BNA International

Volume 24, Number 11 November 2010

UNITED STATES

Copyrights

Digital Music Downloads Are Not Public Performances Under the Copyright Act

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The Second Circuit recently held that the download of a digital file containing a musical work is not a "public performance" of the underlying work, and therefore that online music vendors need not obtain or pay for public performance licenses for their distribution of — and their customers' use of — digital music files: *United States v. Am. Soc'y of Composers, Authors, and Publishers (Applications of RealNetworks, Inc, Yahoo! Inc)*, No. 09-0539-cv (L) (2d Cir, Sept 28, 2010). The court also held that fees for public performance licenses for streaming music services may not be determined solely by using a ratio of time users spend streaming music versus using other online services.

The Parties and the Public Performance Licenses at Issue

Yahoo! Inc ("Yahoo") and RealNetworks, Inc ("RealNetworks") each provide music content in various ways across their websites and subscription services, including streaming music services and download transmittals.

Yahoo! and RealNetworks each sought separate blanket licenses in connection with their online music services from the American Society of Composers, Authors, and Publishers ("ASCAP"). ASCAP is a performing rights organization that represents the owners of copyrights in musical compositions (as opposed to copyrights in sound recordings). ASCAP licenses on a non-exclusive basis the non-dramatic public performance rights to these compositions. ASCAP licenses approximately 45% of all the musical works that are played online.

Yahoo! and RealNetworks negotiated with ASCAP for a blanket license in connection with their various online music services, which included downloading and streaming of musical compositions from ASCAP's catalogue. When those negotiations proved unsuccessful, ASCAP applied to the Southern District of New York for a determination of reasonable fees.[1] The District Court held that the download of a digital file containing a musical work does not constitute a public performance of that work, and therefore that Yahoo! and RealNetworks did not need to obtain public performance licenses for their music download services.[2] As to the other online music services, the District Court set a royalty rate of 2.5% of revenue derived from playing music, as determined by a formula based upon the amount of time a user spent

streaming music versus using other online services Yahoo! and RealNetworks offered. ASCAP appealed the District Court's decision regarding download services, while Yahoo! and RealNetworks appealed the District Court's fee determination for music streaming services.

"Performance" of Copyrighted Work Requires "Contemporaneous Perceptibility"

ASCAP argued on appeal that downloading digital music files constitutes a "public performance" under the Copyright Act.

The right of public performance is one of six exclusive rights granted to a copyright owner (17 USC § 106(4)). Under the Copyright Act, to "perform" a work means "to recite, render, play, dance, or act it, either directly or by means of any device or process. . ." (17 USC § 101). The Act defines "publicly", in relevant part, to mean "to transmit or otherwise communicate a performance. . . to the public, by means of any device or process, whether the members of the public capable of receiving the performance. . . receive it in the same place or in separate places and at the same time or different times" (17 USC § 101).

In evaluating ASCAP's statutory interpretation, the Second Circuit first looked to the definition of "performance" under the Copyright Act. Because a download cannot be construed as either a "dance" or an "act", the court looked to whether a download of a musical work falls within the meaning of the terms "recite", "render", or "play" under § 101. The court evaluated the ordinary meaning of each of these terms and determined that each of these actions entails "contemporaneous perceptibility" of the copyrighted work.[3]

> "Itzakh Perlman gives a 'recital' of Beethoven's Violin Concerto in D Major when he performs it aloud before an audience. Jimmy Hendrix memorably (or not, depending on one's sensibility) offered a 'rendition' of the Star-Spangled Banner at Woodstock when he performed it aloud in 1969. Yo-Yo Ma 'plays' the Cello Suite No. 1 when he draws the bow across his cello strings to audibly reproduce the notes that Bach inscribed. Music is neither recited, rendered, nor played when a recording (electronic or otherwise) is simply delivered to a potential listener" (Slip Op at 15).

Downloads of digital music files, by contrast, are not "contemporaneously perceived" by the consumer.

> "They are simply transfers of electronic files containing digital copies from an on-line server to a local hard drive. The downloaded songs are not performed in any perceptible manner during the transfers; the user must take some further action to play the songs after they are downloaded. Because the electronic download itself involves no recitation, rendering, or playing of the musical work encoded in the digital transmission, we hold that such a download is not a performance of that work, as defined by § 101" (Slip Op at 16).

ASCAP argued that § 101's definition of "publicly", which includes the phrase "to transmit or otherwise communicate a performance", requires that a download be considered a "public performance". The court rejected this argument, holding that "[t]he definition of 'publicly' simply defines the circumstances under which a performance will be considered public; it does not define the meaning of 'performance'."[4] " '[W]hen Congress speaks of transmitting a performance to the public, it refers to the performance created by the act of transmission', not simply to transmitting a recording of a performance."[5]

The court contrasted downloads, which it concluded are not performances, with streaming:

> "[S]tream transmissions, which all parties agree constitute public performances, illustrate why a download is not a public performance. A stream is an electronic transmission that renders the musical work audible as it is received by the client-computer's temporary memory. This transmission, like a television or radio broadcast, is a performance because there is a playing of the song that is perceived simultaneously with the transmission. In contrast, downloads do not immediately produce sound; only after a file has been downloaded on a user's hard drive can he perceive a performance by playing the downloaded song. Unlike musical works played during radio broadcasts and stream transmissions, downloaded musical works are transmitted at one point in time and performed at another. Transmittal without a performance does not constitute a 'public performance' " (Slip Op at 18–19, omitting internal citations).

The court distinguished its holding in *NFL v. PrimeTime 24 Joint Venture*, 211 F 3d 10 (2d Cir 2000), in which a satellite television provider's unauthorized transmission of football games from the United States to a satellite was deemed a public performance of the games. The court reasoned that the uplink transmission from the US to the satellite was an "integral part" of the larger process by which the games were "uplinked" from the US to the satellite and immediately "downlinked" from the satellite to viewers in Canada.[6] The "immediately sequential downlink" of the satellite feed rendered the uplink itself a public performance.[7] The Second Circuit contrasted its holding in *Cartoon Network*, where the transmission of television programs to remote digital video recorder hard drives did not constitute a public performance:

"Just as in *Cartoon Network*, [Yahoo and RealNetworks] transmit a copy of the work to the user, who then plays his unique copy of the song whenever he wants to hear it; because the performance is made by a unique reproduction of the song that was sold to the user, the ultimate performance of the song is not 'to the public' " (Slip Op at 21, citing *Cartoon Network*, 536 F 3d at 137–138).

Performance Licenses for Online Streaming Not Determined Solely by Ratio of Streaming to Non-Streaming Use

Yahoo! and RealNetworks challenged the District Court's application of blanket license fees for online music streaming based upon a 2.5% royalty rate applied to "music-use revenue", which the District Court determined by taking the ratio of time users spent streaming

music versus using other online services Yahoo! and RealNetworks offered.

The Second Circuit first took issue with the District Court's determination of "music-use revenue". The Second Circuit agreed that the license fee should be based upon revenue derived from the music being licensed, but found error in the District Court's method of determining the music-use ratio.

With respect to Yahoo!, the Second Circuit noted that Yahoo!'s revenue is primarily derived from advertising, from which revenue is driven by the number of page views as opposed to the amount of time a user streams music.[8] The Second Circuit held it is "unreasonable to use streaming time, which has no necessary correlation with page views, as a proxy for the number of times a page is viewed; time spent on-line is not reflective of how a user interacts with a particular page".[9] The Second Circuit did not identify a specific method for developing a formula for determining music-use revenue, but held that it must either incorporate page views or provide some rationale for not doing so.[10] The Second Circuit did, however, note that "music can enhance a user's experience on Yahoo! even when he navigates away from the streaming page to another Yahoo! webpage", and that therefore the amount of streaming time may be taken into account in some fashion in the formula for determining music-use revenue.[11]

Regarding RealNetworks' subscription-based streaming and downloading services, the District Court applied various ratios of music streaming versus total streaming of all content through these services. The Second Circuit held the District Court failed to explain the bases for these music-use ratios, and directed the District Court on remand to consider:

> "(1) whether its method for calculating the [music-use ratio] for the Rhapsody subscription service is more precise or practicable than the method used in the benchmark agreements in the record; (2) whether there is a more precise way, that is also practicable, to account for the value of the music use for the SuperPass subscription service in light of the fact that some components of the subscription do not involve the streaming of content to users; and (3) whether there is a more precise and still practicable way to measure RealNetworks' advertising revenue, in light of the issues we raised in our discussion of Yahoo!'s [music-use ratio]" (Slip Op at 35–36).

Finally, the Second Circuit held that the District Court's application of a uniform 2.5% royalty rate across all of Yahoo!'s and RealNetworks' online music services was unreasonable.[12] The District Court justified the 2.5% royalty rate by comparing it to benchmark rates ASCAP negotiated with other licensees. The court determined that the 2.5% royalty rate was appropriate for "sites and services that provide access to music channels organized around music genre" but not to services that were "less music intensive".[13]

Notes

[1] The Southern District of New York has jurisdiction over the determination of reasonable fees for ASCAP licenses pursuant to a 1941 consent decree, as amended from time to time, in a civil antitrust action brought the United States brought against ASCAP. See *United States v. Am Soc'y of Composers, Authors & Publishers*, No. 13–95, 1941 US Dist LEXIS 3944 (SDNY Mar 4, 1941).

[2] The parties did not dispute that the downloads create copies of the musical works, for which the copyright owners must be compensated (17 USC § 106(1)).

[3] Slip Op at 14.

[4] Slip Op at 17.

[5] Slip Op at 17 (quoting *Cartoon Network LP v. CSC Holdings, Inc*, 536 F 3d 121, 136 (2d Cir 2008)).

[6] Id at 11–13.

[7] Id at 11–13.

[8] Slip Op at 28.

[9] Slip Op at 29.

[10] Slip Op at 31.

[11] Slip Op at 30–31, n 14.

[12] Slip Op at 36–37, 47.

[13] Slip Op at 37–38, 47.

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UNITED STATES

Patents

USPTO Chief Cites Fall in Patent Backlog, Cites Success of New Cooperation Agreements

GENEVA — The number of patent applications pending at the US Patent and Trademark Office continues to decline, demonstrating the effectiveness of recent initiatives to streamline and accelerate the patent approval process, the agency's head said on September 23.

Speaking to reporters in Geneva on the sidelines of the World Intellectual Property Organization's annual governing body meeting, USPTO Director David Kappos said the patent backlog now numbered around 720,000, down from a peak of 750,000.

Kappos said that it was with thanks to additional funding from the US Congress, the USPTO was on target to meet its goal of reducing the backlog to under 700,000 patents by the end of the year, the first real improvement in reducing the backlog for several years.

"We are making progress towards that goal, and I believe we're going to make it", he declared.

The USPTO chief noted however that this figure was still well above the optimal inventory of patent applications, which he said the agency estimated at between 50–70 applications per patent examiner, or about 325,000 applications in total. At that level, patent examiners should be able to provide applicants a first indication of the patentability of their inventions within 10 months of an in-

  WIPR ISSN 0952-7613