

## Copyright Record Rental Exception Applies Only To Musical Works (2007)

In a recent case of first impression, the Sixth Circuit decided in *Brilliance Audio, Inc. v. Hights Cross Communications, Inc.*, No. 05-1209 (6<sup>th</sup> Cir. 2007) that the record rental exception to the first sale doctrine, in section 109 of the Copyright Act, applies only to sound recordings of musical works. The decision is also interesting for its parallel analysis of trademark's first sale doctrine and for the court's discussion of statutory construction.

Copyright and trademark law protect distribution rights primarily in the initial sales market and have only limited focus on secondary markets. Copyright further distinguishes between intellectual property and the material object that embodies the work of authorship. Because the Anglo-American legal system strongly disfavors restraints on trade and alienation, the so-called first sale doctrine permits a lawful purchaser of a work to dispose of it, even though the copyright owner still retains rights to the intellectual property embodied in the copy. For musical sound recordings, the Copyright Act makes the further distinction between the sound recording copyright (the work as it is recorded) and the copyright in the underlying musical composition. So obtaining two permissions is necessary for licensing musical works, where only one would be required for literary works, like audiobooks.

Trademark law protects against consumer confusion. Generally, the first purchaser of an original trademarked item may resell it without infringing the mark, since it is thought that confusion does not exist when a genuine article bearing a true mark is resold.

Both regimes, however, contain exceptions to the first sale rule. For copyrights, Congress determined that the rental, lease or lending of both phonorecords and computer programs undermines the copyright owner's primary sales market, although the owner of a legitimate copy may still sell that copy.

The purchaser's rights under trademark are similarly constrained. There are two exceptions to the First Sale doctrine. First, when notice that an item has been repackaged is inadequate, a trademark owner risks being associated with a product that is not of the same quality as the original. Second, when a second party sells trademarked goods that are *materially* different than those sold by the trademark owner, it is thought that the product difference is likely to cause confusion and dilute the value of the mark.

## THE BRILLIANCE FACTS

Brilliance produced and sold audiobooks. The company had several exclusive contracts with publishers and authors for sound recording rights to the latter's literary works. Brilliance also owned copyrights in these works and had a federally registered trademark for its name.

The company produced two versions of the audiobooks -- one for retail and a library edition. The versions were packaged and marketed differently, although it is unclear from the court record whether the different versions contained different recordings.

Haight, a direct competitor, repackaged and relabeled Brilliance's retail editions as library editions and marketed the books on tape for rental, lease and lending. Brilliance sued for both copyright and trademark infringement.

The district court dismissed Brilliance's claims based on Haight's 12(b) (6) motion, for failure to state a claim upon which relief could be granted.

## THE SIXTH CIRCUIT'S DECISION

### a. The Trademark Claim

The appellate court held that the question of materiality, triggering the exception to the trademark first sale doctrine, was fact-specific. The lower court should have analyzed whether a consumer would have considered the different versions of the audiobooks as relevant to his or her purchasing decision. Thus, the district court erred with the 12(b) (6) dismissal, since the facts should have been construed in the light most favorable to Brilliance.

### b. The Copyright Claim

The copyright argument was more complicated and nuanced. Owners of distribution rights would like to think that they have legal protections and that it is not just economics that prevents purchasers from undercutting the owners' sales markets. Yet if a retailer has enormous market power and can negotiate below retail prices, that is exactly the situation facing such owners. And other than for sound recordings and computer programs, purchasers are also free to set up competitive markets for the rental, lease and lending of copyrighted works.

So to bypass the first sale rule, which effectively trumps the distribution right, Brilliance argued that the record rental exception extended to all sound recordings, *including literary works*. Section 109, the argument went, would require Haight to obtain Brilliance's permission to rent the audiobooks, regardless of whether permission for use of the underlying work would be

required. Although the second permission is required only for musical and not literary works, the statute refers to “sound recordings,” which in the definitional section includes both musical and non-musical works.

Haight countered that the express inclusion of the statutory phrase “musical works” meant that the record rental exception only applied when a sound recording contained such a work. Extending the exception to audiobooks would read the phrase out of the statute.

## STATUTORY CONSTRUCTION

Courts generally look to the plain language of legislation to find the meaning of a statutory phrase. If the meaning is clear, the inquiry ends and judges do not look beyond the statute to legislative history or other secondary sources. The problem, though, is that the plain meaning of legislation is often very subjective. On the other hand, looking only to secondary sources to fathom statutory meaning is equally problematic, since phrases planted in legislative history also may not accurately reflect congressional intent. To resolve this dilemma, the Sixth Circuit took a safer path and used a combination of both statutory language and legislative history.

The court agreed that the plain meaning of the statute was not clear, since the parties’ readings were both plausible. It then looked to the underlying legislative history and concluded, based on the combination of such history and the context in which the statute was passed, that only sound recordings of *musical works* were intended to be excluded from Section 109.

First, in 1984, the focus of legislators and the testimony before Congress was on protecting the music industry. There was no evidence that Congress considered audio recordings of literary

works in the record rental exception. Second, the exception was meant to be construed narrowly since it upset the traditional bargain between copyright owners and the personal property rights of the individual copy owners. Third, it was determined that the rental of musical works and computer programs -- works that are subject to repeat uses and not, like a book, exhausted after a single use -- would be more likely to displace initial sales. Fourth, the specific problem of music piracy, addressed by Congress in 1984, did not apply to sound recordings of literary works. Finally, Congress's use of the phrase "and in the musical works embodied therein" limited application of the exception to only those sound recordings that contained musical works.