ARE MUSICAL COMPOSITIONS SUBJECT TO COMPULSORY LICENSING FOR RING TONES?

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I. PREFACE
On July 16, 2004, The Harry Fox Agency, Inc. issued the following notice:

IMPORTANT NOTICE
Ringtones and Mastertones

To: All Licensee of The Harry Fox Agency, Inc. (FHA)

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 distribute (or authorize the making and distribution of) ringtones or mastertones.

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.

This article examines whether companies that sell ring tones to the public ("Ringtone Companies") may use Section 115 of the Copyright Law to obtain a compulsory license for the reproduction and distribution of ring tones containing musical compositions.

II. BACKGROUND
Until recently, ring tones have been simplistic re-recordings of short portions of musical compositions recognizable to the public or other sounds (such as a voice recording or a sound effect). The vast majority of cellular telephones currently on the market do not have the technological capacity (e.g., the bandwidth) to receive, store and reproduce ring tones consisting of a portion of the actual sound recordings by the recording artists who made the songs recognizable to the public. Because ring tones 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) for the underlying musical compositions from the 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). Currently, most of the major music publishers in the United States are asking for a ring tone royalty equal to 12¢ per ring tone sold or ten percent (10%) of the retail price of each ring tone, whichever is greater. Because someone else’s sound recording is not being used, there is no license, and hence no royalty, to be obtained from, or paid 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 ring tone business profitable for them.

However, technology is now taking the ring tone industry to a next generation of ring tones. This new generation of ring tones will cause the actual sound recording to be played when a cellular telephone containing the ring tone is called. For example, rather than hearing a toy-like simulation of the song “Start Me Up” when your cellular telephone rings, you will be able to hear the actual recording by The Rolling Stones of that song (assuming, of course, that all of the appropriate licenses are secured). The view of the ring tone industry is that this new generation of ring tones (referred to above as mastertones by The Harry Fox Agency, Inc.) will greatly broaden the appeal of ring tones and the demographics of ring tone consumers from teenagers, who, for the most part, are the current consumers of ring tones, to older and wealthier consumers.

This technological advance will require the Ringtone Companies to obtain from the record companies a license to reproduce and distribute ring tones containing the sound recordings owned by the record companies, in addition to having to obtain mechanical licenses from the music publishers and public performance licenses from the performing rights societies for the underlying musical composition. 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, i.e., a royalty in the neighborhood of sixty percent (60%) of the retail price, leaving very little margin for the Ringtone Companies.

Commonly, when a record company licenses sound recordings to an Internet music provider, the royalty paid by the provider to the record company is inclusive of 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 (discussed below), which is currently an eight and one-half cent (8 1/2¢) royalty rate (also discussed below).

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. However, the minimum (i.e., the rate charged for the use of a musical composition under approximately five minutes) mechanical compulsory license royalty rate (commonly referred to as the statutory rate) is currently set at 8 1/2¢ per digital phonorecord delivery (which is what a ring tone appears to be) during the period January 1, 2004 through December 31, 2006, whereas, as mentioned above, the music publishers are accustomed to getting a royalty equal to not less than ten percent (10%) of the retail price of a ring tone or 12¢, whichever is greater.

Since mastertones are projected to have a retail price in the range of $2.49 to $2.99, the amount by which ten percent (10%) of the retail price of a mastertone exceeds 8 1/2¢ will probably range from 16.4¢ to 21.4¢ per mastertone sold. Multiplied by millions in sales, the difference in royalties to all of the interested parties will be enormous. So far, I am not aware of any music publisher who has voluntarily accepted a ring tone royalty as low as the minimum statutory mechanical rate.

The record companies are tending to side with the Ringtone Companies in this royalty battle, which is somewhat ironic since all of the major record companies are affiliated to 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 ring tones, as well as a license to reproduce and distribute...
ring tones containing the sound recordings containing those musical compositions.16

Section 115 of the Copyright Law may offer a trump card to the Ringtone Companies and the record companies against the music publishers. Section 115 provides a mechanism for one to obtain compulsory licenses from music publishers for the use of compositions on phonorecords and pay the much lower statutory rate. In general, what Section 115 provides is that, once the owner of a non-dramatic musical composition has authorized an initial public 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.

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 ring tones, because, as noted above, 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 Position of the Ringtone Companies

A compulsory mechanical license is available only for “phonorecords,” the definition of which is set forth below. 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 ring tone, the key narrow issue in this analysis is whether a ring tone is a “phonorecord.”

The Ringtone Companies’ position is that a ring tone is nothing more than the sale of a phonorecord in the form of a digital file using wireless technology or through the Internet, and, therefore, Section 115 should apply to ring tones. This position is based on the plain language of Section 115.

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

When phonorecords of a nondramatic 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 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.)

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.

Section 115 was amended in 1995 by the Digital Performance Rights in Sound Recordings Act of 1995 (the “DPRA”) in order to make it clear that compulsory mechanical licenses would apply to
电子数字传输，其中第115节指代为“数字音频再现传递”。“变化到第115(a)(1)和115(c)(2)节的规定明确表明，制作并分发音频再现传递的补偿许可不仅限于制作和分发物理音频再现传递，但制作数字音频再现传递的补偿许可也适用于数字音频再现传递的制作。”

第115(c)(4)(A)节提供了如下内容：

一个补偿许可的适用包括该许可人有权分发或者授权分发一个非戏剧性音乐作品的音频再现传递，其必须是通过数字传输方式，构成数字音频再现传递...

在第115(d)节中定义：

“数字音频再现传递”是每一个由数字传输方式分发的一个音频再现传递的结果，其必须是具体可识别的再现，不管传输的接收者是否数字音频再现传递的制作者，或者数字传输是否为一个非戏剧性音乐作品的音频再现传递的公共表现。换言之，这种问题也适用于互联网音乐服务商，即“材料物”是指服务商的服务器、数字文件、计算机代码、传输还是终端用户的硬盘？由于第115节允许“分发”音频再现传递，似乎合理地认为数字文件是“材料物”在音频再现传递的数字分发中，尽管传输不是物理物。在音频再现传递的分发中，似乎不合理的逻辑是国会要求“音频再现传递”是一个物理物，尽管“材料物”似乎具有一个物理物的含义。

对第115(c)(4)(A)节（上面的引述）的仔细阅读似乎也混淆了这个问题。注意第一句，即定义谁有资格获得补偿许可（即“包括那些制作音频再现传递或数字音频再现传递的人”），似乎表明“音频再现传递”与“数字音频再现传递”是不同的。
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.”

Perhaps, the DRPA should have amended the definition of “phonorecord” to clarify what constitutes the “material object” in a phonorecord digital delivery while it was amending Section 115 by adding the concept of “digital phonorecord deliveries” to compulsory mechanical licenses. Nevertheless, in light of the analogy between ringtone providers and Internet music providers, I believe 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, I do not think that the ambiguity in what constitutes the “material object” in a phonorecord digital delivery should be relevant as to whether the compositions contained in ring tones are eligible for a compulsory mechanical license.

The analogy between ringtone providers and Internet music providers is even stronger with respect to a ring tone 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.

The Music Publisher’s 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 ring tones:

If Section 115 is intended to apply to ring tones, why haven’t Ringtone Companies previously invoked Section 115 to obtain a compulsory mechanical license?

To put this position in more legalistic phraseology, the current custom and practice of Ringtone Companies and music publishers of voluntarily negotiating mechanical licenses preempts the application of Section 115 to ring tones.

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. However, my response is that 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 facing the potential of lawsuits from music publishers and, as a side benefit, avoiding the onerous notice and monthly accounting requirements under Section 115. Now, however, because of the changing economic model which is evolving for master tones, 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.

Compulsory mechanical licenses only apply to phonorecords, and ring tones are “copies,” rather than “phonorecords.”

Compulsory mechanical licenses are only available for “phonorecords” and not to reproduce or distribute “copies” of a composition as defined in the Copyright Law. 17 U.S.C. Section 101 states:

“Copies” are material objects, other than
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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.

However, because a ring tone is the reproduction of a sound, rather than another type of reproduction (for example, sheet music), a ring tone would clearly seem to fall under the definition of a “phonorecord” (see above), rather than under the definition of a “copy.”

**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 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:

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

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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.
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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 that owner of the sound recording authorizes the person seeking a compulsory mechanical license to make phonorecords of the sound recording, then that person may obtain a compulsory mechanical license. However, for the reasons stated above, it would be impossible for that person to create his own arrangement of the composition, because he is not recreating the 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 ring tones (i.e., re-recorded tones that contain unique arrangements) subject to Section 115 if this were the only criteria.

**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 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 quoted above that states that the arrangement of a licensee under a compulsory mechanical license cannot “change the basic melody or fundamental character of the work.” The Report of the House of Representatives explain that this prohibition is intended to prevent a musical composition from being “perverted, distorted, or travestied.” H.R. Rep. 94-1476 at 109 (1976). Using this prohibition as their rationale, the music publishers may take the position that, since a ring tone 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 ring tone 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 ring tones that are not masterstrokes, the restriction that prohibits the “changing the basic melody or fundamental nature of the work” only applies to a new arrangement of the work. As quoted in above, paragraph (a)(2) of Section 115 states that “the arrangement shall not change the basic melody or fundamental character of the work.” Therefore, this position would not be applicable to masterstrokes, because no change in the arrangement has occurred in a duplication of a portion of a sound recording.

A ring tone is a derivate work, and Section 115 does not grant the licensee the right to create a derivate 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.” The music publishers may take the position that the embodiment of a musical composition in a ring tone 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”.

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.” 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 ring tone or a traditional phonograph record. Therefore, the problem with the position that a ring tone 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 undermine 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...”, and the prohibition on the licensee claiming a derivative work in the arrangement is a recognition by Congress that a re-recording may very well be a derivative work and implies an exception to the copyright owner’s exclusive right to make and authorize the making of derivative works.

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 ring tone.

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 ring tone. The performance of the ring tone 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. However, the music publishers may further argue that (a) the transmission of the ring tone 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 ring tone sound recording is also a “public performance.”

The definition of a “public performance” in the Copyright Law gives little guidance as whether the transmission of a ring tone or the playing of ring tone is public performance 17 U.S.C. Section 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 performance or display receive it in the same place or in separate places and at the same time or at different times.

With regard to the first position stated above, even if the publishers could convince a court that an inaudible transmission of digital music file (i.e., a digital phonorecord delivery) is a public performance, it is not a “public” performance. This is because the ring tone (i.e., the transmission of the digital file) is being sent to only one cellular telephone at time.

With regard to the second position stated above, the location of the telephone when the ring tone is played should not define whether or not the “performance” is public or not. In this case, it is the end-user, and not the ring tone 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, which would clearly not be the case.

In any event, based on the ring tone 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.
Copyright law, in effect, gives a monopoly to copyright owners that otherwise allows the copyright owner to decide where, when and if their works will be reproduced, distributed, publicly performed, 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 compositions being 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. However, it could be argued to the contrary that 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.41

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

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, or a manufacture of toy rubber fish that is program to play and mimic the singing of one or more songs when a button is pushed could obtain be subject to compulsory mechanical licensing. 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, maybe 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 ring tones is that it is the manufacturer of the toy who determines which composition or compositions will be recorded in the toy, whereas the consumer is the one who determines which ring tone 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 ring tones into the telephone. Under the plain language of Section 115, it would seem that the manufacturer of a pre-loaded telephone could obtain a compulsory mechanical license just like a ring tone provider or an Internet music provider could.

Conclusion

There is no clear answer as to whether the use of musical compositions in ring tones are subject to Section 115, because the Copyright Law does not expressly address this issue, and there are no court opinions that specifically address this issue. However, the Ringtone Companies have the better position based on the plain language of Section 115. However, both sides have a real incentive to avoid lengthy litigation in this regard. Many people in the ring tone industry predicate 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. Undoubtedly, these new telephones will allow the consumer to create, for no additional payment, his or her own ring tones from their own personal music library. Also, companies (such as Xingtone) are already selling software that allows consumers to create their own ring tones from MP3, without payment to the record labels, music publishers or wireless carriers.

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2 According to HFA’s website (www.harryfox.com): “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.”

3 A ring tone is the sound heard when a call is received on a telephone (in lieu of the ordinary telephone ringing sound). A variation of a ring tone 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 be introduced on cellular telephones as an addition to a ring tone.

4 The first generation of ring tones were “monophonic,” and are simple note-by-note reproductions. The second generation of ring tones 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. §101 of the Copyright Law defines sound recordings as follows: “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.” 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 payable, and I will use these terms when referring to the use of the underlying composition in a ring tone 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 Cellular telephones are increasingly able to store more than one ring tone in the telephone hardware, which gives the consumer the capacity to link a ring tone to a particular telephone number. In other words, only calls from a particular telephone number will trigger the particular ring tone linked to that number.

9 According to “The ring tone business looks good to record companies — but a do-it-yourself program may cut the profits short,” The New York Times February 23, 2004, ” “For now, executives said the biggest market or ring tones is teenagers, for whom simply owning a cellphone is no longer distinctive enough.

10 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.
11 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.

12 37 C.F.R. §255.3(1) It should be noted that the mechanical royalty rates for digital phonorecord deliveries are currently the same as the mechanical rates for physical records (e.g., compact disc) (See announcement by the Copyright Office dated February 9, 1999); 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.


15 In 2003, cellular telephone users worldwide spent $3.1 billion on ring tones according to Consect, a mobile market research and consulting firm. The New York Times, August 18, 2004.

16 With respect to ring tones of sound recording containing musical compositions written or controlled by recording artist, the record company may have the right to license the use of such compositions in ring tones based on the so-called “controlled composition” clauses in the recording contract with the artist. See The Statutory Overriding of Controlled Compositions Clauses, Mario F. Gonzalez, Esq., UCLA Entertainment Law Review, Volume 9, Issue 1 Fall 2001.

17 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 from 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 Kohn, Al and Bob Kohn, Kohn On Music Licensing (New York: Aspen Law & Business, 3rd Edition), at 1037 – 1085 for an enlightening discussion as to what constitutes a dramatic work.)

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


21 The words “other than those accompanying a motion picture or other audiovisual work” mean that the ring tone cannot be a phonorecord if it is distributed as part of an audiovisual work. Therefore, a compulsory mechanical license cannot be obtained if the ring tone 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 ring tone 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 ring tone plays, a compulsory mechanical license cannot be obtained for the composition in the ring tone.

22 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.” If
the Rio Player had been a “digital audio recording device,” then the manufacturer would have had to comply with the Audio Home Recording Act of 1992. *Recording Indus. Ass’n v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1076 (9th Cir. 1999)

23 See my acknowledgment to Jay Cooper in footnote 1 above.

24 “(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 ___ (1976)

25 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.

26 It should be noted, however, that one court held that a transmission of a television program containing a sound recording from company that owned the program (i.e., 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. 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 of a composition does not violate the copyright in the composition. Also, the opinion was non-binding dicta in light of the fact that court found that Paramount had nevertheless violated the copyright in the sound recording by making reproducing of the sound recordings. *Agee v. Paramount Comms., Inc.*, 59 F.3d 317, 325 (2d Cir. 1995)

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

28 “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…” S. Rep. No. 104-128, at 37 (1995).

29 Billboard Magazine, August 7, 2004, and BusinessWeek Online, August 5, 2004, reported that the cellular telephone manufacturer Motorola has partnered with Apple Computer to merge a telephone and a MP3 player. BusinessWeek Online, August 11, 2004, reported 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.