



Phoenix Entertainment Partners v. Rumsey, 829 F.3d 817 (2016)

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**PHOENIX ENTERTAINMENT PARTNERS
V. RUMSEY
829 F.3d 817 (2016).**

I. INTRODUCTION

In *Phoenix Entertainment Partners v. Rumsey*,¹ Plaintiff Slep-Tone Entertainment Corporation and its successor in interest, Phoenix Entertainment Partners LLC (collectively “Slep-Tone”) is a business entity that primarily produces Karaoke accompaniment tracks for professional Karaoke systems under the trademark “Sound Choice.”² The tracks include a pre-recorded version of popular songs with lead vocals omitted to allow for singing performances.³ Another component of Sound Choice includes a display of lyrics to the song along with a variety of visual cues.⁴ The two components are synchronized to aid performers as they add their own voice to the musical background.⁵ In total, Slep-Tone has released over 16,500 karaoke versions of popular songs.⁶

In 2009, Plaintiff adopted a media shifting policy, which permits customers to copy purchased tracks as long as they have a 1:1 correspondence between tracks purchased and copies made.⁷ For every track copied onto a customer’s hard drive, the customer is required to own the track and maintain the track in its original medium.⁸ Thus, a customer must purchase two separate discs with the original disc if they want to have copies of a particular track on two separate hard drives.⁹

The Basket Case Pub, Inc., the Defendant, is a local Pub located in Peoria, Illinois.¹⁰ Defendant provides Karaoke performance services and owns one or more hard drives that

¹ *Phoenix Entm’t Partners v. Rumsey*, 829 F.3d 817 (7th Cir. 2016).

² *Id.* at 819.

³ *Id.* at 819–20.

⁴ *Id.* at 820.

⁵ *Id.*

⁶ *Id.*

⁷ *Phoenix*, 829 F.3d at 820.

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.* at 821.

contain copies of Sound Choice tracks.¹¹ The issue in *Rumsey* arose from the allegation that the pub had been playing unauthorized digital copies of Plaintiff's Karaoke files instead of Karaoke files made from legitimately acquired media.¹² Plaintiff alleged that Defendant violated the Lanham Act, arguing that playing the unauthorized Karaoke tracks would lead to consumer confusion, as a patron of the Pub would see Plaintiff's trademark and wrongfully assumed that the Pub had been using authorized tracks.¹³

Plaintiff filed suit in the United States District Court for the Central District of Illinois.¹⁴ Plaintiff's complaint alleged both trademark infringement and unfair competition under sections 32 and 43 of The Lanham Act.¹⁵ Plaintiff claims that Defendant violated Slep-Tone's 1:1 Policy by copying a single song on more than one medium.¹⁶ Although both the district court and Seventh Circuit ultimately dismissed Plaintiff's trademark infringement allegation, the Seventh Circuit Court's opinion goes into uncommonly great detail to distinguish two prominent areas of intellectual property, copyright and trademark Law.¹⁷

II. BACKGROUND

Slep-Tone alleges that by playing "bootleg copies instead of authorized copies properly made from legitimately acquired Slep-Tone Media," Defendant breached Plaintiff's Media Shifting Policy.¹⁸ Slep-Tone further alleges that this unauthorized use created a likelihood of consumer confusion because a customer is likely to see the Sound Choice trademark and associate it with Slep-Tone, when in fact Defendant is using an unauthorized copy of Slep-Tone's Karaoke accompaniment tracks.¹⁹

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ *Phoenix*, 829 F.3d at 818.

¹⁵ *Id.* at 822.

¹⁶ *Id.* at 823.

¹⁷ *Id.* at 825.

¹⁸ *Id.* at 821.

¹⁹ *Id.* at 823.

The district court held that Defendant's use of Plaintiff's tracks had not violated the Lanham Act and reasoned that Defendant's unauthorized use of the trademark and trade dress were unlikely to cause any consumer confusion because customers would not be likely to see the tracks and associate them with the Plaintiff.²⁰ Similarly, the Seventh Circuit dismissed and held that any consumer confusion resulting from the Pub's playing of unauthorized digital copies of Plaintiff's Karaoke tracks did not involve passing off tangible goods in the marketplace.²¹

III. DISCUSSION

In its opinion, the Seventh Circuit discusses the rigid distinctions between trademark and copyright law. The court noted that the Plaintiff would have a viable claim for copyright infringement if Plaintiff had obtained a copyright for its tracks.²² The Seventh Circuit points out that the purpose of copyright law is to foster creative works of authorship, including literary, musical, cinematic, and architectural works,²³ whereas the purpose of trademark law is to foster fair competition rather than promote creativity.²⁴ Trademark law encourages fair competition by: "(1) simplif[ying] consumer choice, by enabling consumers to rely on a mark that readily identifies a particular brand and producer, and (2) it assures the producer of a particular good that it, and not an imitating competitor, will reap the financial rewards of the good's (or the brand's) reputation."²⁵ The court goes on to note that while Slep-Tone does own the trademark to "Sound Choice," they do not own the Copyright on the creative elements of the Karaoke Tracks.²⁶ The opinion stresses that these two areas of law can be confusingly similar, and while Slep-Tone may have a case for Copyright infringement, they do not have a claim for trademark Infringement here.²⁷

²⁰ *Phoenix*, 829 F.3d at 821.

²¹ *Id.* at 818–19.

²² *Id.* at 824.

²³ *Id.* at 825.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Phoenix*, 829 F.3d at 824.

²⁷ *Id.* at 825.

In determining that Slep-Tone's claimed injuries were not the result of trademark infringement, the Seventh Circuit looked to the seminal case *Dastar v. Twentieth Century Film Corp.*²⁸ The court noted that in *Dastar*, the Supreme Court had interpreted the language "origin of goods," in the Lanham Act to refer *only* to "the producer of the tangible goods that are offered for sale, and not to the author of any idea, concept, or communication embodied in those goods."²⁹ It is important to note that the court rejected the argument that the "origin of goods" should include both the actual producer of the physical good, and the creator of the content conveyed by the good.³⁰ This is especially important when dealing with issued involving books, videos, CDs and other goods where the actual good is more valued for its intangible, intellectual content, than its physical qualities.³¹ To exclude a creator of the content conveyed by a good like a Book, CD or DVD is an extremely narrow interpretation of the Lanham Act.³² This narrow interpretation has ultimately made it significantly more difficult for a Plaintiff to meet the burden of proof for trademark infringement.³³

The Seventh Circuit applied two important rulings from *Dastar* to the present case. First, *Dastar* emphasized important distinctions between copyright and trademark law, and cautions against allowing a trademark claim to substitute for what in real terms is a claim for copyright infringement.³⁴ Second, *Dastar* considered and rejected a broader understanding of the "Origin of Goods" for communicative products that consumers will value more for the intellectual and creative content they convey than their physical form.³⁵

Applying *Dastar*, the Seventh Circuit first identified the tangible goods at issue in this case to be the "unauthorized digital copy of the Sound Choice karaoke tracks... made ...by the

²⁸ *Id.* at 826. See also *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003).

²⁹ *Phoenix*, 829 F.3d at 827.

³⁰ *Id.*

³¹ *Id.*

³² *Id.* at 828.

³³ *Id.* at 828–29.

³⁴ *Id.* at 827. See also *Dastar*, 539 U.S. at 34.

³⁵ *Phoenix*, 829 F.3d at 828. See also *Dastar*, 539 U.S. at 33.

Defendants.”³⁶ The Seventh Circuit then determined whether or not the Defendants use of Plaintiff’s trademark leads to confusion about the source of that particular good.³⁷ While the Seventh Circuit did recognize that a patron might see the Sound Choice mark whenever the graphic component of the Karaoke track is displayed, they had trouble determining *what* the patron would be confused about.³⁸ “When a patron sees the mark, a patron may believe that she is seeing and hearing content that was created by Slep-Tone. And she is.”³⁹ *Dastar* specifically emphasizes that the consumer confusion must be confusion as to the source of the tangible good sold in the marketplace.⁴⁰ Here, any confusion is not related to the source of the tangible good sold in the marketplace, as *Dastar* requires.⁴¹ Furthermore, the Sound Choice mark is visually embedded in the creative content and does not falsely suggest that Slep-Tone is endorsing the performance.⁴²

Lastly, the court addressed Plaintiff’s concern about their products being compressed excessively during the duplication process and how this may make the unauthorized copy’s quality poor, and when played, may lead viewers to think Slep-Tone products are of inferior quality.⁴³ The court held that the Plaintiff’s assertion was invalid because, “[D]efendants are not passing off a tangible good sold in the marketplace as a Slep-Tone good”.⁴⁴ Defendant is not selling compact discs and billing them as genuine,⁴⁵ as Defendant is not even in the business of selling compact discs.⁴⁶ Thus, the Seventh Circuit rejected all of Plaintiff’s assertions and held that Defendant was not liable for trademark infringement.

³⁶ *Phoenix*, 829 F.3d at 828.

³⁷ *Id.*

³⁸ *Id.* at 828–29.

³⁹ *Id.* at 829.

⁴⁰ *Id.* See also Lanham Trademark Act §§ 32, 43, 15 U.S.C. §§ 1114, 1125 (2012).

⁴¹ *Phoenix*, 829 F.3d at 829.

⁴² *Id.*

⁴³ *Id.* at 830–31.

⁴⁴ *Id.* at 831.

⁴⁵ *Id.*

⁴⁶ *Id.*

IV. FUTURE IMPLICATIONS

There are several reasons why *Phoenix Entertainment Partners v. Rumsey* could have a significant impact on future litigation in the field of intellectual property law. First, the Seventh Circuit's opinion goes to unusually great lengths to distinguish trademark law from other areas of intellectual property law.⁴⁷ These distinctions are extremely important because not only are they entirely different statutory standards, but even the policy reasons behind trademark law and other areas are of intellectual property law are dissimilar.⁴⁸ The policy behind trademark protection is not to foster creativity, as the Lanham Act is much more commercially motivated than the Copyright Act. The court's comments about the Lanham Act "established a federal right of action for trademark infringement to protect both consumer confidence in the quality and source of goods and businesses' goodwill in their products."⁴⁹ The court further emphasized the importance of these distinctions when it said; "[I]t can in some cases be challenging to identify which right is truly at issue when a claim of infringement is asserted."⁵⁰

There are two likely explanations as to why the Seventh Circuit went into such great detail when distinguishing these two areas of the law. One could be the court's desire to prevent other plaintiffs from asserting trademark infringement claims when they should be asserting copyright or patent infringement claims instead. Another, perhaps more likely, reason could be because it is becoming more prevalent for a plaintiff to file a frivolous suit in an attempt to receive compensation from settlement. The court explained:

It seems like we're seeing more and more of these kinds of cases — using patents, copyrights and trademarks to bring mass lawsuits against a number of companies who may or may not infringe, where the goal often appears to be to

⁴⁷ *Phoenix*, 829 F.3d at 825.

⁴⁸ *Id.* at 822.

⁴⁹ *Id.*

⁵⁰ *Id.* at 825.

push for settlements for a few thousand dollars (often cheaper than defending the lawsuit). It seems like this is a form of abuse of the judicial system, effectively relying on the threat of an expensive trial as a weapon to pressure companies (and, in some cases, though not in the above cases, individuals) into settling and just paying up to avoid the hassle and expense.⁵¹

The danger of plaintiffs threatening defendants with litigation is greatly concerning, and the court's lengthy explanation in *Rumsey* could deter not only Slep-Tone, but other potential plaintiffs from frivolously threatening litigation when they are merely seeking quick compensation from settlement.

Another important implication resulting from this decision is that this case perfectly demonstrates how narrowly courts have interpreted the "origination of goods" language under *Dastar*. Cases like *Rumsey* and *Dastar* have construed the "origin of goods" language in the Lanham Act so narrowly that one must be the "producer of the tangible goods that are offered for sale...."⁵² The court rejected the contention that the "origin of goods" might not only include the original producer of the goods, but in situations involving products like books or videos, the creator of the content conveyed by the book.⁵³ Further, the narrow view of *Dastar* expands to the construal of the likelihood of confusion standard in the Lanham Act. The court ruled that Plaintiff had failed to show that a consumer would likely be confused as to the source of the tangible good sold in the marketplace.⁵⁴ The Seventh Circuit's narrow construal of the Lanham Act in both *Rumsey* and *Dastar* may deter future plaintiffs away from trademark infringement suits and towards copyright infringement suits, assuming that the plaintiff does indeed own the copyright.

⁵¹ Mike Masnick, *97 Las Vegas Karaoke Locations Sued by 'Righthaven of Trademarks' Demanding \$500 Million*, TECH DIRT (Feb. 20, 2012), <https://www.techdirt.com/blog/?company=slep-tone>.

⁵² *Phoenix*, 829 F.3d at 827. See also *Dastar* 539 U.S. at 31.

⁵³ *Phoenix*, 829 F.3d at 827.

⁵⁴ *Id.* at 831.

V. CONCLUSION

The Seventh Circuit's opinion in *Rumsey* is an illustration of how it has become increasingly difficult to assert trademark infringement allegations under the Lanham Act. Proving that a defendant's use of a trademark is likely to cause confusion to customers has become increasingly more burdensome for plaintiffs. Here, Plaintiff Phoenix Entertainment could not even successfully plead that the unauthorized compression of its works, consequently distorting the quality of the work, was likely to cause confusion to consumers.⁵⁵ Under *Dastar*, the confusion must be confusion as to the source of the tangible good sold in the marketplace.⁵⁶

Another interesting takeaway from *Rumsey* is how the court goes out of its way to explain not only the statutory differences between copyright and trademark Law, but also the policies behind both of these areas of law. The policies behind trademark law have always been commercially inspired, while copyright law has more to do with incentivizing creativity and inventiveness. The Seventh Circuit took no exception to these policies when it ruled that Plaintiff could not recover under the Lanham Act because there was not a likelihood of confusion. This is likely attributed to the fact that frivolous lawsuits involving areas of intellectual property law are becoming more prevalent.

While often intertwined, "the rights protected by trademark and copyright laws are distinct, and it can in some cases be challenging to identify which right is truly at issue when a claim for infringement is asserted."⁵⁷ The *Rumsey* opinion, when coupled with *Dastar*, perfectly explain and provide an example of the subtle but important distinctions between perhaps the two largest areas of intellectual property law.

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⁵⁵ *Id.* at 830.

⁵⁶ *Id.* at 829. See also Lanham Trademark Act §§ 32, 43, 15 U.S.C. §§ 1114, 1125 (2012).

⁵⁷ *Phoenix*, 829 F.3d at 825.

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