

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA,

Plaintiff,

v.

AMERICAN SOCIETY OF COMPOSERS,
AUTHORS AND PUBLISHERS,

Defendant.

Civil Action No. 41-1395 (WCC)

Filed Under Seal

In the matter of the Application for the
Determination of Reasonable License Fees for
Performances via Wireless Transmissions and
Internet Transmissions by

AT&T WIRELESS f/k/a CINGULAR WIRELESS¹

**ASCAP'S OPPOSITION TO AT&T'S MOTION
FOR SUMMARY JUDGMENT CONCERNING RINGTONES**

¹ AT&T has advised ASCAP that AT&T Mobility LLC is the successor in interest to Cingular Wireless, rather than AT&T Wireless, as indicated in the caption. As soon as this can be verified, ASCAP will seek permission of the Court to update the caption accordingly.

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FOR SUMMARY JUDGMENT CONCERNING RINGTONES**

The American Society of Composers, Authors and Publishers ("ASCAP"), by its undersigned counsel, submits this opposition to AT&T Mobility LLC's ("AT&T") motion for summary judgment and respectfully requests that the Court deny this motion, as there are material issues of disputed fact.

PRELIMINARY STATEMENT

ASCAP has licensed ringtones since 2001. AT&T seeks to take advantage of the April 2007 ruling of this Court in *United States v. Am. Soc'y of Composers, Authors and Publishers (In re America Online, Inc., et al.)*, 485 F. Supp. 2d 438 (S.D.N.Y. 2007) (the "*AOL Proceeding*"), relating to so-called "pure downloads." Despite the fact that the Court did not mention ringtones or the arguments advanced by CTIA (in an amicus brief authored by Verizon's current counsel) seeking to put ringtones at issue, nevertheless, some in the wireless industry have sought to exploit the so-called "download decision" by either defaulting on or cancelling their ASCAP licenses for ringtones. Others have continued to meet their obligations under their license agreements. Still others, like AT&T, never paid a penny either before or after the "download decision," and continue not to pay.

Ringtones, which result from a number of different initial or intermediary transmissions, ultimately always result in a performance to the public as that term is used in the Copyright Act. Despite the unsubstantiated declarations of AT&T's non-technical witnesses, which directly contradict AT&T's technical documents and the deposition testimony of its much more qualified engineering witnesses, there are numerous material factual issues in dispute. First among the disputed issues is the clear evidence that ringtones are designed for or capable of streaming or pseudo-streaming (also known as progressive downloading). In addition to AT&T's technical documents, its 30(b)(6) designee on ringtone technology, not a declarant here, testified that there is no difference in a ringtone preview file that is streamed and a ringtone that is downloaded, except for an instruction controlled by AT&T (or its vendor on its behalf) when the transmission hits the phone. AT&T controls the transmission and ultimate performance of the ringtone in

a variety of other ways that, at a minimum, create sufficient fact-based issues requiring a trial. At the end of the day, however, the fact that there is always a performance at the end of the transmission sequence may very well be dispositive so that no matter how AT&T tries to pitch its arguments, an ASCAP license is required.

AT&T raises a host of issues – hoping that if it argues enough irrelevant doctrines, one might absolve AT&T from liability. Yet none of these doctrines is sufficient for AT&T to meet the requirements of the stringent requirements for summary judgment. Regardless, the motion is not dispositive – AT&T acknowledges that it seeks a license from ASCAP for “preview” performances, which the Court has already ruled do not constitute “fair use.” Accordingly, granting summary judgment will not materially advance any goal of streamlining a trial, as all of the evidence pertaining to ringtones will have to be considered. In addition, ringtones are a classic example of convoyed sales, so the Court will have to consider all of the evidence that ASCAP would present at trial irrespective of the “download” issues presented by AT&T.

FACTUAL OVERVIEW

A. AT&T Sells [REDACTED] of [REDACTED] of Dollars Worth of Ringtones

AT&T offers at least 40,000 ringtones for purchase by its customers, for \$2.49 each, plus customers without an unlimited text messaging plan are charged additional costs for text messaging and data transfer depending on the particular manner in which the ringtone is purchased.² Without even taking those additional charges into account, AT&T has sold at least [REDACTED] in ringtones during the Open Period.³ AT&T customers may purchase ringtones from AT&T over the Internet and through AT&T phones, and there are at least three ways to make the phone purchase. Under most circumstances, the user is presented with the opportunity to preview the ringtone before purchase, and another opportunity to play the ringtone immediately after purchase, sometimes automatically. Clearly, AT&T’s preview performances directly drive sales of ringtones – otherwise it would not offer or track them. Indeed, AT&T has already testified and this

² See Accompanying Declaration of Hillel I. Parness (Jun. 12, 2009) (“Parness Dec.”) Exs. A at 1; B at AT&T61642; C at 1; D at AT&T039175 & 039177.

³ Parness Dec. Ex. E. The “Open Period” is October 28, 2004 to the present.

Court has already concluded (based on AT&T's own moving papers), that previews directly lead to increased sales.⁴

Generally, to purchase and use AT&T ringtones, an AT&T user must have a ringtone-capable device and be (1) a subscriber to or prepaid customer of AT&T; (2) a text messaging subscriber (or be willing to pay a la carte fees); or (3) a MEdia Net subscriber (or be willing to pay a la carte fees). A user sometimes acquires a ringtone from AT&T through the use of text messaging, which may also result in data network charges. Thus, whether a customer purchases by Internet or by phone, the customer may incur message or data network use charges in addition to the charge for the ringtone itself.⁵

To purchase ringtones through the AT&T website (www.mediamall.att.com), the user logs in and clicks on the "Shop" section of the site and the "Ringtones and Downloads" link. Once in the "Ringtones and Downloads" section, the user may shop for Ringtones by clicking through categorized groups of ringtones or running searches. Throughout the "Ringtones" section of the site, each ringtone listed has a graphical "preview" button. When the user clicks the graphical "preview" button, the ringtone begins playing through the user's computer. If the user wishes to purchase a ringtone, the user clicks "purchase" (located next to the graphical "preview" button), enters his phone and login information, and clicks "submit," after which the user receives confirmation of purchase, and a notice that he will receive a message on his phone. In addition to the messaging or data charges, the current usual price of each AT&T ringtone is \$2.49, though some are bundled and packaged with other products or multiple tones at even higher prices.⁶

After purchase, the user receives a message on his phone with a message containing the title of the purchased ringtone. Upon opening the message, the user is given a link to transfer the ringtone into the phone (or transfer it again if already purchased). After the transfer, he is presented with several options, including "Play" and "Use as Ringtone." Clicking on "Play" causes the ringtone to begin playing

⁴ Parness Dec. Ex. Y at 262:6-19; *United States v. American Soc'y of Composers, Authors & Publishers (In re AT&T Wireless)*, 599 F. Supp. 2d 415, 429 (S.D.N.Y. 2009) ("[b]ecause the previews constitute a form of advertisement for applicant's ringtones and ringback tones, applicant's use of ASCAP music to increase revenues from sales of ringtones and ringback tones is commercial.") (citing AT&T Mem. in Support of Mot. for Summary Judgment regarding previews).

⁵ Parness Dec. Exs. A at 2; B at AT&T61642; C at 1; D at AT&T039175 & 039177; F at 5.

⁶ Accompanying Declaration of Cliff Petrovsky (Jun. 11, 2009) ("Petrovsky Dec.") ¶¶ 10-16. Parness Dec. Exs. G at AT&T43938; H at AT&T44031; I at 3. In addition, monthly recurring plans are offered. Petrovsky Dec. ¶ 19.

immediately through the phone.⁷ ASCAP understands that AT&T charges its customers messaging fees for the messages used to deliver ringtones acquired over the Internet.⁸

To purchase ringtones through AT&T phones, the user may use Media Mall 2.0, AT&T Shop Music, or AT&T Shop Tones. In most cases, AT&T charges its customers additional messaging or data charges for their shopping for, and purchasing of, ringtones through their phones.⁹

To use the Media Mall 2.0 application, the user first has to install the program on the phone (accomplished through the AT&T phone or website, via text messaging and in a manner incurring data charges). Once installed, the user selects the application and clicks “Ringtones,” in response to which a search function is presented by AT&T. After searching for tones and receiving results of the search, the user selects a particular ringtone and is presented with several options including “Buy Now!” and “Listen.” When the user clicks “Listen,” the ringtone begins playing through the phone,¹⁰ although in some instances, no such prompt is given and the tone plays automatically.¹¹

If the user clicks “Buy Now!,” he is presented with a “Buy for \$2.49” option. After selecting this option, the user receives a text message on his handset. After selecting the message and clicking “Retrieve,” the ringtone transmits to the user’s phone. After transfer, the user is presented with several options, including “Set as Ringtone” and “Play.” When the user selects “Play,” the ringtone begins playing immediately through the phone.¹²

Using the AT&T Shop Music feature, the consumer clicks on the “AT&T Music” icon on his phone, clicks on “Today’s Music,” clicks on “Tones, Games, Apps,” and clicks on “Ringtones.” At the “Ringtones” screen, AT&T presents the user with a ringtone search function. Once the user clicks on a particular ringtone, he is presented with several options, including the option to purchase the ringtone (or transfer it again if already purchased). As with the purchase through the Internet, after the transfer, the user is

⁷ Petrovsky Dec. ¶¶ 17-22.

⁸ See Parness Dec. Ex. D at AT&T039175 & 039177.

⁹ Petrovsky Dec. ¶¶ 23-32; Parness Dec. Exs. A at 1; B at AT&T61642; C at 1; D at AT&T039175 & 039177.

¹⁰ Petrovsky Dec. ¶¶ 31-32; Parness Dec. Ex. J at 2.

¹¹ Parness Dec. ¶¶ 35-40.

¹² Petrovsky Dec. ¶ 32.

presented with the option to “Play,” which if clicked causes the ringtone to begin playing immediately through the phone. Using the AT&T Shop Tones feature, the user selects the “My Stuff” icon, clicks “Music,” clicks “Shop Tones,” after which the process continues as described above concerning “Shop Music.”¹³

As noted above, AT&T ringtones cost \$2.49. By contrast, full-track audio services like iTunes and Amazon.com charge far less than AT&T charges for ringtones. For example, iTunes full tracks cost between \$0.69 and \$1.29, while most full-track songs on Amazon.com are available for \$0.89 to \$0.99.¹⁴ AT&T markets its services together such that ringtones drive sales of other products, as shown in AT&T’s produced documents.¹⁵

B. AT&T Continues To Exercise Control Over Ringtones Through And After Purchase

Purchasing a ringtone does not give a user full control over it. AT&T ringtones are “non-transferable,” and the quantity that can be stored varies amongst the dozens of AT&T phone models. AT&T users will be charged when a ringtone “is purchased and cannot receive a refund if you choose to delete or replace it from your phone.” If an AT&T customer wishes to switch to a different phone, loses his device, or deletes certain ringtones to make room for others, the user must repurchase the desired ringtones. Further, in its agreements with users, AT&T reserves the right to terminate a user’s service with or without cause. It can terminate a user’s service if too much network data or voice service “off-net” is used. AT&T users can have their user privileges revoked if they fail to pay AT&T, depriving them of the ability to use purchased ringtones. AT&T has within its power the ability to authorize the use of particular ringtones only for limited duration, as Verizon and perhaps other carriers appear to have done in the past.¹⁶

C. AT&T Operates A Network That Controls How Ringtones Are Used

AT&T actively controls its ringtone service. This control covers both the initial ringtone purchase and the initial transmission, as well as ringtone operation during incoming calls. Either directly or with an

¹³ Petrovsky Dec. ¶¶ 23-29.

¹⁴ See Parness Dec. Exs. K at 1 & L at 1.

¹⁵ See Parness Dec. Exs. C at 1; G at AT&T43938; H at AT&T 44031; I at 3.

¹⁶ See Parness Dec. Exs. F at 1; B at AT&T61634 & 61638-39; N at AT&T60266 & 60270; O. See also Accompanying Declaration of Jerry A. Kaufman (Jun. 11, 2009) (“Kaufman Dec.”) ¶ 45.

assistance of a third party vendor, AT&T designed and developed its protocol for obtaining and transmitting digital audio files to customers. AT&T, which sells the mobile phones carrying the AT&T logo that operate on and constitute a part of AT&T's mobile network, dictates the functionality that its phone manufacturers must include in their phones. It also dictates the file format in which digital audio files are delivered to the customer. AT&T then uses its mobile network to transmit ringtones to customers' mobile phones, as discussed next.¹⁷

D. Ringtones Are Capable Of Being Played At Or Upon Delivery

Wireless transmissions of digital audio files to mobile phones via a telephone network may be delivered any of the following ways: (1) a streaming transmission; (2) a pseudo-streaming transmission, also known as a progressive download; or (3) via a download transmission that is not playable while it is being transmitted, but which contains information designed for a playing at a later time (sometimes almost immediately) triggered by either a play button or a second transmission. In the first two types of transmissions, an audio file starts playing before the initial transmission is completed, once sufficient information is stored, either in the temporary memory buffer or permanent memory. With the third type of transmission, the information is sent to permanent memory and cannot be played until the entire file is received and the transmission is complete. However, the entire process takes just a few seconds, and the file can be played, and often is played, immediately after transmission is complete. Accordingly, with any of these types of transmissions, the music is capable of being heard in real time or near-real time.¹⁸

AT&T requires that its vendors make AT&T phones with the capability of receiving all three types of transmissions. The particular formats AT&T uses for the delivery of previews and ringtones to customers is also under the control of AT&T. Indeed, the audio files used for previews and the audio files used for the ringtones themselves are identical – the only difference is that after the transmission to the customer's phone,

¹⁷ Kaufman Dec. ¶¶ 19-29.

¹⁸ Kaufman Dec. ¶¶ 16-17, 28, 35-41.

they are coded to go to different locations.¹⁹ This is in direct contravention to the declarations submitted by AT&T, and standing alone is a sufficient basis for denial of AT&T's motion.

But that is not all that AT&T does to control how ringtones are used. AT&T also controls ringtone playback. After a purchased ringtone has been transmitted to a customer's mobile phone, in some instances AT&T causes the ringtone to play back automatically, without additional prompts to the customer. In other instances, AT&T directs its customers to play the purchased ringtone by bringing up a "play" button on the mobile phone's display screen.²⁰ Furthermore, during operation, a ringtone indicating an incoming call to a subscriber is played by the subscriber's phone upon receipt of AT&T's trigger command issued over AT&T's network. Without this command, the ringtone would not perform.

E. AT&T Encourages Customers to Buy Ringtones, Use Ringtones and Express Themselves Through Ringtones

AT&T markets ringtones as a way of gaining recognition in the outside world, encouraging its customers to use ringtones to "give your phone a personality" or to express support for particular artists or sports teams. Indeed, the small sampling of advertising materials provided by AT&T in discovery included a particularly striking advertisement, in which AT&T compares the use of ringtones to the use of nail polish, asking "[w]hich ringtone will you put on today?"²¹ AT&T also uses its ringtones as a brand-building mechanism and to cross-sell other products, including, but not limited to, ringback tones.²²

F. ASCAP Has Licensed Performances Of Ringtones Since 2001

ASCAP began issuing licenses for public performances via ringtones in 2001, and has licensed at least [REDACTED] parties under the three different iterations of its form ringtone license, which have consistently maintained a rate based on 2% of revenue and an alternative usage-based fee calculation. These licensees

¹⁹ Kaufman Dec. ¶ 40.

²⁰ Petrovsky Dec. ¶¶ 22, 29, 30, 32.

²¹ Parness Dec. Exs. Q, R, S, T, U.

²² *Id.* Exs. G at AT&T43938; H at AT&T44031; I at AT&T58236 & 58333.

include at least [REDACTED] of the entities that AT&T has identified as its ringtone providers,²³ although, as discussed below, those providers did not necessarily cover AT&T's performances in their licenses.²⁴

Under the current form of its ringtone license, ASCAP has had at least [REDACTED] licensees, and has received at least [REDACTED] requests from additional parties for ringtone licenses.²⁵ Under ASCAP's form wireless agreements, the license includes performances by "Clients" (including but not limited to wireless carriers like AT&T) if the licensee lists those Clients in its quarterly reports to ASCAP and makes payments to ASCAP based on the full retail revenue of the licensee and the listed Clients. Among ASCAP's ringtone licensees was Sprint, a wireless carrier that is third in market share after Verizon and AT&T, and which paid ASCAP over [REDACTED] in ringtone license fees from 2003 through 2007.²⁶

Before 2007, very few parties ever questioned or challenged ASCAP on the question of whether ringtones required public performance licenses. In the time since the Court's issuance of its "download decision" in April 2007, however, certain licensees informed ASCAP that they would not continue to pay ASCAP in connection with ringtones.²⁷ However, at least [REDACTED] licensees continue to make payments to ASCAP for their public performances of ringtones.²⁸

G. Most of AT&T's Ringtone Providers Are Not Licensed Through To AT&T

AT&T makes the additional argument for summary judgment that many of its ringtone providers are contractually obligated to obtain public performance licenses. However, that is a factual question concerning the appropriate revenue base, not a question of AT&T's liability. As this Court has previously framed the issue in this proceeding, the operative question is whether those providers are actually licensed by ASCAP for AT&T's performances; ASCAP also believes such an inquiry also requires that those providers have paid ASCAP for those performances.

²³ Parness Dec. ¶¶ 27.

²⁴ Declaration of Matt DeFilippis (Jun. 11, 2009) ("DeFilippis Dec"), at ¶¶ 3, 14, 15.

²⁵ See DeFilippis Dec. ¶¶ 15 & 22.

²⁶ See DeFilippis Dec. ¶¶ 15, 16 & 20 & Exs. A-C.

²⁷ See DeFilippis Dec. ¶¶ 17-19.

²⁸ See DeFilippis Dec. ¶¶ 21. Ringtones are so popular that they have even been incorporated in performances with paid admission. For example, in 2006, the Chicago Sinfonietta premiered "Concerto for Orchestra and Cell Phones," a symphonic piece that includes the ringing of cell phones. Most of the ringtones that are heard in each performance are selected by the audience on their own phones; when a light in the audience member's section goes on, the audience member is encouraged to play her selected ringtone. Petrovsky Dec. ¶¶ 33-36 & Exs. J-L.

Analysis of the most recent information provided by AT&T reveals that only [REDACTED] of the [REDACTED] ringtone providers that AT&T has identified to ASCAP ever had a license with ASCAP for ringtones, and even fewer had a license that could conceivably cover AT&T's revenue. If a ringtone licensee provides ringtones to AT&T, that alone does not mean that AT&T was covered by the provider's license. For an entity like AT&T to be considered covered under a licensee's agreement, that entity must be identified as a client of the licensee and the licensee must include its and all of its clients' gross revenues per quarter in its reported royalty base. In the case of most of the [REDACTED] but of [REDACTED] providers at whom AT&T points the finger, AT&T was either never listed as a client or AT&T's full gross revenue was not reported.²⁹ As more fully explained in the Parness Declaration, based on what has been identified by AT&T in its interrogatory responses, at most approximately [REDACTED] out of [REDACTED] in AT&T's disclosed sales – which does not include data transfer or message rate charges, or ringtones given away for free or as part of packages – may be eligible for removal from the AT&T ringtone revenue base.³⁰

ARGUMENT

AT&T has not demonstrated that its sale, transmission and participation in the playback of ringtones does not require a public performance license.

I. Summary Judgment Standard Under The Copyright Act

Rule 56 directs courts to grant motions for summary judgment only if “the pleadings, the discovery and disclosure materials on file, and any affidavits show that there is no genuine issue as to any material fact and that the movant is entitled to judgment as a matter of law.” Fed. R. Civ. P. 56(c). In determining whether an issue of fact exists, all facts must be construed in favor of the non-movant. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986).

In addition to its misguided legal arguments discussed below, AT&T often seeks to turn the burden of proof on its head. While the burden of proof in a rate court case is on ASCAP to demonstrate the reasonableness of the fees it seeks, affirmative defenses to copyright infringement such as those raised here

²⁹ Parness Dec. ¶¶ 27.

³⁰ Parness Dec. ¶¶ 23-27 & Ex. V.

remain AT&T's burden to prove. *See, e.g., Infinity Broad. Corp. v. Kirkwood*, 150 F.3d 104, 107 (2d Cir. 1998). Copyright defenses are highly individualized and fact-based determinations, and all of the facts and circumstances on a full record should be considered. *See, e.g., Mathieson v. Associated Press*, No. 90- CV-6945, 1991 WL 64453, at *1 (S.D.N.Y. Apr. 16, 1991).

II. AT&T Is Directly Liable for the Public Performance of Ringtones

When a ringtone rings in “public,” it is undeniably a “public performance” as those terms are defined in the Copyright Act. AT&T would cabin both of the definitions of those two defined terms far too narrowly, and it is difficult to know where to start unraveling the many twists of statutory language and intent that are required to even understand the basis for its positions.

One place to start is the overly simplified manner in which AT&T describes how a ringtone works. AT&T ignores that ringtones are capable of being streamed or pseudo-streamed (sometimes referred to as “progressively downloaded”), and also ignores the many subsequent transmissions that AT&T controls and participates in when ringtones are triggered. Instead, AT&T limits its discussion solely to the initial transmission of a ringtone on the occasions when it may be downloaded, in an attempt to avail itself of the Court’s April 2007 “download decision.” The narrow and precise question before the Court there, however, was whether “the transmission of a signal *not capable of contemporaneous perception*, but designed to deliver a digital file that the recipient can later play *at his pleasure*, constitutes a performance.” *AOL Proceeding*, 485 F. Supp. 2d at 446 (emphasis added). The Court concluded that “in order for a song to be performed, it must be transmitted in a manner *designed for contemporaneous perception*.” *Id.* at 443 (emphasis added).³¹

AT&T improperly dwells on the two words “contemporaneous perception,” selectively ignoring the key words “capable of” and “designed for” that precede those two words in the Court’s framing of both the

³¹ To illustrate the Court’s narrow focus, “progressive downloads” – downloads that begin playing before the transfer is complete – were not even at issue. *See* Memorandum of Law in Opp’n to ASCAP’s Mot. for Partial Summary Judgment and in Further Support of Applicants’ Mot. for Partial Summary Judgment, *United States v. Am. Soc’y of Composers, Authors and Publishers*, Civ. No. 41-1395 (WCC) (S.D.N.Y. Mar. 28, 2007), at 18 n. 9 (“Applicants are not currently transmitting any content by means of ‘progressive downloading,’ . . . [and thus] the Court need not dwell on it.”) (Parness Dec. Ex. W).

question and the answer, as well as the context of the Court's decision. Accordingly, it is useful to start from what the Court did, and importantly, did not, hold in the "download decision."

A. The "Download Decision" Is Erroneous, But Nevertheless Would Not Prevent A Finding That AT&T's Transmissions of Ringtones Are Public Performances

As a threshold matter, ASCAP respectfully submits that the Court's April 2007 ruling was made in contravention of the letter and principles of §§ 101 and 106(4) of the Copyright Act, and thus should not be considered in determining whether the delivery and use of ringtones by AT&T implicates the performance right. Even if that were not the case, the performance of ringtones does not fall within the strictures of the decision.

The statute contemplates two ways to publicly perform a work:

(1) *to perform* [] 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 [] 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*.

17 U.S.C. § 101 (emphasis added).

By the plain language of the statute, the "transmission or other[] communication" in Clause (2) and the "performance" in Clause (1) are two separate concepts. *See id.* However, a transmission itself may be a "public performance." *See* H.R. REP. NO. 104-274, at 22 (1995) ("the transmission or other communication to the public of a musical work constitutes a public performance of that musical work"). To "transmit" a performance is "to communicate it by any device or process where by images or sounds are received beyond the place from which they are sent." 17 U.S.C. § 101. Importantly, the definition of "transmit" does not limit the words "or otherwise communicate."

While ASCAP respectfully maintains that in its 2007 "download decision," the Court improperly injected a requirement of "contemporaneous perception" into Clause (2) of the public performance definition in the Copyright Act, that decision is now the subject of an appeal, and thus ASCAP will not set forth its full arguments herein. Nevertheless, and without dwelling further on the matters that are on appeal, ringtones are

“designed for” or “capable of” being “contemporaneously perceptible,” and therefore do not fall within the Court’s “download decision” in any event, as discussed next.³²

1. Ringtones Do Not Fall Within The Construct Of The “Download Decision”

Ringtones are decidedly different from the “downloads” at issue in this Court’s 2007 decision. In the *AOL Proceeding*, the Court was asked to focus on two very specific types of content transfers. “Downloads” were defined as “the transmission of a digital file over the internet from a server computer, which hosts the file, to a client computer, which receives a copy of the file during the download.” 485 F. Supp. 2d at 441.

The Court drew a bright-line contrast with “streaming,” which “*allows* the real-time (or near real-time) playing of the song.” *Id.* at 442 (emphasis added). The Court also noted that for streams to play, “a constant link is maintained between the server and the client until playing of the song is completed, at which time replay of the song is not possible without streaming it again.” *Id.*

Ringtones, quite obviously, are not the “downloads” that the Court considered. That has not stopped AT&T from pronouncing them so, however. *See, e.g.*, AT&T Br. at 8 (“Ringtones are downloaded music files”). To the contrary, ringtones are capable of and designed for contemporaneous perception. Borrowing from the Court’s definition of streaming, the delivery of ringtones allows for real-time or near real-time playing of the song – indeed AT&T either automatically causes the ringtone to play or invites its customers to play the ringtones immediately upon transfer.³³ And the only reason why the transmission does not ordinarily actually play before the transmission is concluded, is because AT&T has itself instructed that the file be encoded that way even though it is capable of being streamed.³⁴ Furthermore, the sole function of a ringtone, to play in response to incoming phone calls, only occurs because AT&T maintains a constant link with the customer’s phone. These and other facts demonstrate that AT&T has not met its burden of proving its affirmative defenses on summary judgment.

³² Nevertheless, the Court’s careful inclusion of the language “capable of” is consistent with the legislative history of the Copyright Act, which merely requires that a performance be “*capable* of reaching different recipients at different times, as in the case of sounds or images stored in an information system and *capable* of being performed or displayed at the initiative of individual members of the public,” H.R. REP. NO. 90-83, at 29 (1967), “even if there is no proof that any of the potential recipients was operating his receiving apparatus at the time of the transmission.” *See* H.R. REP. NO. 94-1476 (1976), at 64-65.

³³ Petrovsky Dec. ¶¶ 22, 29, 30, 32; Parness Dec. ¶¶ 35-40.

³⁴ Kaufman Dec. ¶ 40.

a. Ringtones Are “Designed For” Or “Capable Of” Contemporaneous Perception When They Are Initially Transmitted

As summarized above (pp. 5-6) and set forth in detail in the accompanying declaration of Mr. Kaufman, a highly qualified engineer and an expert in the technology at issue, AT&T phones include functionality for contemporaneous playback, but AT&T itself causes a limit on that functionality when originally transmitting the ringtones to users.³⁵ The important point is that a ringtone is capable of being heard in real time or near-real time. The facts lay plain that ringtones are capable of, or designed for, contemporaneous perception, and that AT&T imposes digital controls over the ringtones that dictate the operation of the immediate playback functionality. AT&T, however, may not use a technological sleight of hand to avoid the payment of fees to the creators of the works it is selling, delivering and performing.³⁶

b. The Initial Transmission Of A Ringtone Is Also An Intermediate Transmission Subject To The Public Performance Right

Furthermore, in the “download decision,” this Court also noted that, even in its view, the creation of a permanent copy does not prevent a public performance from occurring in all cases. *AOL Proceeding*, 485 F. Supp. 2d at 446 n. 5 (“We do not wish to foreclose the possibility, however, that a transmission might, under certain circumstances, constitute both a stream *and* a download, each of which implicates a different right of the copyright holder”). The Court was constrained to say this because of the *David* case and others holding that an intermediate transmission does not disqualify a public performance from occurring simply because the ultimate consumer may not be capable of hearing the transmission until later in time. *David v. Showtime/The Movie Channel, Inc.*, 697 F. Supp. 752 (S.D.N.Y. 1988).

As Judge Tenney explained over twenty years ago in *David*: “Congress intended the definitions of ‘public’ and ‘performance’ to encompass each step in the process by which a protected work wends its way

³⁵ Kaufman Dec. ¶¶ 28, 39, 41, 45.

³⁶ As Judge Posner explained in *In re Aimster Copyright Litigation*, 334 F.3d 643, 650 (7th Cir. 2003), in response to the argument that the proprietor of the Aimster file sharing service did not know with certainty which of the files being shared were infringing: “In [earlier case], the defendant, a drug trafficker, sought ‘to insulate himself from the actual drug transaction so that he could deny knowledge of it,’ which he did sometimes by absenting himself from the scene of the actual delivery and sometimes by pretending to be fussing under the hood of his car. He did not escape liability by this maneuver; no more can [defendant] by using encryption software to prevent himself from learning what surely he strongly suspects to be the case: that the users of his service – maybe *all* the users of his service – are copyright infringers.” (emphasis in original).

to its audience. Moreover, it would strain logic to conclude that Congress would have intended the degree of copyright protection to turn on the mere method by which television signals are transmitted to the public.” *Id.* at 759. So too, whether a ringtone that is ultimately played to the public is “downloaded,” “streamed” or “pseudo-streamed” when it is first transmitted to a customer’s phone is not really critical to the inquiry under the strictures of the *David* intermediate transmission rule, as it matters not what happens along the way but only that the ultimate audience is capable of receiving the performance.

Thus, whether AT&T’s participation in this venture is couched as AT&T would have the Court do, limiting it to the initial so-called “download” transmission, or whether AT&T’s role is recognized for what it truly is – control over the entirety of the process from server to listening ears – it matters not: each step in that process is nonetheless a part of the public performance. *See National Football League v. Primetime 24 Joint Venture*, 211 F.3d 10, 13 (2d Cir. 2000), *cert. denied*, 532 U.S. 941 (2001) (rejecting argument that infringement does not occur until signal is received by the viewing public); *WGN Cont’l Broad. Co. v. United Video, Inc.*, 693 F.2d 622, 625 (7th Cir. 1982) (transmission by satellite carrier of local television signal to cable operator was a public performance though no member of the public actually viewed the transmission); *Columbia Pictures Indus. v. Aveco*, 800 F.2d 59, 62 (3d Cir. 1986) (“an individual is performing a work whenever he does anything by which the work is transmitted, repeated, or made to recur”); *Hubbard Broad., Inc. v. Southern Satellite Sys.*, 593 F. Supp. 808, 813 (D. Minn. 1984) (“under the broad definitions found in § 101 of the Act, a transmission is a public performance whether made directly or indirectly to the public and whether the transmitter originates, concludes, or simply carries the signal”). In the “download decision” this Court found the *David* decision, and its focus on intermediate performances “not instructive” on the “pure” downloads question. But *David* is certainly instructive here, because AT&T’s delivery of a ringtone is essentially a two-step intermediary performance, just as in the *David* case and those just like cited above.

B. Ringtones Are Public Performances By AT&T

When a ringtone plays to signal an incoming call, it is obviously a performance. *See* 17 U.S.C. § 101 (“To ‘perform’ a work means to recite, render, play, dance, or act it, either directly or by means of any device or process”). When an AT&T ringtone plays in public, there is no question that it falls under clause (1) of the definition of “to perform publicly.” *See* 17 U.S.C. § 101. The phone is on AT&T’s network, and AT&T controls the entire series of steps that allow and trigger the player to perform the performance. That is a direct infringement under the Copyright Act.

The inquiry could, but need not, end there, because ringtones implicate the public performance right in a second way, under clause (2) of the definition of public performance – to “transmit or otherwise communicate a performance [] 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.”³⁷

There is thus no question that the performances that AT&T causes are “public,” regardless of whether some customers’ phones may sometimes be switched to vibrate, turned off or located in the home. For a ringtone performance (and here, focusing on the time when the phone plays) to be a public performance, it need not be received by the public every time. A transmission or other communication is made “to the public” if it “is capable of reaching different recipients at different times, as in the case of sounds or images stored in an information system and capable of being performed or displayed at the initiative of individual members of the public.” H.R. REP. NO. 90-83, at 29 (1967). It need only be “capable” of being performed to the public; whether the ringtone is set to play, and indeed whether anyone hears it, is of no moment. *See also* H.R. REP. NO. 94-1476, at 65 (1976), *as reprinted in* 1976 U.S.C.C.A.N. 5659, 5678 (a transmission is a public performance “even if there is no proof that *any* of the potential recipients was operating his receiving

³⁷ A public performance can implicate both clauses of the public performance definition. *See Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154, 159 (3d Cir. 1984); H.R. REP. NO. 94-1476, at 63 (1976) (a performance “cover[s] not only the initial rendition or showing, but also any further act by which that rendition is transmitted or communicated to the public”). Thus, by way of example, “a broadcasting network is performing when it transmits [a singer’s] performance (whether simultaneously or from records).” *Id.*

apparatus at the time of the transmission”) (emphasis added). AT&T’s ringtones are clearly capable of reaching the public and are expected to do so.³⁸

As Congress explained when enacting the 1976 Copyright Act, “a performance may be accomplished either directly or ‘by means of any device or process,’ including all kinds of equipment for *reproducing or amplifying* sounds or visual images, any sort of transmitting apparatus, any type of electronic retrieval system, and any other techniques and systems not yet in use or even invented.” H. R. REP. NO. 94-1476, at 63 (1976) (emphasis added). AT&T argues (AT&T Br. at 13 n. 4) that Clause (2) has no application when ringtones play, in reliance on the definition of “transmit” as requiring sounds to be “received beyond the place from which they are sent.” But AT&T is wrong – its construction would read out the words “or otherwise communicate” from Clause (2) of the definition of public performance, which is an impermissible method of statutory construction.

Therefore, putting aside the initial (or intermediary) transmission, AT&T’s direction to trigger the ringtone from the memory of a customer’s phone causes an additional performance to be communicated to either a place specified by clause (1) or “to the public,” which includes, of course, only the capability of receipt and not actual receipt since it matters not whether the members of the public capable of hearing communication receive the performance “in the same or separate places,” and “at the same time or different times.” Accordingly, whether the device is on or off, the volume is turned down, or the phone is placed on vibrate, AT&T has caused a public performance. *See NFL*, 211 F.3d at 13 (“the most logical interpretation of the Copyright Act is to hold that a public performance or display includes *each step in the process by which a protected work wends its way to its audience*”) (emphasis added).

AT&T claims that it has no involvement in the process after the initial (or intermediary) transmission and that all it does is provide a wireless network (AT&T Br. at 4-5). This is preposterous – AT&T does far more than “provide a network”: it supplies and supports ringtones that are sold at an additional charge above

³⁸ AT&T rests much of its argument on conventional wisdom about consumers’ behavior in the period after the initial purchase of ringtones. Yet AT&T has completely failed to meet its burden, populating its declarations with no facts, only bald assertions as to which it requests that the Court take judicial notice. *See A&M Records, Inc. v. Napster*, 114 F. Supp. 2d 896, 912 (C.D. Cal. 1999) (“Defendant asserts the affirmative defenses of fair use and substantial non-infringing use....Defendant bears the burden of proving these affirmative defenses”); *aff’d in part, rev’d in part on other grounds*, 239 F.3d 1004 (9th Cir. 2001).

and beyond what is charged for access to the network – charging for the tones themselves plus text messaging charges or data rates applicable to the transmission time,³⁹ resulting in ████████ of ████████ of dollars in revenue – and the only conceivable purpose of providing these ringtones and the infrastructure to support them is to make the ringtones play.

AT&T provides its subscribers with a wide range of ringtones from which to choose; charges \$2.49 per tone, more than double to triple the charge for a full-track audio download from retail services such as iTunes; transmits them to the subscribers' phones in the form and manner that AT&T selects (collecting additional messaging and data charges along the way); determines when and whether a subscriber's ringtone may be played; and commands, enables and controls the playing of ringtones on subscribers' mobile phones by triggering the tones when calls are received.⁴⁰ This is sufficient control for direct liability. *See David*, 697 F. Supp. at 759 (“SMC’s argument ignores SMC’s fundamental role in determining how and when the works in this case were used,” noting that SMC, among other things, selected the content to be offered for transmission).

Importantly, under its terms of use, AT&T can terminate the service at any time. If customers switch phones to another AT&T phone, or change their service plan to another carrier, the ringtones are not transferable and are lost. And AT&T controls the customer experience in many other ways – it prevents the tones from being copied or forwarded (although it promotes customers to “share” their tones with their friends by sending the friends an offer to buy the same tone), and AT&T has the ability to cause the tones to expire.⁴¹ Indeed, it is reported that at one point not too long ago ringtones from Verizon (AT&T’s largest competitor) “expired” after one year.⁴² Without the carrier’s continuing involvement, the ringtone product is indeed a useless one.

³⁹ Parness Dec. Exs. A at 1; B at AT&T61642; C at 1 & D at AT&T039175 & 03177.

⁴⁰ Parness Dec. Exs. K at 1 & L at 1; Kaufman Dec. ¶ 43.

⁴¹ Parness Dec. Ex. B at AT&T61640; Kaufman Dec. ¶ 45.

⁴² Parness Dec. Ex. O.

C. At A Minimum, AT&T Is Jointly And Severally Liable With Its Customers

Far from absolving it of liability for direct infringement, AT&T's effort to point the finger at its customers as the primary actors serves only to invoke joint and several liability for direct infringement. The Second Circuit has long held that "[a]ll persons and corporations who participate in, exercise control over, or benefit from an infringement are jointly and severally liable as copyright infringers." *Syigma Photo News, Inc. v. High Soc. Magazine, Inc.*, 778 F.2d 89, 92 (2d Cir. 1985). AT&T certainly meets this test. Its participation is undeniable: AT&T encourages its customers to purchase ringtones for public playback, obtains and makes the ringtones available for purchase over the Internet and mobile devices, sells and delivers the ringtones, and designs, controls and maintains the system that causes the ringtones to play, and without which, they would not play. AT&T holds and exercises absolute control over the unlicensed activity, in that AT&T has affirmatively decided to offer and provide its customers with the very instrumentality of infringement: the recordings of music written by ASCAP members. AT&T could have refrained from offering ASCAP-member compositions (as other music users have done), but chose instead to sell ASCAP works. Finally, the "benefit from an infringement" is obvious – ██████ of ██████ of dollars have been received.

D. Other Direct Liability Cases Cited By AT&T Do Not Help Its Cause

AT&T's effort to use cases involving the reproduction right, § 106(1), as applicable to public performance, § 106(4), is wholly undermined by the case it cites the most, *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008). That decision explicitly cautions against reflexively applying the results of an analysis of the reproduction right to the public performance right. *See id.* at 134. As the Second Circuit clearly stated, "our conclusion in Part II that the customer, not Cablevision, 'does' the copying [as alleged under § 106(1)] does not dictate a parallel conclusion that the customer, and not Cablevision, 'performs' the work." *Id.* at 134.⁴³

⁴³ In *Cartoon Network*, the Second Circuit focused solely on the liability of Cablevision as a direct infringer, because the parties had expressly stipulated to narrow the case in such a fashion. Under those circumstances, the Court found Cablevision's involvement to "more closely resemble[] a store proprietor who charges customers to use a photocopier on his premises, and it seems incorrect to say, without more, that such a proprietor 'makes' any copies when his machines are actually operated by his

Moreover, in *Cartoon Network*, the district court held that Cablevision was responsible for all of the unauthorized public performances arising from on-demand transmissions of copyrighted programming, *see Twentieth Century Fox Film Corp. v. Cablevision Sys. Corp.*, 478 F. Supp. 2d 607, 624 (S.D.N.Y. 2007), and on appeal, the Second Circuit did not disturb that holding, deciding (albeit erroneously) instead that because the playback was not “to the public,” Cablevision escaped liability. *Cartoon Network*, 536 F.3d at 134.⁴⁴ In fact, the Second Circuit’s analysis indicates that had the court found the playback of the copies to have been made “to the public,” Cablevision would have directly violated the public performance right, possibly at several steps of the process. *See Cartoon Network*, 536 F.3d at 137 (following *NFL*, 211 F.3d at 13).⁴⁵

The other cases against Internet service providers (“ISPs”) that AT&T cites are inapplicable. Again, none of them involves application of the public performance right under § 106(4). Moreover, AT&T is not an ISP and is by no means a passive intermediary. AT&T provides the content, and thus would never qualify for the safe harbor provisions in § 512 of the Copyright Act. *See* 17 U.S.C. § 512(c); *compare Religious Tech. Center v. Netcom On-Line Comm. Servs., Inc.*, 907 F. Supp. 1361, 1368 (N.D. Cal. 1995) (“Netcom [did] not create or control the content of the information available to its subscribers”).⁴⁶ By contrast here, AT&T selects the ringtones it sells that are the subject of this motion.

customers.” *Cartoon Network*, 536 F.3d at 132. However inapt that analogy may have been, AT&T and Verizon have certainly done “more” than the hypothetical owner of the copy shop – they have essentially recommended to the customer which book to place in the machine for copying, then sold that book to their customer for making yet additional copies, and pressed the copy button.

⁴⁴ This aspect of the holding is the subject of a pending petition for certiorari to the United States Supreme Court.

⁴⁵ As the case was narrowed by stipulation, the behavior of consumers with respect to their received copies was not explored. Moreover, the Court should be wary of relying on *Cartoon Network* for anything because the Second Circuit specifically cautioned against applying the holding to any situation involving facts different from those at issue before it, or any case when secondary copyright liability is potentially at issue. *See* 536 F.3d at 139-40.

⁴⁶ In this context, “control” means the ability to avoid the infringement, which AT&T could do by simply not including ASCAP compositions in their ringtone libraries. AT&T overstates the discussion in *CoStar* to suggest that only “volition” is required in order to hold an entity liable for direct infringement. *CoStar v. LoopNet*, 373 F.3d 544, 549 (4th Cir. 2004) (direct infringement requires conduct by one who “causes in some meaningful way an infringement.”). When a phone call is received, it is more appropriate to say that AT&T caused it to ring, not the customer. Like *Cartoon Network*, *CoStar* was a rare instance where the doctrines of secondary liability had been eliminated from consideration. *Id.* at 547. The Fourth Circuit affirmed the finding that there was no direct infringement on the part of an Internet service provider, writing that “we do not conclude that LoopNet’s perfunctory gatekeeping process, which furthers the goals of the Copyright Act, can be taken to create liability for LoopNet as a direct infringer when its conduct otherwise does not amount to direct infringement.” *Id.* at 556. Standing in stark contrast to LoopNet’s efforts to screen for infringing content, AT&T affirmatively selects recordings for which it claims not to need public performance licenses, sells them to its customers for the sole purpose of performing them, and triggers those performances.

Obviously, the Second Circuit in *Cartoon Network* and the other courts that rendered the decisions upon which AT&T relies did not intend to establish a rule that the imposition of an automated system of infringement or public performance can absolve the proprietor of that system of any responsibility. If that were so, nearly every modern copyright case would result in a finding of no infringement. After all, Napster, Aimster and Grokster, discussed more fully below, are all automated systems that required no human intervention by the party enjoying the revenue – nobody would seriously argue that they or other entities like YouTube deserve a free pass because they are automated.

Indeed, it is the automation of processes that allows for the massive-scale infringements that copyright holders and courts continue to confront today in a rapidly changing media landscape. *See, e.g., On Command Video Corp. v. Columbia Pictures Indus.*, 777 F. Supp. 787, 789-90 (N.D. Cal. 1991) (hotel liable for direct infringement of public performance right by providing computer-operated video-on-demand system to hotel guests, even though hotel rooms are ostensibly “private” places). Of critical importance, the relative actions of customers do not make any difference as to whether AT&T is directly liable. *See id.* at 790 (“The fact that hotel guests initiate this transmission by turning on the television and choosing a video is immaterial.”).

The two *Google* cases cited by AT&T are likewise distinguishable. In both, the plaintiffs sought to hold Google accountable for copyright infringement arising from the basic and presumptively content-neutral functioning of its search engine. In neither case did the plaintiff identify any nexus between Google and the selection or site of the content in question. In fact, in *Field v. Google Inc.*, 412 F. Supp. 2d 1106 (D. Nev. 2006), the district court found that the plaintiff had published the poem he sought to protect for free on his website, and declined to exercise his right to signal the Google “robot” not to archive his website, which Google would have honored and in fact did honor as soon as the lawsuit was filed. *Id.* at 1115, 1116. In *Parker v. Google, Inc.*, 422 F. Supp. 2d 492 (E.D. Pa. 2006), another district court found no nexus between Google’s automatic archiving of USENET postings and any alleged infringement. *Id.* at 497 (calling the complaint “not entirely clear” and “rambling”). Furthermore, both courts found any infringement through

reproduction to be protected by the safe harbors of the Digital Millennium Copyright Act (*see Field*, 412 F. Supp. 2d at 1123-25; *Parker*, 422 F. Supp. 2d at 497-98), and DMCA safe harbors have no application to public performance-based liability.

On a related note, it must be said that “volition” is not a requirement for liability under the Copyright Act, which is a strict liability claim. AT&T’s frequent invocation of the concept is based on a fundamental confusion. Copyright infringement has been and remains a strict liability claim, where one need not intend to commit copyright infringement or be cognizant of his infringing behavior, as long as the behavior is indeed infringing. *See Coleman v. ESPN, Inc.*, 764 F. Supp. 290, 294 (S.D.N.Y. 1991) (finding cable programmer responsible for copyright infringement when broadcast picked up spontaneous musical performances by audience at live event). AT&T seeks to extract a volition requirement from the same cases discussed above. (AT&T Br. at 8-12). However in each of those cases the courts concluded that the defendant was too far removed from the specific act of infringement and too passive an actor – that a “nexus” was missing between the particular act of infringement and the enabling acts of the defendant. Here, the nexus is undeniable, as AT&T sells its customers the actual copyrighted recordings for their sole purpose – streamed, pseudo-streamed or delayed playback as ringtones, which AT&T enables through its systems.

E. Statements Made By The Register Of Copyrights In A Proceeding Under 17 U.S.C. § 115 Are Irrelevant, As Are The Rates Adopted By The CRB

As a final matter, AT&T raises the bizarre notion that because ringtones are subject to the § 115 compulsory license for the private use of phonorecords, there can be no public performance right implicated as well. Nothing could be more inaccurate.

First, § 115 itself makes clear that the so-called mechanical and reproduction rights that are the subject of the § 115 compulsory license are in addition to the public performance right in the musical work embodied in the reproduction. 17 U.S.C. §§ 115(c)(3)(A), 115(d). Thus, a determination by the Register of Copyrights that ringtones qualify for a § 115 license is meaningless here. Indeed, as the Register noted, not even the RIAA (the party in interest in § 115 proceedings) went so far in its arguments as AT&T does here: in advocating its position it was careful to state that “private” under § 115 does not mean the “opposite of

public performance.” (See *DPRA*, Dkt. No. RF 2006-1 (C.R.B. Oct. 16, 2006) (Parness Dec. Ex. X) at 31, describing RIAA’s position). Nor could it have so argued – as explained above, the mechanical (reproduction and distribution) rights and public performance right are subject to very different definitions, and the public performance right is not curtailed by the additional limitations that § 115 puts on §106(1) & (3). The unrelated nature of the two provisions is undeniable, and in any event, “the Copyright Office has no authority to give opinions or define legal terms and its interpretation on an issue never before decided should not be given controlling weight.” *Bartok v. Boosey & Hawkes, Inc.*, 523 F.2d 941, 946-47 (2d Cir. 1975). Moreover, as the Register clarified, this opinion was specifically limited to the language in § 115.⁴⁷

AT&T also argues (apparently only in the “fact” section of its brief) that ASCAP’s members – publishers and authors – already receive fair compensation for ringtones by virtue of the 24 cent mechanical royalty granted by the CRB in the § 115 compulsory license proceeding. AT&T’s argument fails. First, ASCAP’s members are entitled to receive fair compensation for each right implicated under the Copyright Act, and as the performance right is implicated along with the mechanical right, basic doctrine dictates that a party holding both rights be compensated for both rights. 17 U.S.C. § 201(d); see *Buffalo Broad. Co. v. Am. Soc’y of Composers, Authors & Publishers*, 744 F.2d 917, 920 (2d Cir. 1984) (“The Act specifically accords the copyright owner the right to authorize others to use the various rights recognized by the Act, including the performing right and the reproduction right, and to convey these rights separately” (citing Copyright Act)). Second, AT&T’s argument centers around the fairness of ASCAP’s members being compensated for performances above the 24 cents they may or may not receive for the mechanical right, but that is an issue of valuation, not liability, and thus it is not amenable to decision by summary judgment. Third, the determination of the CRB is on appeal, and it appears that the appeal itself is currently suspended pending

⁴⁷ Compare AT&T Br. at 15 (quoting Opinion of Copyright Office: “this use most likely would not be considered a public use as Congress intended that term to be understood in the Section 115 context . . .” (emphasis supplied)), with *id.* (improperly using Register’s testimony to argue that “ringtones are not performed to the public in the manner ‘Congress intended that term to be understood’ in the Copyright Act.” (emphasis added)).

the resolution of other matters.⁴⁸ Thus, there have not been any payments, let alone any universal recovery by ASCAP's members.

III. AT&T Is Also Liable For Ringtone Performances By Virtue Of Its Inducement Of, Contribution To, Or Vicarious Responsibility For, The Ringtones It Sells

Even if AT&T were not directly liable for copyright infringement, it would still need a license from ASCAP for ringtones. AT&T argues that it has no liability because its “customers, and not AT&T, carry out the volitional acts necessary to perform ringtones.” (AT&T Br. at 25). But if its customers are engaged in unlicensed public performances, AT&T is also under various theories of secondary liability.⁴⁹

A. There Are Three Separate Doctrines Of “Secondary” Liability

Although the Copyright Act does not expressly address “secondary” liability, it has long been recognized – beginning in this Circuit – that there are circumstances in which it is both appropriate and necessary to assign copyright liability (or in this case responsibility to secure a public performance license) to parties beyond the party directly engaged in the unlicensed conduct. Three separate doctrines of secondary liability have emerged over time.

As early as 1971, the Second Circuit recognized the two principles of contributory infringement and infringement by inducement in copyright when one, “with knowledge of the infringing activity, induces, causes *or* materially contributes to the infringing conduct of another.” *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (emphasis added). The Second Circuit also had the occasion early on to address the separate doctrine of vicarious copyright liability: “When the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials

⁴⁸ See Notice of Appeal, *Recording Industry Assoc. of America, Inc. v. Copyright Royalty Judges*, No. 09-1075 (D.C. Cir. Feb. 25, 2009) (Parness Dec. Ex. Z); Docket, *Recording Industry Assoc. of America, Inc. v. Copyright Royalty Judges*, No. 09-1075 (D.C. Cir.) at Apr. 27, 2009 entry (indicating appeal being held in abeyance pending RIAA petition for rehearing and Intercollegiate Broadcasting System case) (Parness Dec. Ex. AA).

⁴⁹ AT&T is plainly terrified of secondary liability – why else would it open its brief with the inflammatory statement that “ASCAP apparently would have this Court find that millions of American mobile phone users with ringtones are copyright infringers.” (AT&T Br. at 1). If the millions of AT&T customers who have purchased ringtones for playback are copyright infringers, it is because they made those purchases in reliance on AT&T’s adherence to the law. It is AT&T’s latter-day insistence that it does not need – and therefore does not seek – a public performance license for ringtones that has turned its millions of customers into infringers. AT&T’s opening argument is also easily disposed of – many if not all of the prominent secondary liability cases on which AT&T relies (including *Sony*, *Grokster*, *Perfect 10* and the *Google* cases) were premised on the idea that the defendant’s consumers were primary infringers. This concept is not abhorrent in any way, especially if the innocence of the primary infringers comes from their reliance on the secondary infringer to adhere to the law, as is plainly the case here.

– even in the absence of actual knowledge that the copyright monopoly is being impaired, the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation.” *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963).

In its 2005 *Grokster* decision, the Supreme Court reiterated the traditional contributory and vicarious tests, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930-31 (2005) (citing *Shapiro* and *Gershwin*), and also separately expressed the inducement doctrine, holding that: “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.” *Id.* at 936-37. AT&T satisfies each of the three “secondary liability” tests.

1. AT&T Induces Unlicensed Performances of ASCAP Works

The inducement test for secondary liability does not require control, financial benefit or contribution (which AT&T meets in any event), but rather the affirmative encouragement or promotion of activity that constitutes copyright infringing (or, in this case, unlicensed) activity, with the intent that such activity take place. *Grokster*, 545 U.S. at 936-37. A recent decision from within this judicial circuit confirms this analysis: under *Grokster*, “categories of facts that would give rise to an inference that a defendant acted with an intent to foster infringement [include] whether the service is used overwhelmingly for copyright infringement and whether the defendant’s business model depends upon this infringement.” *Arista Records LLC v. Usenet.com, Inc.*, 608 F. Supp. 2d 409, 441 (S.D.N.Y. 2009).

It is difficult to imagine how AT&T could more actively induce the unlicensed performance of ASCAP works than it already does – AT&T actively markets, advertises, promotes and facilitates the sale of ringtones to its consumers for the single use to which ringtones can be put – the streaming, pseudo-streaming or later playback of the tones in response to incoming calls triggered by AT&T’s network systems to its supported mobile phones. If AT&T’s customers wished to play music on demand, they have far cheaper alternatives that provide greater control and ownership over the music. Assuming AT&T and its customers to be rational actors in a competitive marketplace, AT&T sells ringtones with the expectation that the

customers will actually use them (as encouraged in AT&T's marketing materials), and customers in fact purchase them to do so.

2. AT&T Is Contributorily Responsible For The Unlicensed Ringtone Performances

a. AT&T Has Knowledge And Substantially Contributes To Unlicensed Activity

AT&T's contribution to the unlicensed performance of ASCAP music is plain. It promotes, sells and electronically delivers ringtone files containing ASCAP compositions to consumers – but for this activity, there would be no performances of the ringtones sold. AT&T also designed and maintains systems that allow the ringtones to play through the music players and external speakers in its customers' phones – but for this activity, there would likewise be no playback of the ringtones sold. As discussed above, AT&T also obviously knows that ringtones it sells and delivers are being played.

In *Arista Records, Inc. v. MP3Board, Inc.*, Civ. No. 00-4660, 2002 WL 1997918, at *8 (S.D.N.Y. Aug. 29, 2002), the court found that evidence that the providers of an Internet music search engine had generalized knowledge of how their search engine was being used, “combined with the fact that MP3Board's principals acknowledged a statistical possibility that some of the links found on MP3Board's Web site went to copyrighted works and that users had downloaded unauthorized copies of copyrighted sound recordings through the links, give rise to triable issues of fact regarding whether MP3Board possessed constructive knowledge of the infringing nature of links.” The evidence before this Court is far stronger: AT&T knows to a certainty that it has placed millions of ASCAP works into the marketplace for simultaneous or triggered public performance as ringtones. Certainty as to which works are being performed at what precise time is not required to satisfy the knowledge prong. In any event, it is not even true that AT&T cannot know when and where its customers' phones are located.⁵⁰

In *Perfect 10*, the Ninth Circuit explained how it applied the Second Circuit's *Gershwin* test to the Napster service:

⁵⁰ Parness Dec. Exs. P & CC at 1; Kaufman Dec. ¶ 44.

We have further refined this test in the context of cyberspace to determine when contributory liability can be imposed on a provider of Internet access or services. In *Napster*, we considered claims that the operator of an electronic file sharing system was contributorily liable for assisting individual users to swap copyrighted music files stored on their home computers with other users of the system. We stated that “if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement.” Because Napster knew of the availability of infringing music files, assisted users in accessing such files, and failed to block access to such files, we concluded that Napster materially contributed to infringement.

Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1171 (9th Cir. 2007) (citations omitted).

Much as AT&T seeks to characterize itself as a legitimate actor, as opposed to the much-maligned peer-to-peer systems, the Ninth Circuit’s characterization is particularly apt, and indeed AT&T has gone much further than Napster ever did, with much greater financial success. AT&T’s material contribution to the unlicensed performances of its customers is beyond question.

b. Sony Does Not Provide Any Defense To AT&T

AT&T’s defense also relies on a misreading and misapplication of the “substantial noninfringing uses” language from *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). That test was adopted by the Supreme Court, and has since been applied, to deal with claims of contributory liability based solely on the provision of neutral devices that might be used for infringing activity. The Supreme Court did not wipe out the traditional contributory copyright test, nor did it replace it with the *Sony* test. *Grokster*, 545 U.S. at 934-35. ASCAP does not seek a license from AT&T for its sale or distribution of neutral devices capable of various uses. Rather, AT&T sells, and its customers buy, the actual unlicensed works – ringtones – for only one purpose, simultaneous or triggered playback to signal incoming phone calls, which AT&T then causes to happen. The *Sony* doctrine has no application here.

AT&T suggests that courts have applied *Sony*’s principles to situations like its sale and performance of ringtones. (AT&T Br. at 20 n. 9). In none of the cited cases was the alleged infringer accused of selling actual copies of the owners’ copyrighted works, or accused of selling a service that specifically and

exclusively performed the copyrighted works. AT&T indisputably does both.⁵¹ With both prongs of the traditional contributory liability test satisfied, AT&T needs an ASCAP license for its past and future provision and performance of ringtones of ASCAP compositions.

3. AT&T Is Vicariously Responsible For The Unlicensed Ringtone Performances

AT&T also bears vicarious liability, as it enjoys a direct financial benefit and an unqualified right and ability to control the unlicensed activity. AT&T's direct financial benefit is not really in doubt – it has collected ████████ of ████████ of dollars from its customers for ringtones. The direct financial benefit to AT&T is certainly more direct than the recognized concept of the “draw” from the various “flea market” cases. *See, e.g., Arista Records, Inc. v. Flea World, Inc.*, No. 03-2670, 2006 WL 842883, at *13 (D.N.J. Mar. 31, 2006) (“anything that serves as a ‘draw’ for customers will necessarily serve to increase revenues generated by [one defendant] and thereby directly financially benefit all Defendants”); *UMG Recordings, Inc. v. Sinott*, 300 F. Supp. 2d 993, 1002-03 (E.D. Cal. 2004) (finding financial benefit in existence of infringing works drawing customers to concession stands and go-kart track).

AT&T also exercises complete control over the public performance of ringtones of ASCAP compositions in that AT&T made the affirmative decision to include ASCAP works in its extensive ringtone catalog, advertise them to customers, and sell and transmit them to customers for triggered playback.⁵² AT&T also controls whether the ringtones will automatically play upon transfer. AT&T is vicariously responsible for its customers' unlicensed performances of ASCAP ringtones.

⁵¹ In *Matthew Bender & Co. v. West Publ'g Co.*, 158 F.3d 693, 707 (2d Cir. 1998), the Second Circuit was skeptical as to whether West had anything protectable in the first place, as it was using its “thin copyright in its compilations ... to protect its pagination (an element of its compilation that is unprotected altogether).” ASCAP's members' copyrights are not thin, nor are the performances as ringtones “incidental” to some other primary purpose. In *Mathieson v. Associated Press*, No. 90 Civ. 6945, 1992 WL 16447, at *3 n. 3 (S.D.N.Y. June 25, 1992), the Associated Press was not accused of trafficking in copies of plaintiff's photograph, but of running a news photo of a brochure that happened to contain the photograph in question, for which the court easily found that the Associated Press enjoyed a fair use defense.

⁵² AT&T's citation to *Io Group, Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132 (N.D. Cal. 2008) (AT&T Br. at 24) is misplaced. Io (an adult entertainment provider) alleged that Veoh (a website that aggregated user-uploaded videos) was secondarily liable for the reproduction of Io's videos on the Veoh site. The court, however, determined that under the standards of the DMCA (which have no application here), Veoh had taken substantial steps to police its system for infringement, even developing “digital fingerprinting” technology. *Id.* at 1153-54. The policing concept has no application to AT&T, which is the supplier and facilitator of the unlicensed performances.

B. Section 110(4) Does Not Give AT&T An Exemption

AT&T argues that its customers are exempt from direct liability under the exemption provided in 17 U.S.C. § 110(4), because the customers are allegedly not commercially enriched when the phone plays a ringtone. Thus, AT&T concludes it is exempt from secondary liability. This defense is inapplicable.

A public performance need not be made for commercial reasons to be infringing. *See* H.R. REP. NO. 94-1476, at 62-63 (1976) (“The right of public performance under section 106(4) . . . is not limited by any ‘for profit’ requirement. The approach of the bill [is] to provide specific exemptions for educational and other nonprofit uses”). If AT&T wishes to invoke § 110(4) as an affirmative defense, it must establish as a matter of law that each and every customer would be able to meet its burden of proof to show that his or her “performance” of ringtones would satisfy the § 110(4) exemption. *See Almo Music Corp. v. 77 East Adams, Inc.*, 647 F. Supp. 123, 125 (N.D. Ill. 1986).

While AT&T has not met that burden, any lack of financial gain by AT&T’s customers does not bear upon the § 110(4) defense. *See Almo Music Corp.*, 647 F. Supp. at 125 (noting “Congress’ desire to protect the holder against widespread nonprofit performances of the copyrighted work.”); H.R. REP. NO. 94-1476, at 85 (1976) (“public performances given or sponsored in connection with any commercial or profit-making enterprises are subject to the exclusive rights of the copyright owner even though the public is not charged for seeing or hearing the performance.”). AT&T clearly benefits financially by offering that customer the ability to perform the ringtone in public, and the customer benefits by purchasing a product and service it desires. AT&T may further benefit when the playback of its ringtones encourages others to purchase ringtones. In any event, the record reflects that there are commercial enterprises such as symphonies using ringtone performances for a fee.⁵³

Most importantly, even if the § 110(4) exception had any application here, AT&T fails to address the well-established principle that the law does not allow a commercial entity to stand in the shoes of its customers when determining whether any of the §§ 107-122 exceptions to the exclusive rights in the

⁵³ Petrovsky Dec. ¶¶ 33-36 & Exs. K-L.

Copyright Act applies. *See, e.g., Princeton Univ. Press v. Michigan Doc. Servs., Inc.*, 99 F.3d 1381, 1389 (6th Cir. 1996) (rejecting argument of copy shops that they could stand in the shoes of their customers and enjoy fair use defense); *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1531 (S.D.N.Y. 1991) (distinguishing between educational use of customers and commercial use of copy shop); *Los Angeles News Serv. v. Reuters Television Int'l, Inc.*, 149 F.3d 987, 994 (9th Cir. 1998) (“the question of whether defendants’ copying and transmission of the works constitutes fair use is distinct from whether their subscribers’ broadcasts of the work are fair use”), *cert. denied*, 525 U.S. 1141 (1999); *Playboy Enters., Inc. v. Frena*, 839 F. Supp. 1552, 1558 (M.D. Fla. 1993) (“One who distributes copyrighted material for profit is engaged in a commercial use even if the customers supplied with such material themselves use it for personal use.”). AT&T’s provision of ringtones is a decidedly commercial enterprise, to which the § 110(4) defense has no application.

IV. AT&T’s “Provider Responsibility” Argument Is Without Merit

AT&T claims that its ringtone providers bear contractual responsibility for securing public performance rights, but this Court has stated that the operative question is whether those parties have secured “through to the audience” licenses from ASCAP that would cover AT&T.⁵⁴ *United States v. Am. Soc’y of Composers, Authors and Publishers (In re AT&T Wireless)*, 607 F. Supp. 2d 562, 570 (S.D.N.Y. 2009). As noted above, ASCAP’s analysis of the information provided by AT&T to date indicates that at best some [REDACTED] of the [REDACTED] in revenue disclosed so far by AT&T can potentially be carved out from the ringtone rate base.⁵⁵ This issue is neither amenable nor appropriate for summary judgment, as it is not a question of liability, but the proper amount of the fee to be determined.

V. AT&T’s Motion Is Not Dispositive And Will Not Conserve Resources At Trial

Aside from all of the above, granting AT&T’s motion will not conserve any resources at trial. As discussed in the context of AT&T’s denied “fair use” motion, that there is a direct connection between the use of previews and the sale of ringtones is self-evident, given that the sole purpose of the previews is to

⁵⁴ ASCAP does not fully embrace the Court’s interim conclusion on this issue, since many license requests are vague, unclear and are capable of being withdrawn, but ASCAP will defer this point until trial.

⁵⁵ Parness Dec. ¶ 27 & Ex. V.

drive the sale of other music products. Accordingly, even if the ringtones themselves were not subject to fee, the impact of previews on the sale of ringtones must be considered in setting a fee (along with the text messaging fees applied to previews), and thus the evidence of the revenues earned by AT&T for ringtones will be relevant at trial irrespective of everything else set forth above.

In addition to previews, ringtones have been used by AT&T as a brand-building mechanism and to sell ringback tones and other products, and vice-versa.⁵⁶ Accordingly, there is no time at trial to be saved by granting AT&T's motion, as the parties will have to address the issue of convoyed sales. *See generally, Business Trends Analysts, Inc. v. Freedomia Group, Inc.*, 887 F.2d 399, 407 (2d Cir. 1989) (where defendant admitted discounted sales of the infringing product led to increased sales of non-infringing products, “[h]ad this issue been pursued” by plaintiff, revenues from the non-infringing sales might have been included in damages calculation); *Andreas v. Volkswagen of Am. Inc.*, 336 F.3d 789 (8th Cir. 2003) (where plaintiff can establish a nexus between the infringing use and the defendant's sales of products resulting from the infringement, damages on the underlying yet non-infringing product upheld where television commercial using plaintiff's copyrighted drawing coincided with increase in sales of TT Coupe car models); *see also Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940) (where copyrighted and non-copyrighted materials are bundled in the same package, “the defendant, being responsible for the blending of the lawful with the unlawful, had to abide the consequences”). This is not an issue that can be determined as a matter of law at this stage of the proceedings. *Id.* at 402 (“[b]oth the Copyright Act and our decisions leave the matter to the appropriate exercise of the equity jurisdiction upon an accounting”). Accordingly, the pending motion will have no impact upon the evidence to be adduced at trial and summary judgment should be denied.

CONCLUSION

AT&T's motion for summary judgment should be denied.

⁵⁶ *See* Parness Dec. Exs. G at AT&T43938; H at AT&T44031; I at 3; M at AT&T58326 & 58333.

Respectfully submitted,

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