical composition, which is a copyrightable work separate and apart from the copyright in the sound recording.

[6] A license to reproduce and distribute the underlying composition on a phonograph record is commonly referred to as a "mechanical license" for which "mechanical royalties" are

music publishers of the applicable musical compositions and public performance licenses from the performing rights societies in the United States (i.e., ASCAP, BMI and SESAC).[7]

Currently, most of the major music publishers in the United States are demanding a ringtone royalty equal to 12¢ per ringtone sold or ten percent (10%) of the retail price of each ringtone, whichever is greater.[8] Because someone else's sound recording is not being used, the Ringtone Companies need not obtain licenses from, or pay royalties to, the record companies or others who own sound recordings. The royalty charged by the music publishers, when added to the relatively small royalty charged by the performing rights societies, has left the Ringtone Companies with enough of a margin to make the ringtone business profitable for them.

However, technology is now taking the ringtone industry to a next generation of ringtones. These next generation ringtones will play the actual sound recording when a cellular telephone containing the ringtone is called.[9] For example, rather than hearing a toy-like simulation of the song "Start Me Up" when your cellular telephone rings, you will hear the actual recording by The Rolling Stones of that song (assuming, of course, that all of the appropriate licenses are secured). The ringtone industry believes that this next generation of ringtones (referred to above as *mastertones* by The Harry Fox Agency, Inc.) will greatly broaden the appeal of ringtones and the demographics of ringtone consumers from teenagers, who, for the most part, are the current consumers of ringtones, to older and wealthier consumers.[10]

This technological advance will require the Ringtone Companies to obtain a license to reproduce and distribute ringtones with actual sound recordings from the record companies, in addition to obtaining mechanical licenses from the music publishers and public performance licenses from the performing rights societies for the underlying musical

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payable. I will use these terms when referring to the use of the underlying composition in a ringtone derived from a sound recording.

[7] How Ringtone Companies obtain mechanical and public performance licenses outside of the United States is beyond the scope of this article.

[8] Licensing agreements prepared by author for over 65 different publishers (on file with author).

[9] Cellular telephones are increasingly able to store more than one ringtone in the telephone hardware, which gives the consumer the capacity to link a ringtone to a particular telephone number. In other words, only calls from a particular telephone number will trigger the particular ringtone linked to that number.

[10] Bob Tedeschi, *The ring tone business looks good to record companies – but a do-it-yourself program may cut profits short*, N.Y. TIMES, February 23, 2004, at C5. ("For now, executives said the biggest market for ringtones is teenagers, for whom simply owning a cellphone is no longer distinctive enough.")

composition.[11] The record companies, drawing on their experience with Internet music providers, such as iTunes, are asking for a substantial royalty that amounts to the lion's share of the retail price of the mastertone. The record companies are demanding royalties of fifty percent (50%) or more of the retail price of the ringtone. This royalty leaves very little margin for the Ringtone Companies. Thus, the Ringtone Companies are finding themselves squeezed between the royalty being charged by the record companies and the royalty being charged by the music publishers.[12]

Commonly, when a record company licenses sound recordings to an Internet music provider, the royalty paid by the provider to the record company includes the mechanical royalty payable to the music publisher for the underlying musical composition. In other words, the Internet provider pays the record company a royalty, out of which the record company pays the music publisher a mechanical royalty. This mechanical royalty is often the minimum statutory rate, which is currently – during the period January 1, 2004 through December 31, 2006 – an 8½¢ royalty rate per *digital phonorecord delivery* (which is what a ringtone appears to be) for a recording of a musical composition that is under five minutes long.[13] However, for ringtones, the music publishers are accustomed to being paid a royalty equal to not less than ten percent (10%) of the retail price of a ringtone or 12¢, whichever is greater.

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[11] The copyrights in sound recordings are generally owned and controlled by record companies; the copyrights in compositions are generally owned and controlled by music publishers.

[12] Seeing the advent of *mastertones*, the music publishers initially took the position that their royalty should be subject to favored nation's protection with the royalty the Ringtone Companies pay to the record companies, as well as to other music publishers. In other words, if a Ringtone Company agrees to pay a higher royalty to any record company, the Ringtone Company would be required to pay the higher royalty to the music publisher as well, in lieu of the royalty rate that had been negotiated by the Ringtone Company and the music publisher in the initial license. The music publishers were attempting to create an industry standard akin to what is typically charged for synchronization licenses for audiovisual programs (e.g., motion pictures, televisions programs, television commercials, CD-ROM games, etc.), where the music publisher's synchronization fee is typically equal to the synchronization fee paid to the record company when a record company's sound recording is being synchronized in the soundtrack of the audiovisual work. However, when it became apparent that the record companies were demanding in excess of fifty percent (50%) of the retail price for a *mastertone*, the music publishers have rather quietly dropped their demand for favored nation's royalty protection with the royalties paid to the record companies.

[13] *See* 22 C.F.R. § 255.3(I); *cf.* Mechanical and Digital Phonorecord Delivery Rate Adjustment Proceeding, 64 Fed. Reg. 6221 (mechanical royalty rates for digital phonorecord deliveries are currently the same as the mechanical rates for physical records (e.g., compact discs)). However, the mechanical royalty rates for digital phonorecord deliveries may at some point in the future be different than the mechanical royalties for physical phonorecords.

Since *mastertones* are projected to have a retail price in the range of $2.49 to $2.99,[14] the amount by which ten percent (10%) of the retail price of a *mastertone* exceeds 8½¢ will probably range from 16.4¢ to 21.4¢ per *mastertone* sold. Multiplied by millions in sales,[15] the difference in royalties to all of the interested parties will be enormous.[16] So far, I am not aware of any music publisher who has voluntarily accepted a ringtone royalty as low as the minimum statutory mechanical rate.

The record companies are tending to side with the Ringtone Companies against the music publishers in this royalty battle, even though all of the major record companies are affiliated with major music publishers. The record companies would like to be able to offer one-stop licensing to the Ringtone Companies. In other words, the Ringtone Companies would be able to obtain from the record companies a mechanical license to reproduce and distribute the underlying musical compositions in ringtones, as well as a license to reproduce and distribute ringtones containing the sound recordings that embody those musical compositions.[17]

Section 115 of the Copyright Act may offer a trump card to the Ringtone Companies and the record companies against the music publishers.[18] Section 115 may allow them to obtain compulsory licenses from music publishers for the use of compositions on phonorecords at the much lower statutory rate. In general, Section 115 provides that, once the owner of a non-dramatic musical composition has authorized the initial pubic distribution of a phonorecord containing that musical composition, any other person may obtain a compulsory mechanical license from the musical publisher for the use of the musical composition in phonorecords by following Section 115 and the corresponding regulations promulgated by Register of the United States Copyright Office. As a result, the music publisher cannot prohibit the reproduction and distribution of phonorecords containing that musical composition.

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[14] *See* Jeff Leeds, *The Guy from Green Day Says He Has Your Mother on the Cellphone*, N.Y. TIMES, August 18, 2004; *see also* Brian Garrity, *Ring Tones Set to Hit High Note: U.S. to Capitalize on Mobile-Music Revenue Potential*, BILLBOARD, March 27, 2004.

[15] *See* Tedeschi, *supra* note 10 (noting that according to Yankee Group research firm, by 2008, cellular telephone music purchases in the United States could reach $1,000,000,000).

[16] *See* Leeds, *supra* note 14 (observing that cellular telephone users worldwide spent $3.1 billion on ringtones in 2003 according to Consect, a mobile market research and consulting firm).

[17] *See generally* Mario F. Gonzalez, *The Statutory Overriding of Controlled Compositions Clauses*, 9 UCLA ENT. L. REV. 29 (2001). With respect to ringtones of sound recording containing musical compositions written or controlled by the recording artist, the record company may have the right to license the use of such compositions in ringtones based on the so-called "controlled composition" clauses in the recording contract with the artist.

[18] *See generally* 17 U.S.C. § 115 (2004).

As evidenced by the proclamation of The Harry Fox Agency at the beginning of this article, the Ringtone Companies should assume that the music publishers will vigorously take the position that Section 115 does not apply to ringtones, because the royalty under a compulsory mechanical license (i.e., a statutory royalty) is much less than the royalty currently being charged by the music publishers to Ringtone Companies.

III. Discussion

The discussion below first sets forth the position that is likely to be taken by the Ringtone Companies (namely, that the plain language of Section 115 allows for compulsory licensing of musical compositions in ringtones) followed by a variety of counter-arguments that may be made by the music publishers.

1. The Position of the Ringtone Companies

A compulsory mechanical license is available only for "phonorecords." Although the general issue examined in this article is whether the Ringtone Companies may avail themselves of Section 115 in order to obtain a compulsory license for the use of a musical composition in a ringtone, the key narrow issue in this analysis is whether a ringtone is a "phonorecord."

The Ringtone Companies' position is that a ringtone is nothing more than the sale of a phonorecord in the form of a digital file transferred to the consumer wirelessly or through the Internet. Therefore, Section 115 applies to ringtones based on the plain language of Section 115.

Section 115(a)(1) states, in relevant part:

> When phonorecords of a nondramatic[19] musical work have been distributed to the public in the United States under the authority of the copyright owner [IN OTHER WORDS, IF A COMPOSITION HAS BEEN LEGALLY COMMERCIALLY RELEASED ON A RECORD IN THE UNITED STATES], any other *person*, including those who make phonorecords

[19] Note that a compulsory license is not available for a "dramatic" composition. Because there is no definite case law that defines what is a dramatic composition and what is a nondramatic composition for purposes of Section 115, the Ringtone Companies should assume that any composition that can be characterized as a dramatic musical work is ineligible for a compulsory mechanical license. Thus, the Ringtone Companies should avoid compulsory mechanical licenses for compositions for motion picture soundtracks, Broadway musicals and other stage plays, television theme songs, and any music cues in an audiovisual work. In this regard, any composition that contains dramatic dialog or a plot line should be considered a dramatic musical work. See AL KOHN & BOB KOHN, KOHN ON MUSIC LICENSING 1037-1085 (3d ed., Aspen Law & Business 2000), for an enlightening discussion as to what constitutes a dramatic work.

> or digital phonorecord deliveries [UNDER THE FOLLOWING DEFINITION "DIGITAL PHONORECORD DELIVERIES," A RINGTONE COMPANY IS CLEARLY A "PERSON" WHO MAKES "DIGITAL PHONORECORD DELIVERIES."], may, by complying with the provisions of this section, obtain a compulsory license to make and distribute phonorecords of the work. A person may obtain a compulsory license only if his or her primary purpose in making phonorecords is to distribute them to the public for private use, including by means of a digital phonorecord delivery. [RINGTONE COMPANIES WILL CLEARLY COMPLY WITH THE IMMEDIATELY PRECEDING SENTENCE.][20]

Section 115(c)(3) states, in relevant part:

> A compulsory license under this section includes the right of the compulsory licensee to distribute or authorize the distribution of a phonorecord of a nondramatic musical work by means of a digital transmission which constitutes a digital phonorecord delivery, regardless of whether the digital transmission is also a public performance of the sound recording under section 106(6) of this title or of any nondramatic musical work embodied therein under section 106(4) of this title.[21]

The Digital Performance Rights in Sound Recordings Act of 1995 (the "DPRA") amended Section 115 to clarify that compulsory mechanical licenses would apply to electronic digital transmissions, which Section 115 refers to as "digital phonorecord deliveries." The legislative history explains that "[c]hanges to Sections 115(a)(1) and 115(c)(2) make clear that the compulsory license for making and distributing phonorecords is not limited to the making and distribution of physical phonorecords,[22] but that a compulsory license is also available for the making of digital phonorecord deliveries."[23]

Section 115(c)(4)(A) provides as follows:

> A compulsory license under this section includes the right of the compulsory licensee to distribute or authorize the distribution of a phonorecord of a nondramatic musical work by means of a digital transmission which constitutes a digital phonorecord delivery.[24]

As defined in Section 115(d):

> A "digital phonorecord delivery" is each individual delivery of a phonorecord by digital transmission of a sound recording which results in a specifically identifiable reproduction by or for any transmission recipient of a phonorecord of that sound recording, regardless of whether the digital transmission is also a public performance of the

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[20] 17 U.S.C. § 115(a)(1) (2004)(comments added).

[21] 17 U.S.C. § 115(c)(3) (2004).

[22] Phonograph records in the form of vinyl, tape cassette and compact disc are all examples of physical phonorecords.

[23] S. Rep. No. 104-128, at 37 (1995).

[24] 17 U.S.C. § 115(c)(4)(A) (2004).

> sound recording or any nondramatic musical work embodied therein.[25]

In light of the foregoing, ringtones appear to be digital phonorecord deliveries, because they are *digital transmissions of sound recordings distributed in a specifically identifiable reproduction* (i.e., a digital file that may be downloaded and copied).

Based on the regulations promulgated by the Register of Copyright,[26] it is abundantly clear that the addition of "digital phonorecord deliveries" to Section 115 was designed to allow Internet music providers to obtain compulsory licenses for music being downloaded through the Internet. It should be the position of the Ringtone Companies that, under the plain language of Section 115, a Ringtone Company is indistinguishable from an Internet music provider.

However, the position of the Ringtone Companies encounters a bit of difficulty when looking at the definition of a "phonorecord." 17 U.S.C. § 101 states the definition as follows:

> "Phonorecords" are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work,[27] are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "phonorecords" includes the material object in which the sounds are first fixed.[28]

The problem with this definition is that it refers to a "material object" in defining a "phonorecord," and it is difficult to determine what is the "material object" in the context of a ringtone. Is the "material object" the Ringtone Company's server that contains the digital file; the computer code; the electronic transmission of that file (even thought there is no physical object); the memory in the telephone (the equivalent of the computer's hard drive) that stores the file; or the telephone itself? However, this same question could be asked in the context of an Internet music provider. Is the "material object" the

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[25] 17 U.S.C. § 115(d) (2004).

[26] *Id.*

[27] The words "other than those accompanying a motion picture or other audiovisual work" mean that the ringtone cannot be a phonorecord if it is distributed as part of an audiovisual work. Therefore, a compulsory mechanical license cannot be obtained if the ringtone is part of a digital transfer that includes an audiovisual reproduction. For example, a compulsory mechanical license cannot be obtained for a composition contained in a music video or some graphic reproduction distributed as a ringtone and played when a call is placed to the telephone handset. In other words, if a graphic can be viewed on the telephone handset when the ringtone plays, a compulsory mechanical license cannot be obtained for the composition in the ringtone.

[28] 17 U.S.C. § 101 (2004).

provider's server, the digital file, the computer code, the transmission, or the end-user's hard drive?[29] Because Section 115 allows for the "distribution" of phonorecords, it would seem logical that the digital file is the "material object" in a phonorecord digital delivery, even though the transmission is not a physical object. In the context of phonorecord deliveries, it does not seem logical for Congress to require that a "phonorecord" be a physical object, even though the words "material object" seems to have a connotation of a physical object.

A close reading of the portion of Section 115(c)(4)(A) (quoted above) seems to confuse this issue as well. Notice that the portion of the first sentence, which defines who is eligible to obtain a compulsory license (i.e., the phrase "including those [persons] who make phonorecords or digital phonorecord deliveries"), seems to indicate that a "phonorecord" is different from a "digital phonorecord delivery." However, if this were the case, the sentence in its entirety should have read as follows:

> When phonorecords of a nondramatic musical work have been distributed to the public in the United States under the authority of the copyright owner, any other person, including those who make *phonorecords or digital phonorecord deliveries*, may, by complying with the provisions of this section, obtain a compulsory license to make and distribute phonorecords [AND DIGITAL PHONORECORD DELIVERIES] of the work. A person may obtain a compulsory license only if his or her primary purpose in making phonorecords [OR DIGITAL PHONORECORD DELIVERIES] is to distribute them to the public for private use, ~~including by means of a digital phonorecord delivery.~~

Perhaps, when it was amending Section 115 to include "digital phonorecord deliveries," the DRPA should have amended the definition of "phonorecord" to clarify what constitutes the "material object" in a phonorecord digital delivery. Nevertheless, in light of the analogy between ringtone providers and Internet music providers, the better view would be that the term "material object" is the digital file containing the ringtone recording. This view is consistent with the definition of a "digital phonorecord delivery." In any event, the ambiguity in what constitutes the "material object" in a phonorecord digital delivery should not be relevant as to whether the compositions contained in ringtones are eligible for a compulsory mechanical license.

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[29] *Cf.* Recording Indus. Ass'n v. Diamond Multimedia Sys., Inc., 180 F.3d 1072, 1076 (9th Cir. 1999). In a case that decided that a Rio Player was not a "digital audio recording device," the court stated that the hard drive in an end-user's computer was the "material object" for purposes of defining a "digital music recording." *Id.* at 1076. If the Rio Player had been a "digital audio recording device," then manufacturer would have had to comply with the Audio Home Recording Act of 1992. *Id.* at 1072.

The analogy between ringtone providers and Internet music providers is even stronger with respect to a ringtone that is initially transmitted to an end-user's hard drive (rather than directly to a cellular telephone) and is thereafter transferred (by a cable plug-in or other method) by the end-user to his cellular telephone. Simply put, Section 115 does not contain any language that makes a distinction between Internet music providers and ringtone providers.

2. The Music Publishers' Position

The following are some of the arguments the music publishers may make to support their position that Section 115 does not allow a compulsory mechanical license for ringtones in no order of importance:

a. If Section 115 is Intended to Apply to Ringtones, Why Haven't Ringtone Companies Previously Invoked Section 115 to Obtain a Compulsory Mechanical License?

To put this position in legal terms, the current custom and practice of Ringtone Companies and music publishers of voluntarily negotiating mechanical licenses preempts the application of Section 115 to ringtones.

Granted, I would admit that most people in the music industry think of a mechanical license solely in connection with the sale of physical phonograph records, and that it is a rather unique position that mechanical licenses, as that term is commonly understood, applies to anything other than traditional phonograph records.[30] However, the Ringtone Companies have either not been advised by legal counsel that a compulsory mechanical license may be available, or have determined that it was easier to pay the higher "voluntary" royalty, rather than to face the potential of lawsuits from music publishers and the onerous notice and monthly accounting requirements under Section 115. Now, however, because of the changing economic model which is evolving for *mastertones*, the Ringtone Companies may find it more cost effective to take on the fight with the music publishers, rather than pay the ten percent (10%) retail royalty.

[30] *See supra* note "*", for my acknowledgment to Jay Cooper.

b. Compulsory Mechanical Licenses Only Apply to Phonorecords, and Ringtones are "Copies," Rather than "Phonorecords."

Compulsory mechanical licenses are only available for "phonorecords" and not for the reproduction or distribution of "copies" of a musical composition as defined in the Copyright Act. 17 U.S.C. § 101 states:

> "Copies" are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.[31]

However, because a ringtone is the reproduction of a sound, rather than another type of reproduction of a music composition (e.g., sheet music), a ringtone would clearly seem to fall under the definition of a "phonorecord" (see above), rather than under the definition of a "copy."

c. A Compulsory Mechanical License is Not Available Unless the Licensee Makes His Own Arrangement of the Composition.

The music publishers may take the position that a compulsory mechanical license is not available unless the licensee makes his own arrangement of the composition. This is impossible in the context of *mastertones*, because the arrangement of the musical composition in a *mastertone* is an exact reproduction of the musical composition in the original sound recording, including, of course, the arrangement contained therein.

The only reference to an arrangement of a musical composition in Section 115 is in paragraph (a)(2), which states:

> A compulsory license includes the privilege of making a musical arrangement of the work to the extent necessary to conform it to the style or manner of interpretation of the performance involved, but the arrangement shall not change the basic melody or fundamental character of the work, and shall not be subject to protection as a derivative work under this title, except with the express consent of the copyright owner.[32]

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[31] 17 U.S.C. § 101 (2004).

[32] 17 U.S.C. § 115(a)(2) (2004).

The foregoing language states that a compulsory license merely "includes the privilege" to make an arrangement of the composition; it does not obligate the licensee to make its own arrangement.

The music publishers' position that the licensee under a compulsory mechanical license must make his own arrangement of the composition also seems contrary to the negative implication of another provision of Section 115. The last sentence of (a)(1) of Section 115 states:

> A person may not obtain a compulsory license for use of the work in the making of phonorecords duplicating a sound recording fixed by another, unless: (i) such sound recording was fixed lawfully; and (ii) the making of the phonorecords was authorized by the owner of copyright in the sound recording or, if the sound recording was fixed before February 15, 1972, by any person who fixed the sound recording pursuant to an express license from the owner of the copyright in the musical work or pursuant to a valid compulsory license for use of such work in a sound recording.[33]

The negative implication of the foregoing is that, if the sound recording was made by someone other than the person seeking a compulsory mechanical license and if the owner of the sound recording authorizes the person seeking a compulsory mechanical license to make phonorecords of the sound recording, then the person who is seeking to duplicate a sound recording may obtain a compulsory mechanical license. However, it would be impossible for the person who is merely duplicating a sound recording to create his own arrangement of the underlying composition, because he is not recreating the underlying composition.

Although the music publishers may find this position (i.e., that the licensee must make an arrangement of the musical composition) appealing with respect to *mastertones*, its negative implication would make almost all other ringtones (i.e., re-recorded tones that contain unique arrangements) subject to Section 115 if this were the only criterion.

d. A Compulsory Mechanical License is Not Available Unless the Licensee Records the Entire Composition, Not Just a Few Seconds.

The music publishers may take the position that the licensee under a compulsory mechanical license must reproduce the entire composition, and not just a few seconds of a composition. However, there is

[33] 17 U.S.C. § 115(a)(1) (2004).

nothing in Section 115 or in the legislative history that directly supports this requirement.

The only language of Section 115 that even approaches this position is the language that states that the arrangement of a licensee under a compulsory mechanical license cannot "change the basic melody or fundamental character of the work."[34] The Report of the House of Representatives explains that this prohibition is intended to prevent a musical composition from being "perverted, distorted, or travestied."[35] Using this prohibition as their rationale, the music publishers may take the position that, since a ringtone only reproduces a few seconds of a composition, it is changing the basic melody or fundamental nature of the work. The problem with this position is that it is not readily apparent how a ringtone is a change in the basic melody or fundamental character of the work, let alone being a perversion, distortion or travesty of the musical composition.

Although this position may carry some weight for ringtones that are not *mastertones*, the restriction that prohibits "changing the basic melody or fundamental nature of the work" only applies to a new arrangement of the work. As quoted above, paragraph (a)(2) of Section 115 states that "the arrangement shall not change the basic melody or fundamental character of the work."[36] Therefore, this position would not be applicable to *mastertones*, because no change in the arrangement has occurred in a duplication of a portion of a sound recording. In order to make this position apply to *mastertones*, the music publishers would have to take the position that a five to thirty second edit of a sound recording for a ringtone is in itself a new *arrangement* of the underlying musical composition and that the *arrangement* became a perversion, distortion, or travesty of the musical composition. The problem of course, is that an edit of a sound recording is not typically thought of as a new arrangement of the underlying musical composition.

e. A Ringtone is a Derivative Work, and Section 115 Does Not Grant the Licensee the Right to Create a Derivative Work.

Section 17 U.S.C. § 106 states that one of the exclusive rights conferred upon a copyright owner is the right "to prepare derivative works based upon the copyrighted work."[37] The music publishers may take

[34] 17 U.S.C. § 115(a)(2) (2004).
[35] H.R. Rep. 94-1476 at 109 (1976).
[36] 17 U.S.C. § 115(a)(2) (2004).
[37] 17 U.S.C. § 106 (2004).

the position that the embodiment of a musical composition in a ringtone is an unauthorized derivative work. 17 U.S.C. § 101 defines a derivative work as follows:

> A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work."[38]

In enacting Section 115, Congress recognized that the arrangement contained in a re-recording of a music composition could be viewed as a derivative work; however, paragraph (a)(2) of Section 115 addresses this possibility with the following:

> A compulsory license includes the privilege of making a musical arrangement of the work to the extent necessary to conform it to the style or manner of interpretation of the performance involved, but the arrangement shall not . . . be subject to protection as a derivative work under this title, except with the express consent of the copyright owner.[39]

This prohibition prevents a licensee under a compulsory mechanical license from claiming royalties from a subsequent person who re-records the applicable musical composition with the arrangement of the prior licensee. This competing claim would interfere with the right of the owner of the copyright in the musical composition to collect all of the mechanical royalties attributable to the subsequent re-recording.

Almost all re-recordings pursuant to a compulsory mechanical license could be viewed to some extent as a recasting, a transformation or an adaptation of the original musical composition, regardless of whether the re-recording is in the form of a ringtone or a traditional phonograph record. Therefore, the problem with the position that a ringtone is an authorized derivative work based on the musical composition contained therein is that it would apply to almost all re-recordings under a compulsory mechanical license. This position would effectively vitiate the utility of Section 115 altogether.

The language in paragraph (a)(2) of Section 115 that states "[a] compulsory license includes the privilege of making a musical arrangement of the work to the extent necessary to conform it to the style or manner of interpretation of the performance involved. . .",[40] and Sec-

[38] 17 U.S.C. § 101 (2004).
[39] 17 U.S.C. § 115(a)(2) (2004).
[40] *Id.*

tion 115's prohibition on the licensee claiming a derivative work in the arrangement reflect a recognition by Congress that a re-recording may very well be a derivative work that is excepted from the copyright owner's exclusive right of derivation.[41]

f. Even if a Compulsory Mechanical License is Obtained, the Ringtone Companies are Nevertheless Infringing Upon the Music Publishers' Exclusive Right to Authorize the Public Performance of the Composition Contained in the Ringtone.

A mechanical license only grants a right to reproduce and distribute a musical composition. It does not give the licensee the right to publicly perform the ringtone. The performance of the ringtone on Ringtone Company website will need to be licensed through ASCAP, BMI and possibly SESAC, if the music publisher has not issued a public performance license.[42] However, the music publishers may further argue that (a) the transmission of the ringtone from the Ringtone Company's server to the cellular telephone is a public performance even though the transmission is inaudible, and/or (b) when the telephone rings, the reproduction of the composition on the ringtone sound recording is also a "public performance."

The definition of a "public performance" in the Copyright Act gives little guidance as whether the transmission of a ringtone or the playing of ringtone is a public performance. 17 U.S.C. § 101 contains the following definition:

> To perform or display a work "publicly' means - (1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the perform-

[41] [T]he second clause of subsection (a) is intended to recognize the practical need for a limited privilege to make arrangements of music being used under a compulsory license, but without allowing the music to be perverted, distorted, or travestied. Clause (2) permits arrangements of a work 'to the extent necessary to conform it to the style or manner of interpretation of the performance involved,' so long as it does not 'change the basic melody or fundamental character of the work.' The provision also prohibits the compulsory licensee from claiming an independent copyright in his arrangement as a 'derivative work' without the express consent of the copyright owner.

H.R. Rep. 94-1476 at 109 (1976).

[42] Performing rights societies are only granted non-exclusive public performance rights from the music publishers. Accordingly, a music publisher also retains the right to directly issue a public performances license in addition to the performing rights society.

> ance or display receive it in the same place or in separate places and at the same time or at different times.[43]

With regard to the first argument, it will be difficult for the music publishers to convince a court that an inaudible transmission of a digital music file (i.e., a digital phonorecord delivery) is a "public" performance.[44]

With regard to the second argument, the location of the telephone when the ringtone is played should not define whether or not the "performance" is public. In this case, it is the end-user, and not the ringtone provider, who is "performing" the composition. This position by the music publishers would mean that when a person plays any portable sound device (e.g., a boom box, a Walkman, CD player, an MP3 player, or an iPod) in public using speakers (rather than headphones), that person is engaging in an infringing public performance of the composition. The music publishers may make the argument that, although the Ringtone Company is not engaging in the public performance, it is liable for contributory infringement. However, in order to be liable for contributory infringement, the Ringtone Company would have to knowingly and materially contribute to the infringing conduct,[45] which would clearly not be the case.

In any event, based on the ringtone blanket performance licenses currently being offered by ASCAP and BMI and my conversations with legal counsel at both societies, it is the position of both ASCAP and BMI that their respective blanket licenses cover all of the foregoing types of performances.

g. Allowing Ringtone Companies to Obtain Compulsory Mechanical Licenses Does Nothing to Enhance Creativity for the Greater Public Good.

Copyright law gives copyright owners a monopoly to decide where, when and if their works will be reproduced, distributed, publicly per-

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[43] 17 U.S.C. § 101 (2004).

[44] *But see* Agee v. Paramount Comms., Inc., 59 F.3d 317,325 (2d Cir. 1995) (holding that a transmission of a television program containing a sound recording from a company that owned the program (Paramount) to independent television stations was a "performance" and not a distribution). Therefore, the transmission did not violate the sound recording copyright because, at the time, there was no performance right in sound recordings. *Id* at 325. This holding, however, can be distinguished from the situation of the Ringtone Companies because the court never called the "performance" a "public performance"; i.e., a non public performance of a composition does not violate the copyright in the composition. Also, the opinion was non-binding dicta in light of the fact that the court found that Paramount had nevertheless violated the copyright in the sound recording by making reproductions of the sound recordings. *Id.* at 324.

[45] *See* Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 264 (9th Cir. 1996).

formed, etc. Compulsory licenses are exceptions to this monopoly. The reason Congress created these exceptions was because Congress saw a greater good in overriding some of the monopolistic aspects of copyright. In this regard, Congress apparently saw a public good in making non-dramatic musical compositions available to be recorded by more than one performer. In effect, allowing anyone to record a composition, after its "first use," enhances creativity in our society.

The music publishers may argue that allowing ringtone providers to obtain compulsory mechanical licenses does little or nothing to enhance creativity for the greater public good. But, to the contrary, allowing musical compositions to be played in as many types of new technological devices as possible, enhances the earnings of the songwriters as well as the music publishers, and, therefore, enhances the economic incentives to songwriters and music publishers. Without compulsory mechanical licenses, music publishers may stifle the growth of new technologies to the detriment of the greater good.[46]

h. Allowing Ringtone Companies to Obtain Compulsory Mechanical Licenses Will Open the Flood Gates for the Compulsory Use of Composition in any Type of Merchandise.

The music publishers may argue that allowing ringtone providers to obtain compulsory mechanical licenses will, in effect, allow a manufacturer of any type of merchandise to incorporate musical compositions into any item of merchandise capable of playing music. For example, a pillow manufacturer could obtain a compulsory mechanical license for a lullaby to be played each time the pillow was depressed. The fact that that the merchandise is pre-programmed with the music or that music is downloaded or otherwise recorded into the merchandise by the consumer would not seem to change this analysis, other than, perhaps, affecting what constitutes the "phonorecord" (as discussed above with regards to a "material object"). However, there is nothing in Section 115 or in the legislative history that addresses any requirements or conditions as to the type of "machine" that plays the phonorecord or what type of audio device constitutes a "phonorecord."

For now, the major difference between a toy or similar device that plays music and a telephone that plays ringtones is that it is the manufacturer of the toy who determines which composition or compositions

[46] *See supra* note 23 ("The intention. . . is to maintain and reaffirm the mechanical rights of songwriters and musical publishers as new technologies permit phonorecords to be delivered by wire or over the airwaves.")

will be recorded in the toy, whereas the consumer is the one who determines which ringtone will be downloaded into his telephone. However, this can easily be changed by creating a toy that lets the consumer choose which music to download or otherwise copy into the toy. Moreover, the reverse may also be true, i.e., the manufacturer of a telephone could pre-load various ringtones into the telephone. Under the plain language of Section 115, it would seem that the manufacturer of a preloaded telephone could obtain a compulsory mechanical license just like a ringtone provider or an Internet music provider could.

IV. CONCLUSION

There is no clear answer as to whether the use of musical compositions in ringtones is subject to Section 115, because the Copyright Act does not expressly address this issue, and there are no court opinions that specifically address this issue. Although the Ringtone Companies have the better position based on the plain language of Section 115, both sides have a real incentive to avoid lengthy litigation in this regard. Many people in the ringtone industry predict that the industry itself will be short-term (e.g., three to six years) at best. Today, most cellular telephones no longer merely function as a telephone, rather, they include the functionality of personal information managers (for example, they contain software allowing for calendaring, the inclusion of personal contacts, games, etc.) and digital photography. One would assume that the cellular telephone in the relatively near future will also function as personal music player and will have the functionality of an iPod and similar portable music devices.[47] Undoubtedly, these new telephones will allow the consumer to create, for no additional payment, their own ringtones from their own personal music library. Also, companies (such as Xingtone) are already selling software that allows consumers to create their own ringtones from MP3, without payment to the record labels, music publishers or wireless carriers.

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[47] *See* Scott Banerjee, *Apple iTunes Calls Up Motorola*, BILLBOARD, August 7, 2004 (reporting that the cellular telephone manufacturer Motorola has partnered with Apple Computer to merge a telephone and an MP3 player); *see also* Alex Salkever, *Apple and Motorola: A Smart Duet*, BUSINESS WEEK ONLINE, August 5, 2004, *at* http://www.businessweek.com/technolgy/content/aug2004/tc2004085_7371_tc056.htm; *see also* Andy Reinhardt, *For Nokia, There's Music in the Air*, BUSINESS WEEK ONLINE, August 11, 2004, *at* http://www.businessweek.com/technology/content/aug2004/tc20040811_4909_tc024.htm (reporting that Nokia, which is a cellular telephone manufacturer, has made a deal with Loudeye to collaborate on technology for downloading music wirelessly to cellular telephones).